PO-CH/NL/0060

PART A

Part A.

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PART A

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PART A

Chancellor's (Lawson) Papers:

ECONOMIC FORECASTING AND
PERFORMANCE 1984

Disposal Directions 25 Years

21/7/95.

CONFIDENTIAL

c HPE.
Draft please
TB

FROM: J O KERR
DATE: 17 JANUARY 1984

Mr Folger

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr Monck
Mr Battishill
Mr Ridley
Mr A Smith

PRODUCTION INDUSTRIES: NOVEMBER OUTPUT FIGURES

The Chancellor has seen Mr Smith's minute of 16 January about the November production industries output figures, to be released today. He finds the figures for manufacturing very suspect, since they seem out of line with other relevant indicators, and indeed with current anecdotal evidence. He has asked what view Sir T Burns takes of the figures.

JOK

J O KERR

405
1

EMBARGOED UNTIL 00.01 HOURS FRIDAY, 3 FEBRUARY 1984

two drawer file

P&D still foresee £8½ billion PSBR for 1984-85 before tax changes, ie their view is unchanged since the autumn

From Neil MacKinnon

2 February 1984

1. MR FOLGER

2. CHANCELLOR OF THE EXCHEQUER

MJF 2.2.84

cc Chief Secretary
Sir T Burns
Mr H P Evans
Mr Battishill
Mr Shields + Mr Hall
Mr Page
Mr A Smith
Mr Lord
Mr Ridley
Mr Portillo

PHILLIPS AND DREW FEBRUARY FORECAST

P&D's latest forecast will be released on Friday, 3 February 1984. The main feature is a Budget assessment (copy attached) which expects most of the assumptions contained in the Autumn Statement to be adhered to; in particular, the negative fiscal adjustment of £½ billion is used in order to meet the £8 billion PSBR target. Other key features include a GDP (average) outturn for 1983 of almost 3 per cent, consistent with the IAF, but slowing down slightly in 1984 to 2½ per cent. Inflation falls to 5½ per cent by end-1984 though P.D do not rule the 4½ per cent figure in the IAF as "completely out of court". (See attached tables).

2. MAIN ECONOMIC AND POLICY ASSUMPTIONS

i. In 1984, OECD real GNP growth of 3½-4 per cent(World trade volume grows only 3 per cent because the indebtedness of non-oil LDC's impedes their propensity to import though this is offset by increasing OPEC imports, assuming an unchanged oil price.

ii. Government economic policy adheres to the broad thrust of the MTFS as set out in the 1983 FSBR.

3. MAIN POINTS FROM THE FORECAST

i. GDP(A) grows 2½ per cent in 1984, slowing to 1-1½ per cent in 1985 as consumer spending becomes less buoyant. Over the medium term (1984-88) GDP growth averages 1½ per cent reflecting, in part, a diminishing contribution of oil to output growth.

ii. Consumers' expenditure rises by 2 per cent this year resulting from a further fall in the savings ratio in response to previous falls in inflation, and a 1½-2 per cent rise in real disposable incomes. In 1985 consumer spending spending grows 1-1½ per cent, in line with the movements in real incomes. Improving company profitability and increased activity contribute to a growth in GDFCF of 4½ per cent this year.

iii. Export volumes expand 4-4½ per cent in 1984 as world trade rises and the benefits of improved cost competitiveness feed through; but in 1985 exports expand by under 2 per cent. Import volumes expand slightly faster than exports this year and in 1985. The current account deteriorates after 1985 to reach a deficit of £4½ billion in 1988, reflecting mainly a diminishing contribution from oil.

iv. Retail price inflation peaks at 6 per cent in 1984 Q2 declining to 5½ per cent by the end of the year but remains in a 5-6 per cent band during 1985. P.D's assessment reflects a combination of moderate pay settlements and commodity price movements offsetting to some extent the effects of a slowdown in productivity growth and an assumed slight fall in tradeweighted sterling.

v. The PSBR is expected to be £9½ billion in 1983-84 and £8½ billion in 1984-85. Growth in £m3 slows over the forecast period as bank lending eases and external and currency flows exert a contractionary influence. P.D see little scope for interest rate reductions during 1984 as the authorities maintain "positive real short-term interest rates as a means of depressing inflation expectations further".

4. ASSESSMENT

P&D remain at the top end of the range of outside forecasts. Their GDP growth forecast for 1983 is consistent with the IAF, and although they expect slower growth in 1984, this would be well within the margins of error. The outturn for consumer spending and exports, where they have yet to incorporate the good 1983 Q4 figures, could turn out better than P&D expect.

NJM

N J MACKINNON
EB

EMBARGOED UNTIL 00.01 HOURS FRIDAY, 3 FEBRUARY 1984

PHILLIPS AND DREW FORECAST COMPARISON

	% increases WORLD TRADE* (Volume)			GDP(A)			RPI(Q4)		PSBR (£ billion)	
	1983	1984	1985	1983	1984	1985	1984	1985	1983-84	1984-85
IAF (November)	-1.0	5.0	-	2.8	2.8	-	4.5	-	10.0	8.0
P&D (November)	0.0	2.2	4.0(Q2)	3.2	1.9	1.0(Q2)	6.3	5.8(Q2)	9.0	8.6
P&D (February)	0.0	3.0	3.0	2.8	2.5	1.3	5.6	5.1	9.5	8.5

*Defined in the IAF as world trade in manufactures (weighted by UK markets). P&D do not provide a definition of world trade volume.

Comparison of forecasts

	Fore-caster	Date	1983 Q1	Q2	Q3	Q4	Year	1984 Q1	Q2	Q3	Q4	Year	1985 Q1	Q2	Q3	Q4	Year
Wages and salaries	LBS	Oct	6.5	5.7	6.0	7.0	**6.3**	6.0	7.3	7.9	8.0	**7.3**	8.3	8.2	8.7	8.7	**8.5**
	NIESR	Nov	6.7	5.8	7.0	7.6	**6.8**	5.9	6.9	6.1	5.2	**6.0**	4.9	4.8	5.3	5.3	**5.1**
	P&D	Feb	6.8	6.4	7.0	7.0	**6.8**	7.1	7.4	7.6	7.6	**7.4**	7.0	6.7	6.8	6.6	**6.8**
Consumer prices	LBS	Oct	6.3	5.4	5.5	5.1	**5.6**	5.6	5.9	6.0	6.0	**5.9**	6.0	6.3	6.5	6.5	**6.3**
	NIESR	Nov	6.3	5.4	5.4	5.5	**5.6**	5.4	5.7	6.2	6.7	**5.9**	6.8	6.7	6.5	6.4	**6.6**
	P&D	Feb	6.3	5.0	5.0	4.8	**5.3**	5.4	5.5	5.4	5.3	**5.4**	5.3	5.2	5.2	5.1	**5.2**
Consumers' expenditure at 1980 prices	LBS	Oct	3.0	4.3	3.4	1.7	**3.1**	2.7	1.7	1.6	1.9	**2.0**	1.9	1.8	1.8	1.8	**1.8**
	NIESR	Nov	3.8	4.7	3.3	1.7	**3.4**	1.8	0.6	−0.5	−0.8	**0.3**	−0.6	−0.2	0.3	0.4	**0.0**
	P&D	Feb	3.6	4.2	3.8	3.2	**3.7**	3.8	2.4	1.5	0.8	**2.1**	0.9	1.5	1.6	1.7	**1.4**
Gross domestic fixed capital formation at 1980 prices	LBS	Oct	5.8	2.8	0.1	3.5	**3.0**	0.4	7.2	5.2	4.8	**4.4**	4.5	3.7	3.2	2.5	**3.4**
	NIESR	Nov	4.7	0.8	1.2	2.5	**2.3**	1.0	8.1	3.1	2.0	**3.5**	1.1	0.2	0.3	0.7	**0.6**
	P&D	Feb	5.5	5.2	2.2	2.9	**4.0**	2.6	4.5	5.5	5.1	**4.4**	2.9	2.6	2.4	2.0	**2.5**
Gross domestic product at 1980 prices	LBS(a)	Oct	1.6	1.5	2.0	2.0	**1.8**	2.2	2.7	2.5	2.4	**2.4**	2.8	2.4	2.4	2.1	**2.4**
	NIESR(a)	Nov	2.1	1.6	2.0	2.8	**2.2**	2.5	2.9	1.6	1.1	**2.0**	0.7	0.9	1.2	1.2	**1.0**
	P&D(b)	Feb	3.4	2.2	2.8	2.6	**2.8**	1.7	3.3	2.9	2.2	**2.5**	1.7	1.3	1.1	0.9	**1.3**
Balance of payments £m	LBS	Oct	779	−313	142	3	**611**	−54	69	126	195	**336**	199	212	317	268	**996**
	NIESR(c)	Nov	233	233	616	616	**1698**	120	121	−12	−13	**216**	−100	−101	−91	−91	**−383**
	P&D	Feb	781	−171	603	87	**1300**	300	100	100	−100	**400**	−600	−400	0.0	−100	**−1100**

(a) Output estimate. (b) Average estimate. (c) Based on half-yearly estimates.

Phillips & Drew
ECONOMICS UNIT

PRESS INFORMATION

Embargo: 00.01 hours Friday 3 February 1984

Further information: Dr Paul Neild - 01 628 4444 Night: 0480 65993

BUDGET ASSESSMENT

We expect the Chancellor to present a firm Budget which aims to fulfil most of the assumptions contained in his 1983 Autumn Statement. In this respect, we look for measures which are designed to limit the 1984/85 PSBR to 2½% of nominal GDP, thereby keeping the PSBR/GDP ratio on a declining path over time. This would put the nominal PSBR target for the 1984/85 financial year at about £8¼bn on our estimates. In aiming at this figure, we foresee action in the Budget to raise net taxation by up to £½bn, the figure foreshadowed in the Autumn Statement, in excess of those amounts involved in the indexation of tax allowances/thresholds and revalorisation of excise duties.

As regards excise duties, we expect increases which will add 2p to a pint of beer, 30p to a bottle of spirits, 5p to a packet of 20 cigarettes, 8p to a gallon of petrol, 6p to a gallon of derv and £5 to a car licence. However, to comply with EEC regulations, duty on table wine will probably be reduced by an amount sufficient to cut the price of a bottle by about 18p.

On personal taxation, we envisage an indexation of the allowances and thresholds, which, for example, would raise the single (and wife's earned income) allowance by £100 to £1885 and the married allowance by £150 to £2945. We also expect child benefit to be increased from £6.50 per child per week to £6.85.

Other measures are expected to include a reduction in the first-year write-off allowance for capital equipment from 100% to 80%, while minor changes in North Sea oil taxation are expected to be broadly neutral in revenue terms. There may possibly be changes relating to insurance premium relief and stamp duty. To offset the impact of some of these measures, we expect the Chancellor to announce the gradual phasing out of the employers' National Insurance Surcharge which currently stands at 1%. We foresee a ½% reduction in the surcharge as from 1 August 1984 with the final ½% being eliminated from 1 April 1985.

Continued.....

PAUL NEILD DAVID ROBINS BRENDAN BROWN TIM O'DELL
STEPHEN LEWIS CHRIS ANTHONY BILL MARTIN JOHN SILLS

Finally, as regards the monetary aggregates, we expect the Chancellor to confirm a 6-10% range for £M3 and PSL2 for 1984/85, while we expect a lower range to be adopted for Mo and M1 (or M2).

Phillips & Drew
120 Moorgate
London EC2M 6XP
Telephone 01-628 4444
Telex 291163

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FROM: MISS M O'MARA

DATE: 6 February 1984

MR SHIELDS

Miss O'Mara
See attached minute and note.
13/2

cc Sir T Burns
Mr Monger
Mr Evans
Mr Folger

MANUFACTURING OUTPUT

The Chancellor has noted from the January report of the Monitoring Group that the more optimistic results from successive CBI surveys of manufacturing have yet to be reflected in the official output data and that this may be attributable to the fact that the weights used to calculate output data do not take sufficient account of expanding industries. He himself believes that this explanation is almost certainly right and assumes that the CSO are investigating the point with a view to early action. I should be grateful to know the latest position.

Mom

MISS M O'MARA

11/6/0

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FROM: JON SHIELDS
13 FEBRUARY 1984

(PMT)

Thanks [illegible]

cc:

Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Monck
Mr Battishill
Mr Evans
Mr Odling-Smee
Mr Folger
Mr Spencer
Mr Smith
Mr Ridley
Mr Lord
Sir John Boreham (CSO)
Mr Mansell (CSO)

Mr A Turnbull (No 10)

1. SIR TERENCE BURNS
2. CHANCELLOR

Revisions plus further information go a long way to resolve the mystery of the manufacturing output figures. Growth in the second half of 1983 seems to have picked up to a rate more consistent with other indicators. The attached note shows that the CBI indicator does not reflect more recent weighting factors

TB 13/2/84

MANUFACTURING OUTPUT FIGURES

You queried last month the reliability of recent official figures for manufacturing output, suggesting that the modest growth they showed was out of line with other, more buoyant, indications and with anecdotal evidence.

2. As shown in Mr Smith's note below on tomorrow's Industrial Production figures, the latest official data suggest a rather more buoyant picture than last month. They suggest that during the second half of last year manufacturing output was growing by about one per cent a quarter. However, taking 1983 as a whole, output was only 1½ per cent higher than in the previous year. Other indicators, particularly those from the CBI survey, still seem to be indicating a stronger recovery than the official series though the gap has certainly narrowed.

3. As background to these revisions you may like to see the attached note, which attempts to bring together the alternative indicators of manufacturing output, with particular emphasis on the CSO and CBI measures. One feature of the CBI data that the note investigates is whether their weighting factors have perhaps helped them pick up more successfully than the CSO the impact of more buoyant sectors. In fact, the reverse turns out to be the

case: the pick-up in 1983 in the CBI series in part seems to have reflected an over-weighting of some of the more traditional sectors which have grown relatively strongly from their depressed 1982 position.

4. Although the CBI measure does not tell a very convincing story, there is some less formal evidence that manufacturing output has been more buoyant than the official data suggest. Both expenditure and income measures of GDP have been growing faster than the output measure; some of this discrepancy could reflect a downward bias in manufacturing output, although the past history of revisions does not point to this as a likely culprit. Perhaps more telling evidence comes from the labour market, with the rise in average hours in the second half of last year not fully explained by changes in employment or measured output.

JHS

JON SHIELDS

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ALTERNATIVE MEASURES OF OUTPUT GROWTH IN MANUFACTURING - AN ASSESSMENT

Although the most recent official statistics suggest that the growth in manufacturing output was resumed in the second half of 1983, other indicators, particularly those emerging from the CBI survey, still indicate a more buoyant picture, tending to throw doubt on the official series. At the same time the official output measure of GDP has been performing very modestly compared to the income and expenditure measures, reinforcing the suspicion that manufacturing output is being under-recorded. This note comments on the relationship between the CSO and the CBI series in recent years and looks at some of the other evidence available. The concluding section offers an assessment of the current situation.

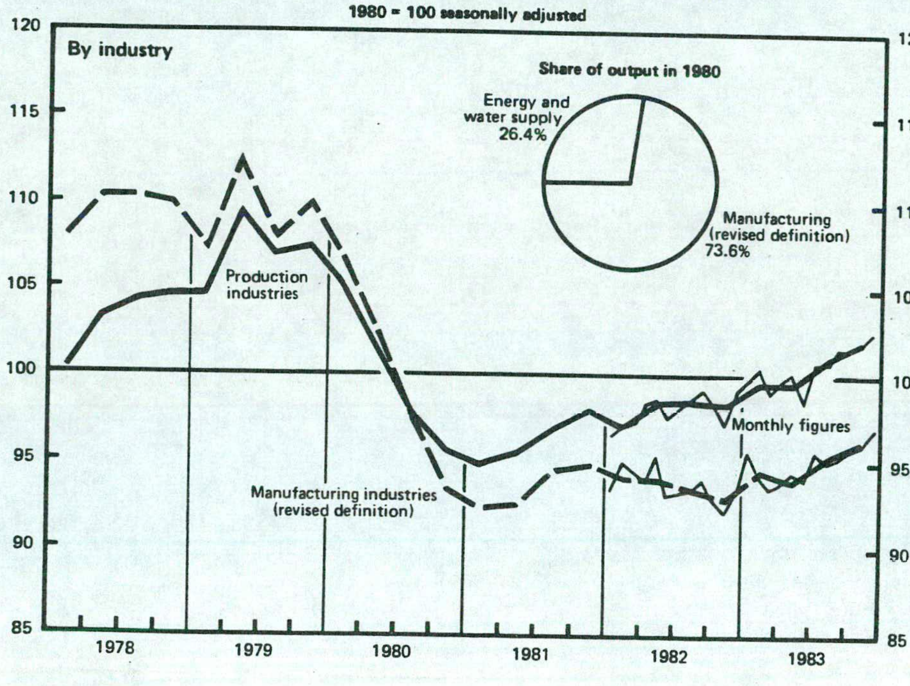
CSO DATA

2. The most recent official statistics suggest that manufacturing output grew by about one per cent during the third quarter of 1983 and a further one per cent in the fourth quarter. However manufacturing output in 1983 was only about 1½ per cent higher than in the previous year. The output of the production industries rose by 2½ per cent last year, helped by a substantial increase in energy production. The chart below shows the behaviour of these series since 1978.

CHART A

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES

1980 = 100 seasonally adjusted



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3. The latest figures for the fourth quarter of 1983 are only based on monthly indicators and will not be securely based until the quarterly sales inquiries are available in two months time. Reflecting this general point, considerable revisions have been made to the third quarter figures in recent months. They were revised downwards by $\frac{1}{2}$ a per cent in December, reflecting a revised seasonal adjustment. They were then revised up by a similar amount in January and again in February as the analysis of the quarterly sales inquiries became available. The figures for October and November were also increased this time, reflecting an allowance made for manufacturer's stocks. Since the underlying growth is not very pronounced these revisions have had a considerable impact upon estimates of trend. Indeed, until this week's figures were released, the CSO's statistics suggested that manufacturing output was very little higher than in the Autumn of 1981, having simply recovered from the relapse seen in 1982. The recovery in the second half of the year now looks much stronger.

THE CBI SURVEY

4. The CBI Survey of manufacturing industry has been offering a more buoyant picture than the official statistics recently. Respondent firms have on balance been reporting increases in both actual and expected output over the last twelve months. The January survey showed a balance of 21 per cent of firms reporting increases in output over the previous four months. A similar number expect their production to increase over the next four months.

5. The chart below shows the balance of CBI respondents reporting increases in production over the previous four months, together with the change in the CSO manufacturing series over the previous quarter. The chart shows that although these series exhibit a similar cyclical pattern the general degree of correspondence has not been exact, especially since 1980.

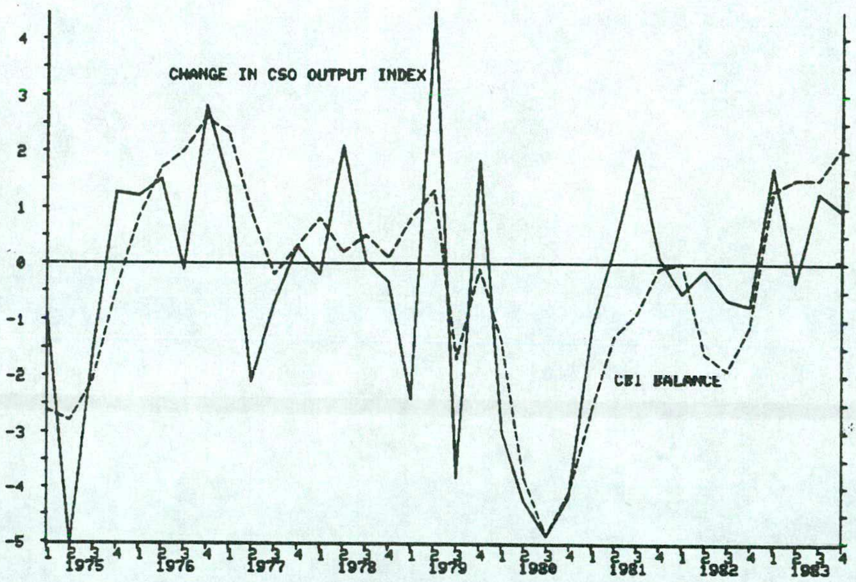


CHART B CSO AND CBI INDICATORS OF MANUFACTURING OUTPUT GROWTH

6. There are several possible reasons for the relatively poor correspondence between the two series:

(a) Although the CBI get a good response to their quarterly Survey (typically about 1700 replies, covering about 50% of manufacturing) their coverage is not as good as the CSO's (which covers about 80%).

(b) The CBI currently classify their results using the 1968 Standard Industrial Classification (SIC) and 1975 based output weights. This is less up to date than the CSO's analysis which is based on the 1980 SIC and 1980 output weights.

(c) The CBI question is rather vaguely worded, allowing scope for alternative interpretations. For example, their enquiry into answering practices suggests that some 10 per cent of firms interpret it as a question about the level of output over the previous four months compared with the same period over the previous year. Econometric evidence, discussed below, suggests that a rather higher percentage of firms interpret it in this way, or at least take into account the annual change when replying.

(d) The CBI question is qualitative, indicating a rise or fall in output, whereas the CSO measure the change quantitatively, in terms of sales, gross production and other activity variables. It is difficult to translate the CBI data into quantitative figures. However the CSO method is not without its drawbacks either. For example, if firms are producing for stock this will have the effect of boosting output relative to sales variables and it is difficult to allow for this, at least until stockbuilding data become available a couple of months later.

7. The chart shows that although the CBI have been more optimistic than the CSO recently, they were in fact more pessimistic during 1981 and 1982. It is interesting in this respect that the more traditional industries - metal manufacturing, textiles, vehicles and the like - fared relatively poorly during 1981 and 1982 but enjoyed something of a revival during 1983. Since the CBI's 1975 based output weights give these industries a relatively high weight this is likely, in part at least, to explain the divergences we have seen between these series since 1980. This possibility is investigated in the annex which concludes that this kind of compositional effect may in part explain the relatively dismal picture being put out by the CBI during 1982 and may help account for the relatively buoyant picture they have been offering more recently. There is nothing to suggest that the CBI survey is picking up the buoyancy of "sunrise" industries missed by the CSO data - in fact, quite the opposite.

8. It is also interesting that 1981 and 1982 were periods in which manufacturers were running down their stocks, suggesting the possibility that the CSO figures may have underestimated the amount of destocking and therefore tended to over-estimate output in industries where this was based on sales figures (about 60 per cent of the total). Although the relative

scales used in the chart are rather arbitrary - judged in order to align the cyclical movements in the series - the quarter to quarter movements in the CSO series are much more volatile than those of the CBI series. This seems to be because firms tend to discount the effect of short term fluctuations when responding to the CBI questionnaire. The fact that the CBI series discounts the fall in output during the road haulage strike in the first quarter of 1979 certainly supports an explanation of this kind.

9. Econometric research on these two series has not come up with any very satisfactory relationship. Research at the CBI suggests that the balance of respondents reporting a change in production is correlated better with the level of the CSO output series than its change. Research at the Treasury suggests that it is better correlated with the annual change in the CSO series than the quarterly change. Both of these results suggests that CBI respondents may be confused by the question or take a rather longer term view of changes in output than their enquiry into answering practices would suggest. The kind of discrepancy we have seen over the last twelve months is well within the range of error of these equations.

OTHER INDICATORS

10. Other indicators of activity in manufacturing give a slightly mixed picture though they appear consistent with the latest output estimates. The average weekly hours worked in manufacturing has continued to fall, though at a slower rate than in 1982. The latest figures suggest a monthly fall of 8,000 per month in the second half of 1983 and 18,000 in the first half, compared to a fall of 25,000 per month in 1982. Set alongside the CSO figures for manufacturing output, these statistics would suggest a small increase in output per hour since the summer months and a rather larger increase in output per head.

11. Our worries about the official manufacturing series go hand in hand with our concern about the CSO's output measure of GDP, which has been growing more slowly than the income and expenditure measures since 1980. We would usually be inclined to attribute this discrepancy to a mis-measurement of the output of the distribution and service sectors, since this is the area which is least well covered by the CSO. However on this occasion there is a suspicion that this is also due to an under-recording of manufacturing output. This could be because the structural changes which have occurred since 1979 have caused the registers used by the CSO to conduct their inquiries to become out of date, a problem which is inherent in any attempt to measure or survey manufacturing output, including the CBI's. This could have two effects - working in opposite directions. On the one hand, some growth areas may become under-represented whilst, on the other, the method of grossing up to allow for firms which do not reply might mistakenly attribute output to firms which have in fact ceased trading. The CSO update their registers on a continous basis in order to prevent them becoming out of date, and in view of the large changes which we have seen recently are currently mounting a major review, recruiting new firms in areas which they felt have become under-represented.

12. Indicators of activity elsewhere in the economy have been much more buoyant than those for manufacturing. However the explanation for this probably lies in the pattern of demand and competition from overseas. We have not been expecting manufacturing output to increase by very much this year, essentially because demand has been led by consumption. Consumers' non-durable expenditure does not have a large manufactured content and it seems fairly clear that the increase in durable expenditure has been largely met by overseas suppliers. At the same time investment and (at least until December) manufactured exports were relatively depressed. From this point of view the behaviour of manufacturing output is perhaps not surprising.

ASSESSMENT

12. Although we have our doubts about the CSO's manufacturing output index we have been unable to find conclusive evidence that recent recorded growth figures have been on the low side. The index appears to be at variance with the CBI's survey results though less so now that the December estimates are available. Moreover the relationship between these series - based of course on CSO data less subject to revision - has not been a very precise one, certainly since 1980. We found nothing to suggest that the CBI survey was picking up the buoyancy of "sunrise" industries missed by the CSO. If anything, we would tend to the opposite conclusion given the outdated weighting system employed by the CBI. In view of this, the rather vague way in which the CBI question is put and the poorer coverage of their survey, we would currently regard the CSO output index as likely to be the more reliable.

13. The relatively modest performance of the output measure of GDP relative to the income and expenditure measures in recent years however leads us to suspect that manufacturing output might still be under-estimated by the CSO. It is possible that the manufacturing index will be revised further as firmer figures become available over the next few months. But the history of the manufacturing output series suggests that large revisions are unlikely: revisions to the output measure of GDP have more usually reflected changes to the output of the service sectors which are measured relatively poorly.

ANNEX: COMPOSITIONAL EFFECTS ON THE RELATIVE PERFORMANCE OF CSO AND CBI MEASURES OF MANUFACTURING OUTPUT SINCE 1980

Since 1980, the CSO manufacturing output index and the CBI's Industrial Trends survey have from time to time been giving a rather different indication of output growth in the manufacturing sector. This may in part be because of the different weighting systems and methods of classification they employ. This note investigates the effect which different weighting systems might have had in recent years.

The CSO Manufacturing output index

2. The CSO's monthly manufacturing output series is a base-weighted index built up from 174 component indicators, each representing the production of an individual industry. These indicators are continually under review and new ones are included as they become available. Ideally, value added measures of output would be employed but in most cases sales figures (suitably deflated), or gross output indicators are used. The weights used in constructing the index equal the share of each industry, defined in terms of the 1980 Standard Industrial Classification (SIC), in total manufacturing output in 1980.

3. The monthly series are benchmarked using quarterly sales inquiries and the Annual Census of Production. The registers used to conduct these inquiries are also updated on a continuous basis and typically cover over 80% of manufacturing output and employment. Nevertheless, changes in the population of firms in the economy cannot be reflected immediately in the CSO's registers, which may at times become unrepresentative. The CSO accept that this is likely to have happened in recent years given the major structural changes which we have seen. This could have two effects, working in opposite directions. On the one hand, some growth areas may become under-represented whilst, on the other, the method of grossing up to allow for firms which do not reply might mistakenly attribute output to firms which have in fact ceased trading. In view of these potential difficulties the CSO are currently mounting a major review of their registers and are recruiting new firms where this is felt necessary. They are also investigating the use of the VAT registers in this work.

The CBI Industrial Trends Survey

4. The CBI Quarterly Industrial Trends survey is built up from the replies of about 1,700 firms, estimated to cover about half of manufacturing employment. The coverage is thus somewhat less than the CSO's. These replies are first grouped by employment size and industry. Four employment size groupings and forty four industry groupings (the latter based on the 1968 Standard Industrial Classification (SIC))are employed, giving a total of 146 "cells". In effect, a separate survey is carried out for each of these cells. The industrial and the overall results are obtained by weighting these cells up appropriately, using weights equal to the share of each cell in total manufacturing output in 1975. The industrial classification and weights used by the CBI are thus less up to date than those used by the CSO. The CBI is currently moving over to the 1980 based classification and weighting system and will be publishing the February results on this basis.

5. The CBI face the same sort of difficulties as the CSO in keeping their panel of respondent firms up to date. However, about 200 new firms are added every year, a similar number dropping out. They find that it is fairly easy to recruit new firms, especially non-members who have an incentive in the form of a free subscription to the survey results.

6. The use of different weights in the CBI and CSO series could account for some of the divergences which we have seen between them since 1980. These are shown in chart 1, which shows that the CBI were more pessimistic than the official figures would warrant in 1981 and 1982 but were more optimistic during 1983. The first column of table 1 shows an industrial breakdown of the changes in manufacturing output between 1975 and 1980 (as measured by the CSO using the 1980 SIC). It therefore reflects differences in the weights which the CBI and the CSO are currently attaching to these industries. The next two columns show changes in output during the two periods over which the divergence changes sign, between 1980 and the fourth quarter of 1982 and between this quarter and the three months to November 1983. The industries which experience the largest reductions in output between 1975 and 1980 and are therefore given a high weight by the CBI relative to the CSO (notably metal manufacture, man made fibres, motor vehicles and textiles) also tend to experience the largest reductions in output between 1980 and 1982. This

TABLE 1 THE INDUSTRIAL COMPOSITION OF CHANGES IN MANUFACTURING OUTPUT

(1980 Standard Industrial Classification)

	Changes in Output		
	1975 to 1980	1980 to 1982 Q4	1982 Q4 to Sept, Oct, Nov 1983
Metal manufacture	-19	- 4.1	+ 9.1
Other minerals	-11	- 3.7	- 1.3
Chemicals	+10	+ 0.3	+ 7.7
Man-made fibres	-26	-33.8	+26.4
Metal goods n.e.s.	-18	- 6.6	- 0.3
Mechanical eng.	-17	-13.5	- 4.8
Electrical eng.	+ 6	- 2.6	+ 9.9
Motor vehicles	-14	-22.5	5.4
Other transport equipment	+ 1	+ 2.0	- 0.5
Food	+ 7	- 3.1	- 0.1
Drink and Tobacco	+ 8	- 9.1	+ 4.9
Textiles	-18	-13.4	+ 5.1
Clothing and footwear	- 8	-12.3	+ 1.1
Paper and publishing	+ 5	-10.9	+ 1.9
Other manufacturing	- 3	-11.0	+ 2.9
Total Manufacturing	- 5	- 7.2	+ 2.3

Source: CSO

helps explain the relatively dismal picture emerging from the CBI over these years. On the other hand these industries experience something of a revival during 1983 and are amongst the most buoyant, helping to explain the relatively optimistic picture the CBI has been offering recently. Table 2 shows this effect from the perspective of the CBI results:

Table 2 Selective changes in CBI industrial output balances October 1982 - January 1984

Industry	Balance reporting rise in output over previous 4 months	
	July 1982	January 1984
Textiles (incl man made fibres)	- 23	+ 24
Motor Vehicles	- 44	+25
Metal Manufacture	- 48	- 2
Total Sample	- 16	+21

7. It is difficult to judge the effect these weighting and classification differences may have had at the aggregate level. However as a rough and ready check on this we may compare the CSO's previous manufacturing series which, like the current CBI series is based on the 1968 SIC and 1975 output weights, with the CSO's new 1980 based series. Quarterly changes in these two indices are shown alongside the CBI balance in chart 2. The comparison shows that the use of the different weights makes little difference during 1981. However, the 1975 based series does suggest a rather larger fall in output during 1982, and a larger bounce-back during 1983 than does the 1980 based series and thus relates better to the CBI balance over this period. Unfortunately construction of the 1975 based index was discontinued after the second quarter of last year, so it is difficult to check the effect that compositional changes have had in more recent months. The CBI are currently reworking some of their recent surveys using their new 1980

based output weights. However, this involves them in a lot of work, and they do not expect to have any results for some time.

Conclusion

8. In view of this we would conclude that the use of an outdated weighting system has made the CBI results slightly unrepresentative, giving an undue weight to traditional industries which fared relatively badly during 1982 but recovered during 1983. It is difficult to know how much this effect is worth. So this conclusion must remain highly tentative, at least until the CBI have been able to rework their recent surveys on the new 1980 basis.

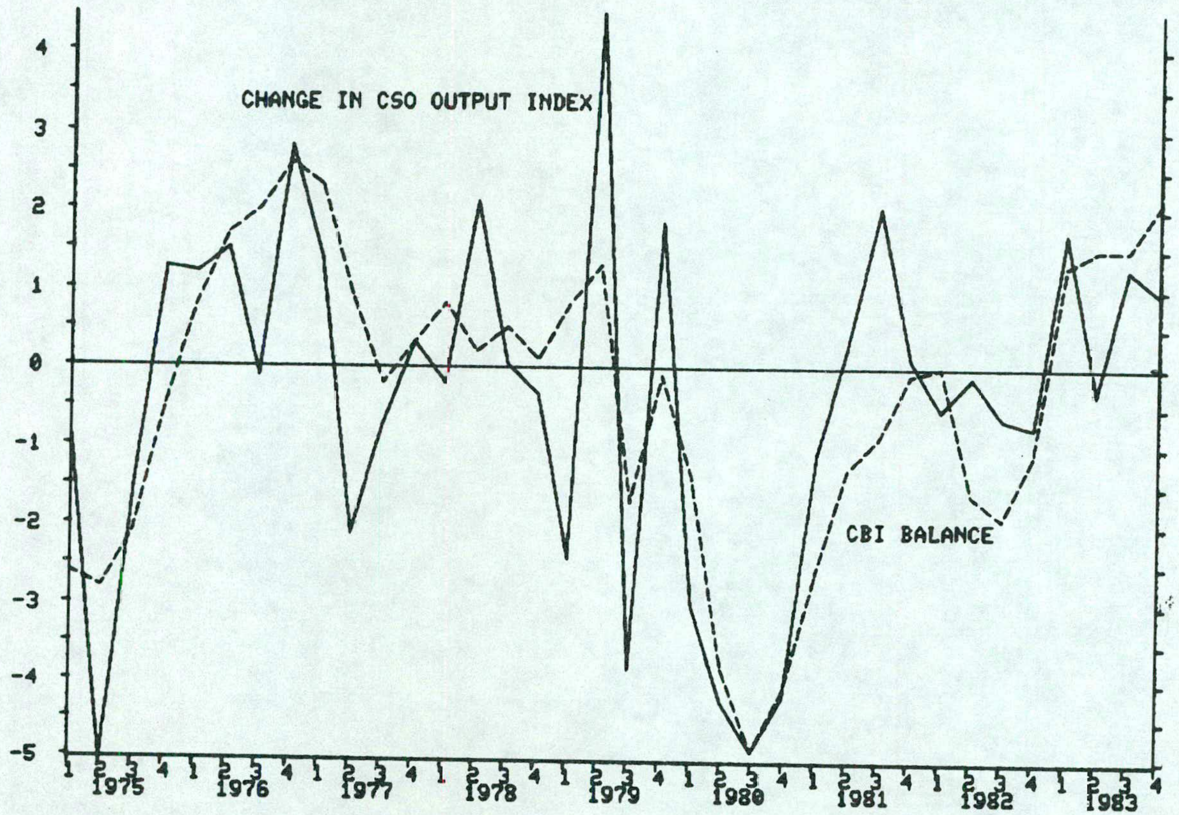
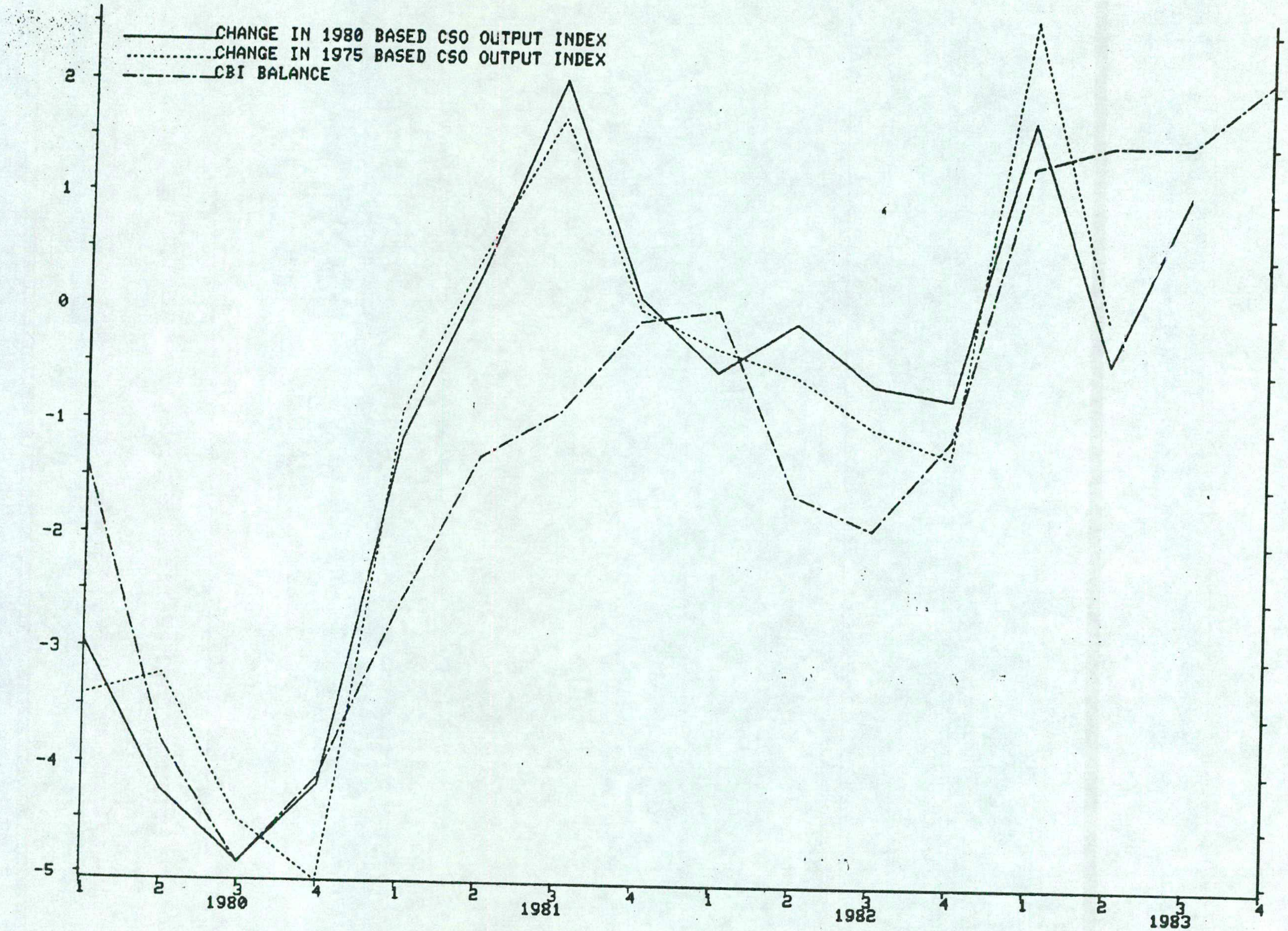


CHART 1 CSO AND CBI INDICATORS OF MANUFACTURING OUTPUT GROWTH

CHART 2



Alternative Indicators of the change in Manufacturing output

PERSONAL AND CONFIDENTIAL
until 2.30 pm, Tuesday, 14 February

(PUS)

The revised picture goes some way to resolving the CSO vs CBI riddle, and in an encouraging way. See also EAI's note of today (below)
13.2.84

FROM: A SMITH
DATE: 13 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 Monck
Mr Battishill
Mr Evans
Mr Gordon
Mr Hall
Mr Shields
Mr Page
Mr Spencer
Mr Hibberd
Mr Andren
Mr Ridley
Mr Lord
Mr Salveson (for No 10)
Mr Mackinnon

Mr Mansell - CSO
Mr Kingaby - CSO
Mr Lang - CSO

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - DECEMBER 1983
(to be released at 2.30 pm, 14 February)

The table below is a summary of the main results. As usual the emphasis should be on the less erratic three month on three month comparisons. (See also attached tables 1 and 2 for more details.)

OUTPUT (percentage changes)

	1983 Q4 on 1983 Q3	December on November	1983 on 1982
Production industries	+1	+ ½	+2 ½
of which:			
Energy and water supply	+1 ½	+ ¼	+5 ¼
Manufacturing	+1	+1	+1 ½

2. For the third successive month back series have been revised. The main effect is that October and November figures for manufacturing (and production industry) output

are now about 1 (and ½) per cent higher than previous estimates. This contributed to the 1 per cent increase in the fourth quarter, which, following a similar increase in the third quarter, means that the manufacturing output index now shows a fairly clear upward movement in the latter half of 1983. (See attached chart.) There is now much less of a 'discrepancy' between the output index and other indicators of manufacturing activity such as CBI Surveys and hours worked.

[3. <u>For information only:</u> The revision to the October and November estimates reflects in part an initial underestimate by CSO of stockbuilding within those industries for which sales figures are used to proxy output. The revised figures incorporate DTI's best estimate of these stock changes in the fourth quarter. Provisional stocks figures for 1983Q4 are not released until 23 February.]

<u>Manufacturing</u>

4. Output in all the main industrial groups within manufacturing, except chemicals, rose in the fourth quarter. (See table 2.) The rise of 3½ per cent in the year to 1983Q4 has to be seen in the context of the fall in output through 1982. Between 1982 and 1983 as a whole output is now estimated to have risen by 1½ per cent, as forecast in the Autumn Statement.

<u>Energy</u>

5. Movements here are dominated by oil and gas extraction, which rose 5 per cent in 1983Q4. Output of coal continues to be depressed by the miners' overtime ban.

<u>Construction</u>

7. Fourth quarter figures will not be available until next month.

<u>By market sector</u>

8. Growth continues to be concentrated in the <u>intermediate goods</u> industries, which encompasses the energy industries. Despite a sharp increase in car production, the output of <u>consumer goods industries</u> was flat during both the third and fourth quarters. The output of <u>capital goods</u> industries rose 1 per cent in 1983Q4. (This is consistent with recent CBI Surveys suggesting a strengthening in demand in this sector.)

ASSESSMENT

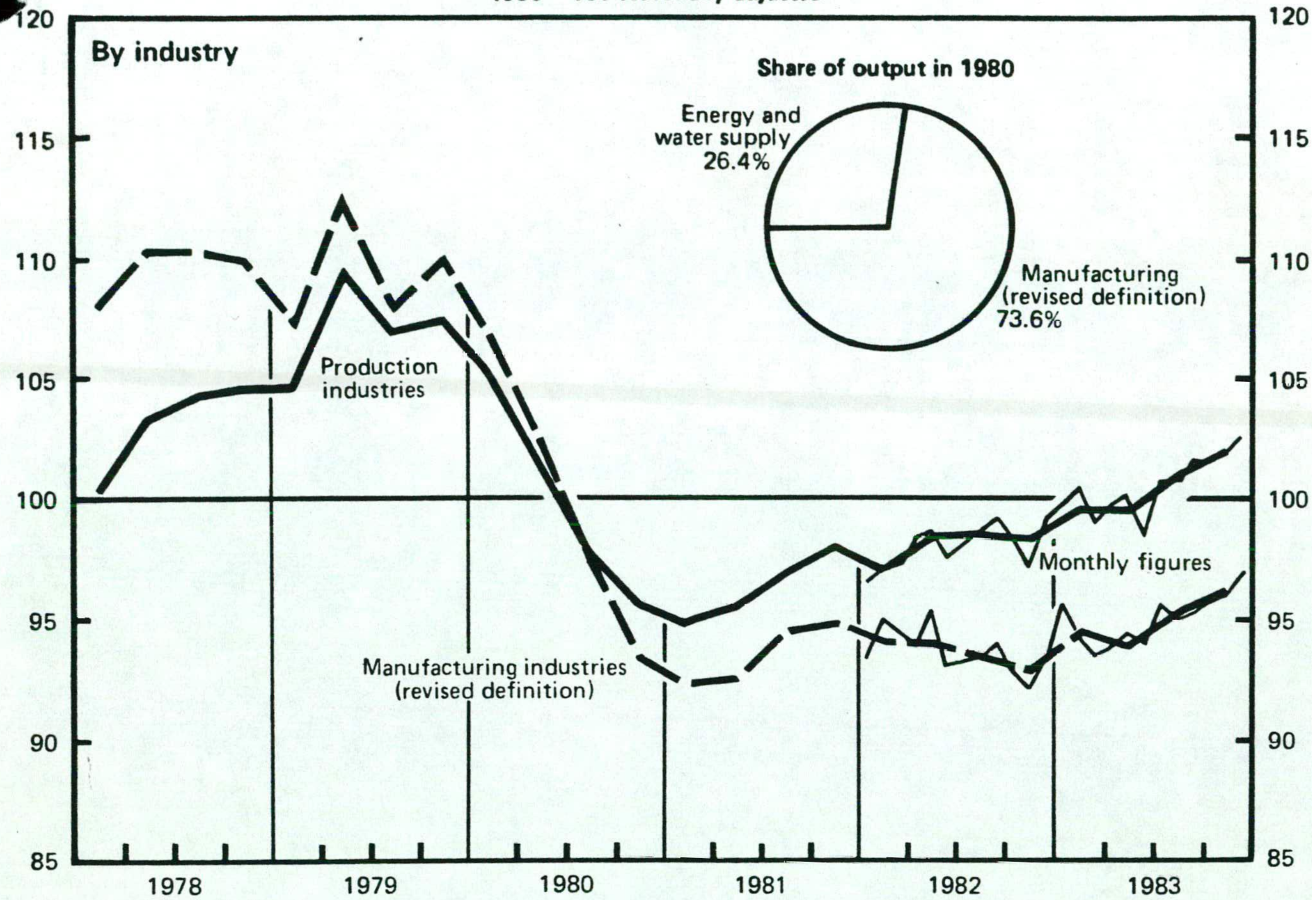
9. Some encouragement can be drawn from these latest figures which, along with survey and labour market evidence, suggest increased activity in manufacturing industry. Manufacturing output - about a quarter of whole economy output - increased by around 1 per cent in both the third and fourth quarters of last year, with most industries within manufacturing showing higher levels of output.

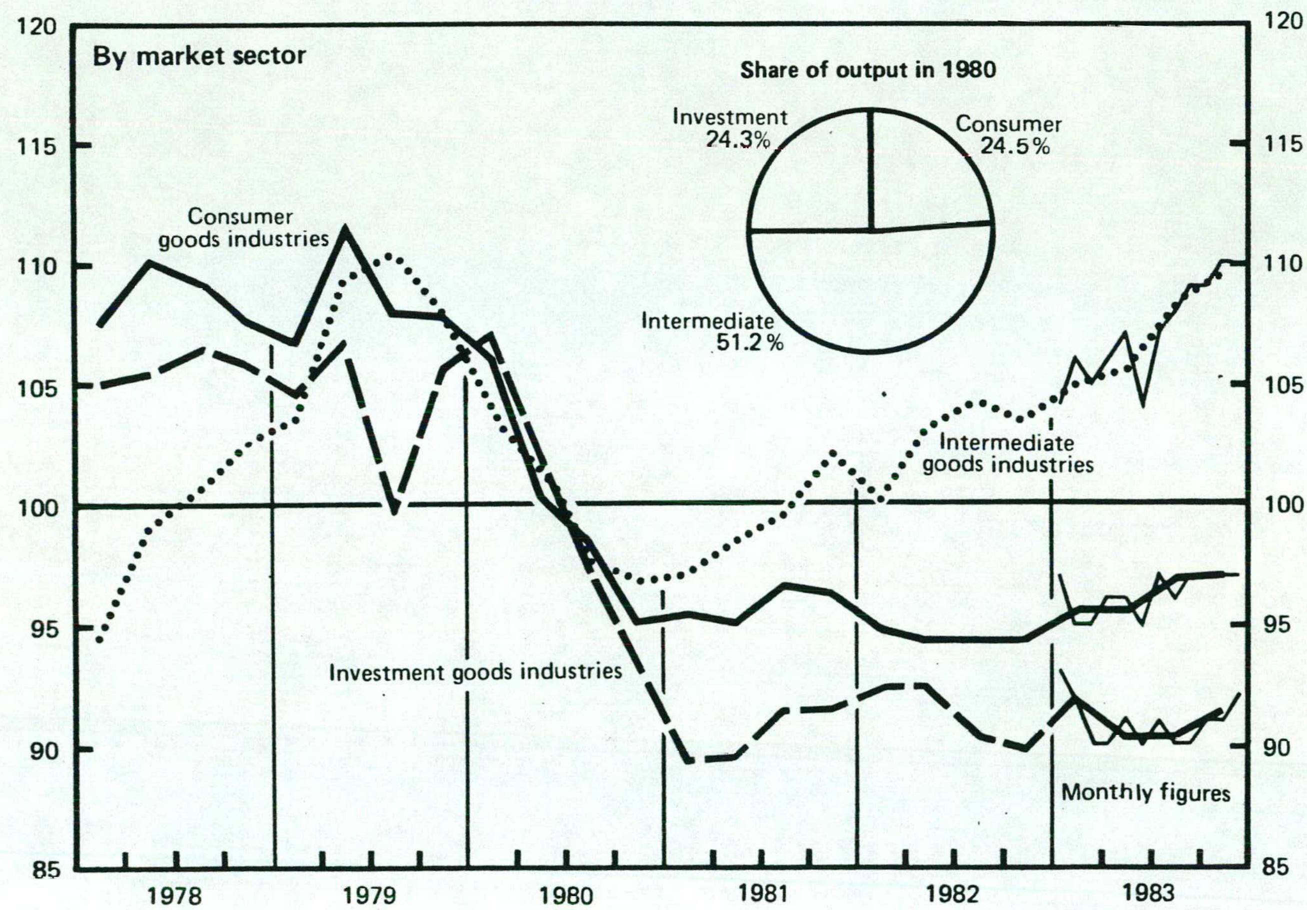
A. Smith

A SMITH
EB

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES

1980 = 100 seasonally adjusted





CONFIDENTIAL
until 2.30 pm, Tuesday, 14 February

TABLE 1

OUTPUT OF PRODUCTION AND CONSTRUCTION INDUSTRIES

1980 = 100, seasonally adjusted

		Production and Construction (Divisions 1-5)	Production (Divisions 1-4)	Manufacturing[1] (Divisions2-4)
1978		103.4	103.1	109.6
1979		106.8	107.0	109.4
1980		100.0	100.0	100.0
1981		95.4	96.3	93.6
1982		97.1	98.0	93.7
1983		n.a	100.5	95.0
1983	Q1	98.6R	99.5R	94.4
	Q2	98.3	99.5	94.1R
	Q3	100.4	101.0R	95.3R
	Q4	n.a	102.0	96.2
	October		101.6R	95.7R
	November		102.0	96.0R
	December		102.6	96.9
% changes				
Latest 3 months on previous 3 months		+2.1	+1.1	+0.9
Latest 3 months on year earlier		+2.8	+4.0	+3.6
Latest 3 months on 1981 Q1		+6.2	+7.5	+4.1

Notes

[1] Division 1 is Energy and Water Supply Industries and accounts for 26 per cent of the total "production" index with manufacturing being the remaining 74 per cent.

'R' signifies revised figure.

CONFIDENTIAL
until 2.30 pm, Tuesday, 14 February

TABLE 2

	Percentage change, latest 3 months on:		
	Previous 3 months	Same 3 months last year	1981 Q1 (trough of output of production industries)
Total Production industries	1.1	4.0	7.5
Energy & water supply	1.4	4.8	16.3
o.w. extraction of oil and gas	4.9	10.4	35.9
Total manufacturing	0.9	3.6	4.1
o.w. Metals	3.5	9.8	4.6
Other minerals*	0.3	1.0	9.9
Chemicals (and. man made fibres)	-2.0	6.1	8.5
Engineering	1.5	3.3	5.6
Food, drink, tobacco	0.8	2.8	3.4
Textiles, etc	0.7	3.4	0.0
Other**	0.9	3.2	-1.9

* Mainly building materials
**Paper, printing, publishing; timber, furniture, rubber, plastics.

FROM: J O KERR
DATE: 14 February 1984

MR MONCK

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Bailey
Mr Lovell
Mr Battishill
Mr Folger
Mr Ridley
Mr Hall

MANUFACTURING: OUTPUT AND PAY

The Chancellor last night saw the latest figures on manufacturing output, and the underlying increase in average earnings in manufacturing, in the year to December. He notes that with output up by only 1½ per cent, average earnings were up by about 9¾ per cent. He finds the disparity very striking, and considers that it consorts very oddly with the pleas from e.g. the CBI.

J O KERR

CONFIDENTIAL

I 17

FROM: ADAM RIDLEY
14 February 1984

CHANCELLOR

cc CST
FST
EST
MST
Sir P Middleton
Sir T Burns
Mr Monck
Mr Battishill
Mr Evans
Mr Odling-Smith
Mr Folger
Mr Shields
Mr Portillo

C.
I rather agree.
[illegible]

Good idea - let us see the answer to [illegible]

RONR.
Pl. minute Mr Shields
[illegible]

MANUFACTURING OUTPUT FIGURES

The first attachment to Mr Shields' minute of February 13 "Alternative Measures of Output Growth in Manufacturing - An Assessment" contains very interesting information about revisions to the manufacturing output index made over recent months. The scale and cumulative impact of these revisions, as detailed in paragraph 3, have indeed, as Mr Shields said "had a considerable impact upon estimates of trend". We appear to be faced, yet again, with the problem that Roger Nightingale has so often written about; the latest published figures are always flat, while revisions to the recent past raise the base. At no point does public attention get sufficiently directed towards the underlying trend which ultimately emerges. Is there not a case for getting the substance of these revisions drawn to public attention in the form of a written PQ? This could be on the lines of:

<u>Question</u>: Will the Chancellor publish details of recent revisions to the index of manufacturing output, and comment on the trends they reveal?

At the very least we would lose nothing by so doing!

AM

A N RIDLEY

RIDLEY 14/2

CONFIDENTIAL

FROM: MISS M O'MARA

DATE: 15 February 1984

MR SHIELDS

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Battishill
Mr Evans
Mr Odling-Smee
Mr Folger
Mr Salveson
Mr Ridley
Mr Portillo

PROD' INDS.

MOM 15/2

MANUFACTURING OUTPUT FIGURES

The Chancellor has seen Mr Ridley's minute of 14 February. He thinks his proposal of an arranged PQ is a good idea but would like to see the Answer in draft before reaching a final decision. I should be grateful if you could supply one.

MOM

MISS M O'MARA

3-20

FROM: A SMITH
DATE: 16 FEBRUARY 1984

PMP

1. MR MONCK

2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Bailey
Mr Kemp
Mr Evans
Mr Lovell
Mr Battishill
Mr Pearce
Mr Folger
Mr Shields
Miss Sinclair
Dr Rowlatt
Mr Ridley
Mr Hall

Taking productivity into account makes manufacturing look less worrying compared with the rest of the economy. But the attached cutting from the FT suggests that unit wage costs in manufacturing have been falling or rising less in major competitor countries. MM 23/2

Right. And the disparity is smaller than in previous years. But it's still too big

N.

MANUFACTURING: OUTPUT AND PAY

You commented on the disparity between recent figures for manufacturing output (up 1½ per cent 1983 on 1982) and earnings growth. (Mr Kerr's note of 14 February refers.)

2. The table below shows movements in these series for 1983 and preceding years, together with productivity and unit wage costs. The figures are full year on full year throughout.

Manufacturing (year on year percentage changes)

	Output	Actual average earnings	Output/head	Unit Wage costs
1979	0	15½	½	15
1980	-9½	18	-4	22
1981	-6½	13½	3	10
1982	0	11	5½	5
1983	1½	9	6	3

3. Although the increase in manufacturing output last year was modest, productivity rose sharply, (employment continued to fall, by over 200,000, or 4 per cent). The increase in earnings reflected these gains in productivity, part of which can be explained by the increase in hours worked, and in this sense were more 'affordable'. Of course any increase in unit wage costs allowed by employers is something of a self-inflicted wound. But, given higher prices, the limited rise in unit wage costs has been consistent with some rise in profitability and we expect a further improvement in the financial position of manufacturing this year.

4. Outside manufacturing earnings growth was rather slower (8¼ per cent increase 1983 on 1982) but productivity also improved less rapidly. To the extent that faster growth in manufacturing earnings reflects increased output per hour (partly in the form of bonus payments) and increased hours worked, it need not necessarily be of concern in itself.

A Smith

A SMITH
EB

Financial Times Thursday February 16 1984

Average earnings keep ahead of inflation

BY PHILIP STEPHENS

AVERAGE EARNINGS in Britain continued to run well ahead of inflation last year, but strong productivity gains brought the growth of unit labour costs to its lowest level for 15 years.

The Employment Department said yesterday that average earnings rose by an underlying 7¾ per cent in the year to December, while the increase in manufacturing industries was 9¾ per cent.

Inflation during the year was just over 5 per cent, giving a rise of about 2½ per cent in real income for those in jobs.

In contrast, wages and salaries per unit of output in manufacturing rose by only 2.6 per cent in the same period, the lowest since 1968. It compared with a high of 22 per cent in 1980.

Unit labour costs for the whole economy in 1983 are not yet available but during the first nine months of the year they were running at a steady 3.5 per cent above 1982.

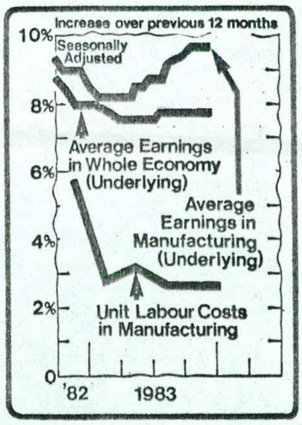
X

In international terms, however, the figures are not so favourable, with latest comparable data on unit labour costs in manufacturing showing a 2 per cent fall in West Germany and the U.S., no change in Japan and a 2 per cent rise in Canada.

In manufacturing the rise in output per person of nearly 7 per cent is split fairly evenly between increased production and lower employment.

While jobs are still being lost, the rate is slowing with employment in manufacturing falling 20,000 in the last three months of the year compared with 29,000 in the third quarter and 53,000 in the second quarter.

The department also confirmed recent ministerial statements of a rise in employment in the economy as a whole for the first time since 1979, with new jobs in services leading to a 40,000 net increase in the third quarter.



The pace of growth in average earnings is partly explained by the continuing strength of economic recovery, with a sharp reduction in short-time working and a strong boost to overtime hours.

Officials estimate that these factors increased earnings by ¾ per cent in the economy as a whole and 1¼ per cent in manufacturing, while bonus and productivity payments also increased take-home pay.

Earnings growth at that level must prove a worry for the Government in its efforts to bring inflation down to 4.5 per cent by the end of the year and improve Britain's competitiveness.

The Confederation of British Industry said yesterday that pay settlements in manufacturing, which usually lag behind earnings, crept up to 5.8 per cent in the last three months of 1983 from 5.6 per cent in the previous nine months.

The pay round is still in its early stages and public sector workers are expected to lag behind the private sector,

Asset sales, Page 12

C.

OK: proceed with no edit: no press briefing. N.

Miss O'Hara

Mr Shields on MF Output Revisions

You asked me if I had any thoughts on Mr Shields minute to the Ch of Feb 17th.

The draft seems to me fine, & to call for no change.

Had the press coverage of the matter been less uniformly favourable, I would have suggested press releasing the answer to draw journalists' attention to it. However this

have
would not seem worth
doing – though the
Chancellor may like to
give the idea a thought
before dismissing it!

AM 21/2

CONFIDENTIAL

FROM: JON SHIELDS
17 FEBRUARY 1984

cc:
PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Monck
Mr Battishill
Mr Evans
Mr Odling-Smee
Mr Folger
Mr Salveson
Mr Ridley
Mr Portillo
Mr Spencer

Mr Flaxen) CSO
Mr Mansell)

CHANCELLOR OF THE EXCHEQUER

C
Do you want to proceed?

Mary 20/2

ANR is consulted. R.

MANUFACTURING OUTPUT FIGURES

You were interested in following up Mr Ridley's suggestion that a written PQ might be used to draw public attention to the substance of recent revisions to the manufacturing output figures.

2. The attached draft question and answer uses the revisions as a peg on which to hang details of the latest views on output growth. We have avoided references to trends because of the risk of further revisions or of a sharp change in the January figures. A more bullish 12-monthly figure could have been produced by comparing the fourth quarter of 1983 with a year earlier but the 1983 figure is still rather poorly based and the implied acceleration would not have been convincing.

3. Three relevant factors to bear in mind when deciding whether to proceed are:

(i) The press coverage of the revisions was in fact fairly favourable and the more bullish picture has already been given reasonable prominence.

(ii) The explanation about the upward revisions to the October and November figures is confidential until next Thursday.

(iii) First estimates of the output measure of GDP in the fourth quarter of 1983 - published on Monday - will show only $\frac{1}{2}$ per cent growth on the third quarter despite the recovery in manufacturing.

4. We are still investigating with the CSO whether there are well-founded reasons for suspecting that output figures are subject to downwards bias in a recovery period.

J. L. S.

JON SHIELDS

WRITTEN PQ ON MANUFACTURING OUTPUT

Will the Chancellor publish details of recent revisions to the official index of manufacturing output and comment on developments?

DRAFT REPLY

Initial estimates of manufacturing output are often revised significantly. Some of the reasons for these adjustments were discussed in an article in Economic Trends in October 1983. Figures for the third quarter of 1983 have been subject to three revisions since initial publication. They now show an increase of about 1 per cent on the second-quarter level. Estimates for October and November were raised this month reflecting an allowance for stockbuilding* in the fourth quarter; together with the initial estimate for December they show a further rise of 1 per cent between the third and fourth quarters of 1983.

2. These adjustments have had a considerable impact upon the profile of manufacturing output. The recovery since the hesitation in output in the middle of 1982 now looks much stronger. Manufacturing production appears to have grown by 2½ - 3 per cent between the second halves of 1982 and 1983, with most industries showing higher levels of output. These figures are much more in line with other indicators of activity in manufacturing, notably the increase seen since the summer in average weekly hours and the optimistic responses to recent CBI surveys.

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* This explanation is confidential until publication of the stockbuildings figures on 23 February.

BACKGROUND NOTE

1. We have assumed that this question would be a written one as suggested in Mr Ridley's minute.

2. As the draft answer suggests, revisions to the manufacturing output index can have a considerable impact upon estimates of the short-term trend. Revisions can take place in both directions and for this reason we would be reluctant to give too much emphasis to the most recent estimates.

3. The figures for the third quarter of last year are now fairly well established, though some of the quarterly sales returns have yet to be analysed and other minor adjustments are still possible. However, the figures for the fourth quarter are nothing like as secure, being entirely based on monthly sales indicators and a provisional estimate of the increase in manufacturers stocks. There is considerable scope for further revisions as the fourth quarter sales inquiries arrive. It is likely that the figures will also change as the results of the Annual Census of Production are analysed, although the CSO advise us that this does not usually affect the manufacturing index to any great extent.

FROM: MISS M O'MARA
DATE: 22 February 1984

Mr Shields

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Battishill
Mr Evans
Mr Odling-Smee
Mr Folger
Mr Salveson
Mr Ridley
Mr Portillo
Mr Spencer

MANUFACTURING OUTPUT FIGURES

The Chancellor was grateful for your note of 17 February. He is content that the written question should now be tabled and answered as you have suggested. He does not see the need for any specific press briefing.

MOM

MISS M O'MARA

CONFIDENTIAL

FROM: JON SHIELDS
23 FEBRUARY 1984

cc:
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr Bailey
Mr Littler
Mr Cassell
Mr Monck
Mr Battishill
Mr Evans
Mr Lankester
Mr Odling-Smee
Mr Scholar
Mr Sedgwick
Mr Bottrill
Mr Hall
Mr Folger
Mr Mowl
Mr Riley
Mr Hibberd
Mr Lord
Mr Ridley
Mr Portillo

CHANCELLOR OF THE EXCHEQUER

[Basic rate income tax:

1960/1 - 1964/5	30
1965/6 - 1968/9	33
1969/70 - 1970/1	32
1971/2 - 1973/4	30
1974/5 - 1975/6	33
1976/7 - 1977/8	35
1978/9	33
1979/80 -	30]

Re para 4, I have long thought that a simple average of the output & expenditure measures would be better than an averaging O, E, & I. What does the CSO think? N.

NATIONAL INSTITUTE ECONOMIC REVIEW

The February issue of the National Institute Review is timed for release at 9 p.m. this evening. In addition to the usual coverage of recent developments and prospects for the world and domestic economies in 1984 and 1985, there are short articles on: the three measures of GDP; forecasting and policy uncertainty; changes in industrial structure; and influences on public and private sector pay.

2. The London Business School Economic Outlook will be released on Sunday; a note will be submitted to you tomorrow.

GDP Measures

3. Some interesting, if not entirely, unexpected results on the properties of the three measures of GDP over the last twenty years are revealed in a short statistical exercise in the Review. The results suggest that the output measure of GDP has tended to grow slightly slower than either income or expenditure measures. More importantly, the observed tendency for revisions to the initial estimates to be in an upward direction is confirmed. It turns out that the initial estimate of the through-the-year growth in the output measure may be the best predictor of the eventual path of the average measure - but only after a fairly large adjustment is added for bias in the initial estimate.

4. Further analysis of the inter-relationships between the measures suggests that variances of an aggregate measure of GDP will be minimised by assigning unequal weights within the aggregate to the different measures: it is recommended that over half the weight be given to the output measure, with the bulk of the remainder going to the expenditure rather than the income measure.

5. The thrust of the article is that initial estimates of the output measure probably provide the best guide to what has actually been happening to GDP "through the year". This confirms the general emphasis on GDP(O) that NIESR has adopted in looking at recent developments. Interestingly, however, the implied bias adjustment to the initial estimate is not mentioned in the appraisal in the current Review; had it been so, the references would have had to be to recent growth rates in GDP of nearly 3 per cent rather than 2¼ per cent p.a.

Forecast

6. Reflecting in part the emphasis on uncorrected initial estimates of GDP(O), the Review maintains a more gloomy perspective than official forecasts. Output growth is expected to remain at about 2¼ per cent p.a. in 1984 before coming to a virtual halt in

the middle of 1985. Inflation returns to a 12-month rate of nearly 7 per cent by the end of this year and approaching 8 per cent next year. The current account remains in surplus but the effective exchange rate falls to 77 by the end of 1984.

7. A broadening recovery is foreseen for the world economy. With the United States growing at 5 per cent in 1984 and some acceleration expected in Japan and West Germany, the OECD growth rate is put at 3½ per cent for 1984 and nearly 3 per cent in 1985. This is expected to be accompanied by a very modest increase in inflation and a better outlook for non-oil LDCs. The picture is thus very similar to that envisaged for the IAF forecast in the FSBR (figures in parenthesis below relate to proposed IAF projections for the major 7 excluding the UK and to UK-weighted world trade in manufactures).

WORLD ACTIVITY AND PRICES

	1983	1984	1985
OECD growth in GDP (per cent)	2¼(2)	3½(4)	2¾
OECD growth in consumer prices (per cent)	5¼(5)	5½(5)	5¾
World trade growth in manufactures (per cent)	1½(1)	5 (4½)	5½

8. World interest rates are expected to rise slightly in the second half of this year, with the dollar depreciating against the yen in particular. Despite some upward pressure expected also on UK interest rates, it is assumed that real interest rates will be rather lower in the UK than the US, and domestic inflation rather faster in the UK. The NIESR's equation-based approach thus leads them to expect a fall of 6 per cent in the sterling effective rate this year even though the dollar oil price falls only marginally.

9. It is this fall in the sterling rate - itself partly determined by the domestic inflation forecast - that is the main explanation of the gloomy prospects for inflation this year. The 12-month increase in the RPI is still expected to return to 6¾ per cent by the end of this year compared to a proposed IAF projection of 4½ per cent. NIESR admit privately to not paying a great deal of attention to the short-term outlook for the RPI (their equations centre on the consumers' expenditure deflator) but the Press will, no doubt, focus on this continued discrepancy of views. Other explanatory factors appear to be differences in assumptions about productivity growth and the effects of continued tight competitive conditions on margins. In 1985, the further pick-up in inflation in the Institute's forecast is also associated with higher earnings growth.

10. The difference in outlook for price inflation explains much of NIESR's slower growth in GDP and the very slow upward drift in unemployment. On the assumption of a Budget restricted solely to indexation, real personal disposable incomes are predicted to grow by 1 per cent this year and next. Although the saving ratio is now expected to fall to 7½ per cent by the end of this year, consumption growth is, therefore, put at 2 per cent this year and under 1½ per cent in 1985. NIESR acknowledge their recent consistent under-prediction in this area. They now expect flat rather than declining expenditure on durables, but without a better price-volume split it would have been difficult to raise their consumption forecast further.

11. On some other components of expenditure, NIESR take a rather more bullish line. Rising profits in manufacturing have encouraged them to project a faster and much better sustained rate of growth in fixed investment than indicated by recent surveys: nearly 11 per cent in 1984 and 8½ per cent in 1985. Investment in services is set to grow by nearly 9 per cent in 1984. But they think that the peak in private housing is nearly past and expect little contribution from public sector investment.

12. The main elements of the NIESR forecasts for GDP and prices are as follows, with equivalent figures proposed for the FSBR in parenthesis:

GDP AND PRICES

	1983	1984	First half of 1985
	Percentage change on a year earlier		
GDP (NIESR - Output Measure; HMT - Average Measure)	2¼(3)	2¼(3)	2 (2½)
Consumers' Expenditure	3¾(3¾)	2 (3)	1½(3)
Fixed Investment	4¼(4¾)	3¾(6)	1½(3)
Retail Prices (to 4th Qrt)	5	6¾(4½)	

13. The projections of trade growth are unexceptional: a 4½ per cent rise in exports of goods and services in 1984 and (perhaps a little pessimistic given the slower growth in final demand) an increase of 6 per cent in imports. Despite the assumed depreciation of sterling, the terms of trade move in our favour (NIESR assume a further widening in the differential between domestic and export prices) and the visible deficit is not expected to rise much over £1 billion in 1984. This gives a current account balance (before data revisions) of £1½ billion compared with £2 billion proposed for the IAF.

14. The PSBR - before any fiscal adjustment - is forecast to fall from £10 billion in 1983-84 to £8½ billion in 1984-85 and £7½ billion in 1985-86. Rising real onshore tax revenues, additional North Sea receipts and slower rates of growth in social security benefits are mentioned as explanations for the declining profile, along with lower growth in public sector earnings and high asset sales.

Forecast Errors

15. Three sections in the Review deal with previous errors. An analysis of Budget-time forecasts over the past three years (February and May for NIESR, the FSBR for the Treasury) suggests that output projections were "generally fairly good" in 1981 and 1982 although there was an initial under-statement of home demand in 1983 and Treasury projections were generally better. On inflation, NIESR acknowledge a recent tendency to over-predict. They lay claim to a remarkably good record on the current account. It is worth noting that judgements about forecasting records can be very sensitive to which of an annual cycle of forecasts is chosen and the extent to which "base drift" in the data for the current year is allowed to affect the comparisons.

16. A statistical note on NIESR's inflation forecasts over a longer period reveals not dissimilar errors to those quoted for Treasury forecasts. Policy-adjusted absolute errors for inflation to the end of the year for each February forecast in the past nine years averaged about $2\frac{1}{2}$ per cent; 3 per cent before policy adjustment. There was, however, a tendency to under-predict inflation.

17. An article by Andrew Britton discusses the contribution of uncertainty about fiscal policy to forecast errors. It points out the improvement in predictability that would flow from the existence and continuity of feedback rules for Budget changes.

Line to Take

18. The imminence of the Budget forecast and the familiar flavour of the NIESR Review suggest only a low key response. The National Institute have recently been excessively gloomy about both inflation and output; recent data give no support to their projections of a sharp upturn in inflation this year or output growth considerably less than 3 per cent p.a.

JON SHIELDS

RP

DEPARTMENTS OF INDUSTRY AND TRADE
– COMMON SERVICES –
1 Victoria Street London SW1H 0ET
Telephone Direct Line 01-215 3055
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J Kerr Esq
Principal Private Secretary
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON
SW1P 3AG

M. chase Mr Renett on Monday

24 February 1984

DTI note

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

Publication is set for Wednesday 29 January at 3.30 pm and I should be grateful if you would arrange for the Notice to be cleared by noon Tuesday 28 January and to inform me accordingly.

A copy of this letter and draft Press Notice is being sent to Sir Peter Middleton.

Yours sincerely

W. E. Boyd.

W E BOYD

V311

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ON 29.2.84 AT 3.30PM AND THEREAFTER UNCLASSIFIED

Copy No ..10.(14)

THE CURRENT ACCOUNT OF THE UNITED KINGDOM BALANCE OF PAYMENTS

JANUARY 1984

The current account for January is estimated to have been in deficit by £129 million compared with a surplus of £568 million in December. Exports in January amounted to £5224 million and imports to £5563 million so that trade in goods was in deficit by £339 million compared with a surplus of £358 million in December.

The invisibles account is projected at a monthly surplus of £210 million, a large surplus on the transactions of the private sector and public corporations being partly offset by a deficit on government transactions.

NOVEMBER 1983 TO JANUARY 1984

In the period November to January the current account was in surplus by £719 million compared with a surplus of £360 million in the previous three months. There was a surplus on visible trade of £89 million in the latest three months compared with a deficit of £449 million in the previous period. The surplus on invisibles is projected at £630 million.

CURRENT ACCOUNT

TABLE 1 — **£ million, Seasonally adjusted**

		Visible Trade			Invisibles[c]		
	Current Balance	Balance	Exports fob	Imports fob	Balance	Credits	Debits
1982	+ 5643	+ 2384	55565	53181	+ 3259	31734	28475
1983	+ 2470a	- 500	60658	61158	+ 2970 a	N/A	N/A
1983 Q1	+ 1147	+ 203	14819	14616	+ 944	8290	7346
Q2	+ 38	- 460	14752	15212	+ 498	8300	7802
Q3	+ 650	- 248	14862	15110	+ 898	8552	7654
Q4	+ 635a	+ 5	16225	16220	+ 630 a	N/A	N/A
1983 Aug	+ 222	- 78	4934	5012	+ 300 b		
Sept	+ 351	+ 52	5142	5091	+ 299 b		
Oct	- 213a	- 423	5164	5586	+ 210 a	Monthly figures of credits and debits are not available	
Nov	+ 281a	+ 71	5266	5196	+ 210 a		
Dec	+ 568a	+ 358	5795	5438	+ 210 a		
1984 Jan	- 129a	- 339	5224	5563	+ 210 a		
Aug-Oct	+ 360	- 449	15240	15689	+ 809		
Nov-Jan	+ 719	+ 89	16285	16196	+ 630 a		

a Invisibles are projections and subject to revision as information becomes available.
b One-third of the appropriate calendar quarter's estimate; monthly figures of invisibles are not available.
c Information relating to credits and debits of the private sector and public corporations can be found in Table 3.

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[redacted] 29/2/84 at 3.30 pm and thereafter unclassified.

VISIBLE TRADE IN JANUARY 1984

The visible trade balance in January was in deficit by £339 million compared with a surplus of £358 million in December. There was a surplus on oil of £719 million in January compared with £901 million in December. The deficit on trade in non-oil goods of £543 million in December increased to £1058 million in January.

The value of exports in January was £572 million (10 per cent) below the exceptionally high December figure. Exports of oil fell by £190 million and exports of aircraft by £102 million. Excluding the erratic items*, exports of finished manufactures fell by £146 million.

Total imports were £125 million (2½ per cent) higher than in December. Excluding the erratic items, imports of semi-manufactures increased by £70 million but imports of finished manufactures fell marginally as higher arrivals of intermediate goods were offset by lower arrivals of consumer goods. Imports of the erratic items were £54 million higher in January.

The terms of trade index fell by ½ per cent as the export unit value index increased by 1½ per cent and the import unit value index increased by 2 per cent.

RECENT TRENDS

Visible balance

In the three months November to Janaury there was a surplus on visible trade of £0.1 billion compared with a deficit of £0.4 billion in the previous three months. The surplus on trade in oil increased from £1.6 billion to £2.3 billion whilst the deficit on non-oil goods increased from £2.1 billion to £2.2 billion.

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

Exports

Exports in the three months ended January were valued at £16.3 billion; 7 per cent higher than in the previous three months. Exports of oil rose by 12 per cent while deliveries of non-oil goods increased by 5½ per cent.

The volume of total exports increased by 5½ per cent in the latest three months and by 8 per cent excluding the erratic items. The rise was widespread with all of the broad sectors showing a significant increase. The underlying level of non-oil export volume has increased sharply in recent months and is now higher than at the beginning of 1983.

Imports

Imports, valued at £16.2 billion in the latest three months, were £0.5 billion (3 per cent) higher than in the previous three months. Imports of oil fell by £0.3 billion and the erratic items by £0.2 billion. There were higher arrivals in most of the remaining sectors with chemicals and intermediate goods showing the largest growth.

Import volume in the three months ended January was a little higher than in the previous three months which included the erratically high October figure. The underlying level of non-oil import volume continues to rise.

Terms of Trade (see table 4)

The terms of trade index fell by ½ per cent in the latest three months as the export unit value index increased by 1½ per cent and the import unit value index increased by 2 per cent.

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Analysis by Area

The value of exports to the developed countries increased by 5 per cent in the latest three months. Exports to Western Europe rose by 9 per cent over this period principally reflecting higher oil deliveries. Over the same period exports to North America fell by 6 per cent as lower oil deliveries offset increased exports of non-oil goods.

The increase in the value of imports in the latest three months reflects a 6½ per cent rise in imports from Western Europe and a 7½ per cent increase from North America. Arrivals from the other developed countries fell marginally and imports from the developing countries fell by 9½ per cent.

INVISIBLES

The latest estimates of invisibles - services, interest, profits and dividends and transfers - relates to the third quarter of 1983 when credits were £8552 million and debits £7654 million giving a surplus of £898 million in the quarter. Invisibles in the private sector and public corporations (excluding transfers) were in surplus by £1769 million. The figures relating to invisibles for October to January are CSO projections. Data for the fourth quarter are due to be released by the CSO on Thursday 8 March.

REVISIONS

In addition to the normal end of year revisions, the figures for imports, and the visible balance, and current balance for 1982 and 1983 have been revised to take account of a change in the treatment of transactions in gold. Further details are given in the notes to editors.

NOTES TO EDITORS

1 ANNUAL REVISIONS

A number of revisions have been made to the figures since the last monthly Press Notice. These revisions mainly relate to the annual updating of seasonal factors. Although the monthly revisions are generally small in relation to the aggregate figures of exports and imports, the impact on the balance of trade can be significant.

2 CHANGES IN PROCEDURE

Besides the above revisions, two significant changes have been introduced from January 1984.

(i) <u>Gold in the current account</u>

In compiling the balance of payments accounts transactions in commodity gold are recorded in the current account; transactions in financial gold are recorded in the capital account. Underlying this convention is the idea that visible trade should exclude any gold that is held primarily as a financial asset.

In the past the distinction between financial gold and other gold has been made by reference to its ownership; that is who, in the UK, imports or exports the gold. However recent information suggests that this practise is no longer satisfactory. It has therefore been decided that the distinction between commodity gold and financial gold should now be made by reference to its end-use. Only gold which is used for industrial purposes (eg for jewellery or in the manufacture of proof sovereigns) is to be treated as a commodity. All other gold will be regard as financial .

The revisions to the balance of trade on current account resulting from the new treatment of gold transactions for 1980 to 1983 are shown in the table below.

VISIBLE BALANCE 1980-83

	1980	1981	1982	1983
As published January '84	+1233	+3008	+2119	- 954
Net adjustment for gold	+ 273	+ 644	+ 313	+ 373
Other revisions	+ 7	-	- 48	+ 81
As published February '84	+1513	+3652	+2384	- 500

(ii) Silver as an erratic item

In the past the erratic items have been defined as ships, North Sea production installations, aircraft and precious stones. To these, for the first time in this Press Notice, has been added trade in silver bullion which experience suggests is subject to large and erratic movements. Figures for earlier periods have been revised accordingly.

3 STANDARD NOTES

A revised version of these notes accompanies this Press Notice. The notes, describe in detail the differences between the Balance of Payments (BOP) and the Overseas Trade Statistics (OTS) bases of compilation. The principal difference is the deduction of freight from the OTS valuation of imports. Additional copies can be obtained from the address below.

4 VISIBLE TRADE BALANCES BY COMMODITY (BALANCE OF PAYMENTS BASIS)

Table 16 of the Press Notice shows the value of exports, imports and the visible balance, measured on a comparable (BOP) basis, for each of the major commodity groups including manufactured goods. Monthly data at this level of detail, will be published in the monthly Review of External Trade Statistics as from the March edition.

5 MONTHLY REVIEW OF EXTERNAL TRADE STATISTICS

The Monthly Review of External Trade Statistics, prepared mainly as an internal working document, is made available publicly by the Department of Trade and Industry (price £3 a copy).

This is a monthly publication containing a commentary, charts, and tables, on topics such as the current account of the UK balance of payments, UK exports and imports of goods by commodity and area and certain international comparisons. An annual supplement (No 4), price £4 a copy, provides longer historical runs for the series shown in the monthly edition and additional international data.

6 ROUNDING

The data published in this Press Notice has been rounded to the nearest £million. Therefore figures may not sum to the aggregates and balances may not derive exactly from the export and import figures shown.

Enquiries about the Standard Notes, and the Monthly Review, should be addressed to S2A, Room 255, Department of Trade and Industry, 1 Victoria Street, London SW1H OET, Telephone: 01-215 5703.

UKBAAB

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Table 2

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

£ million seasonally adjusted

	Current Balance	Visible Trade: Exports fob	Imports fob	Visible Balance	of which: Oil	Non-Oil	Invisible Balance
1982	+ 5643	55565	53181	+ 2384	+ 4556	- 2172	+ 3259
1983	+ 2470a	60658	61158	- 500	+ 7001	- 7501	+ 2970 a
1982 ~~1983~~ Q4	+ 2226	14480	13366	+ 1114	+ 1653	- 540	+ 1112
1982 Q1	+ 1147	14819	14616	+ 203	+ 1801	- 1598	+ 944
Q2	+ 38	14752	15212	- 460	+ 1556	- 2016	+ 498
Q3	+ 650	14862	15110	- 248	+ 1521	- 1769	+ 898
Q4	+ 635a	16225	16220	+ 5	+ 2123	- 2118	+ 630 a
1983 Jan	+ 149	4731	4897	- 166	+ 636	- 802	+ 315 b
Feb	+ 399	4934	4849	+ 85	+ 638	- 553	+ 314 b
Mar	+ 599	5154	4870	+ 284	+ 527	- 243	+ 315 b
Apr	- 16	4866	5048	- 182	+ 547	- 730	+ 166 b
May	- 271	4811	5248	- 437	+ 450	- 887	+ 166 b
June	+ 325	5075	4916	+ 159	+ 559	- 400	+ 166 b
July	+ 77	4786	5007	- 222	+ 464	- 686	+ 299 b
Aug	+ 222	4934	5012	- 78	+ 532	- 610	+ 300 b
Sept	+ 351	5142	5091	+ 52	+ 525	- 473	+ 299 b
Oct	- 213a	5164	5586	- 423	+ 561	- 984	+ 210 a
Nov	+ 281a	5266	5196	+ 71	+ 661	- 591	+ 210 a
Dec	+ 568a	5795	5438	+ 358	+ 901	- 543	+ 210 a
1984 Jan	- 129a	5224	5563	- 339	+ 719	- 1058	+ 210 a
Aug-Oct	+ 360	15240	15689	- 449	+ 1618	- 2066	+ 809
Nov-Jan	+ 719	16285	16196	+ 89	+ 2281	- 2192	+ 630 a
percentage change[c]		+ 7	+ 3				

a Invisibles are projections and subject to revision as more information becomes available.

b One third of the appropriate calendar quarter's estimate; monthly figures of invisibles are not available.

c Percentage change: latest three months on previous three months.

Table 3

INVISIBLES[e]

£ million seasonally adjusted

	All Sectors: Credits	Debits	Balance	of which: Services	Interest Profits Dividends	Transfers	Private Sector and public Corporations[d]: Credits	Debits	Balance
1982	31734	28475	+ 3259	+ 3853	+ 1515	- 2109	27330	20360	+ 6970
1981 Q4	8139	7083	+ 1056	+ 1026	+ 329	- 299	7022	5317	+ 1705
1982 Q1	7590	6959	+ 631	+ 1062	+ 58	- 489	6451	5016	+ 1435
Q2	7941	7109	+ 832	+ 1037	+ 416	- 621	6945	5076	+ 1869
Q3	7887	7203	+ 684	+ 817	+ 423	- 556	6819	5154	+ 1665
Q4	8316	7204	+ 1112	+ 937	+ 618	- 443	7115	5114	+ 2001
1983 Q1	8290	7346	+ 944	+ 1120	+ 356	- 532	7168	5266	+ 1902
Q2	8300	7802	+ 498	+ 1212	- 37	- 677	7254	5614	+ 1640
Q3	8552	7654	+ 898	+ 1081	+ 172	- 355	7377	5608	+ 1769

d ie excluding general government transactions and all transfers.

e Monthly figures of invisibles are not available.

UKBAAC

EXPORT AND IMPORT UNIT VALUE AND VOLUME INDEX NUMBERS

(Balance of Payments basis)

Table 4

Indices 1980 = 100

	Unit Value (Not seasonally adjusted)			Volume (seasonally adjusted)	
	Exports	Imports	Terms of Trade[f]	Exports	Imports
1982	116.5	117.9	98.8	101.9	100.7
1983	126.6	128.6	98.4	102.3	107.6
1982 Q4	119.4	121.4	98.4	103.8	99.5
1983 Q1	123.6	126.3	97.9	102.3	104.5
Q2	125.6	128.1	98.1	100.3	106.6
Q3	127.9	128.9	99.2	99.3	106.6
Q4	129.2	131.0	98.6	107.4	112.7
1983 Jan	122.6	124.1	98.7	97.6	105.8
Feb	123.6	126.3	97.9	102.7	104.7
Mar	124.6	128.5	97.0	106.6	103.0
Apr	125.9	129.2	97.5	98.5	105.0
May	125.2	128.2	97.7	98.6	109.3
June	125.7	126.9	99.1	103.9	105.4
July	126.8	128.1	99.0	96.9	106.2
Aug	128.2	129.3	99.2	98.9	106.5
Sept	128.7	129.3	99.5	102.0	107.2
Oct	128.4	130.3	98.5	103.2	118.0
Nov	128.9	130.7	98.7	104.8	108.2
Dec	130.2	131.9	98.7	114.3	112.1
1984 Jan	132.2	134.7	98.2	102.2	112.6
Aug-Oct	128.4	129.6	99.1	101.4	110.5
Nov-Jan	130.5	132.4	98.5	107.1	110.9
percentage charge	+1½	+2	-½	+5½	+½

f Export unit value index as a percentage of the import unit value index.

VALUE AND VOLUME OF EXPORTS AND IMPORTS EXCLUDING THE MORE ERRATIC ITEMS[g]

(Balance of Payments basis)

Table 5

seasonally adjusted

	Value £ million fob		Volume Index 1980 = 100	
	Exports	Imports	Exports	Imports
1982	52118	50723	104.0	106.2
1983	56316	57800	104.1	112.9
1982 Q4	13405	12700	104.4	104.6
1983 Q1	13752	13719	103.6	108.6
Q2	13634	14194	101.6	110.5
Q3	13702	14338	100.3	112.3
Q4	15228	15549	110.7	120.1
1983 Jan	4525	4633	102.0	111.1
Feb	4538	4484	102.9	107.0
Mar	4690	4602	105.9	107.7
Apr	4510	4770	99.9	110.4
May	4476	4733	100.7	109.7
June	4648	4692	104.4	111.5
July	4499	4732	99.8	111.4
Aug	4550	4786	99.7	112.7
Sept	4653	4820	101.5	112.8
Oct	4843	5274	106.3	124.0
Nov	4976	5022	108.5	116.0
Dec	5409	5253	117.3	120.2
1984 Jan	4959	5324	106.3	119.7
Aug-Oct	14064	14880	102.5	116.5
Nov-Jan	15344	15599	110.7	118.7
percentage change	+9	+5	+8	+2

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

SECRET

TRADE IN OIL[h]

(Balance of Payments basis)

seasonally adjusted

	Balance of Trade in oil	Exports of Oil					Imports of Oil				
		Total	Crude Oil[j] [SITC (REV 2) 333.0]			Rest of Division 33	Total	Crude Oil [SITC (REV 2) 333.0]			Rest of Division 33
	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob
1982	+ 4556	10686	8542	60.3	141.6	2144	6130	3861	28.3	136.6	2269
1983	+ 7001	12525	10111	68.4	147.8	2414	5524	3199	22.8	140.4	2324
1982 Q4	+ 1653	3030	2429	16.3	148.7	601	1377	848	5.8	145.8	529
1983 Q1	+ 1801	3106	2475	16.4	150.7	631	1305	647	4.5	146.2	658
Q2	+ 1556	2960	2367	16.4	144.6	593	1404	795	5.8	137.1	609
Q3	+ 1521	2960	2361	16.2	145.9	598	1439	942	6.9	137.8	497
Q4	+ 2123	3500	2911	19.5	149.6	588	1376	816	5.6	141.6	561
1983 Jan	+ 636	1117	908	5.9	153.6	209	481	271	1.9	145.9	210
Feb	+ 638	949	735	5.0	146.4	214	311	146	1.0	146.9	166
Mar	+ 527	1040	832	5.5	151.5	209	513	230	1.6	146.3	283
Apr	+ 547	978	843	5.7	149.2	135	431	228	1.6	140.2	203
May	+ 450	993	780	5.5	142.5	213	543	324	2.4	136.5	219
June	+ 559	989	744	5.2	142.3	245	430	243	1.8	135.9	187
July	+ 464	953	751	5.2	143.4	201	488	325	2.4	135.4	163
Aug	+ 532	977	792	5.4	146.6	185	445	277	2.0	141.3	168
Sept	+ 525	1031	818	5.6	147.6	212	506	340	2.5	137.0	166
Oct	+ 561	1100	906	6.1	148.5	194	539	360	2.3	143.0	179
Nov	+ 661	1117	935	6.1	154.0	182	456	261	1.9	138.7	195
Dec	+ 901	1283	1071	7.3	146.7	212	382	195	1.4	143.3	187
1984 Jan	+ 719	1092	867	5.7	151.4	226	374	193	1.3	150.7	181
Aug-Oct	+ 1618	3107	2516	17.0	147.6	591	1489	977	6.8	149.9	512
Nov-Jan	+ 2281	3492	2872	19.1	150.5	620	1211	649	4.6	141.6	566
Percentage change		+ 12	+ 14	+ 12	+ 2	+ 5	- 19	- 34	- 33	- 5½	+ 10

h Trade in petroleum and petroleum products. These figures differ from those published by the Department of Energy which are on a time of shipment basis (see paragraph 7 of the standard notes).

j Not seasonally adjusted.

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TRADE IN GOODS OTHER THAN OIL
(Balance of Payments basis)

	Total: Value, £ million, fob (seasonally adjusted)			Total: Unit value index 1980 = 100 (not seasonally adjusted)			Total: Volume index 1980 = 100 (seasonally adjusted)		Excluding Erratics[g]: Value, £ million fob (seasonally adjusted)		Excluding Erratics[g]: Volume index 1980 = 100 (seasonally adjusted)	
	Balance of non oil trade	Exports	Imports	Exports	Imports	Terms of Trade[f]	Exports	Imports	Exports	Imports	Exports	Imports
1982	- 2172	44879	47051	114·2	113·9	100·3	97·3	105·0	41432	44593	99·3	111·9
1983	- 7501	48133	55634	124·5	125·6	99·2	95·5	114·1	43791	52276	96·8	121·0
1982 Q4	- 540	11449	11989	116·5	116·7	99·8	98·0	105·4	10375	11323	98·0	112·1
1983 Q1	- 1598	11713	13312	121·0	122·4	98·8	95·9	111·2	10646	12414	96·7	116·8
Q2	- 2016	11792	13808	123·8	125·5	98·6	93·9	112·4	10674	12790	94·7	117·7
Q3	- 1769	11902	13671	126·2	126·2	100·0	93·1	112·6	10742	12899	93·8	119·9
Q4	- 2118	12726	14844	127·2	128·2	99·2	99·1	120·2	11728	14173	102·1	129·7
1983 Jan	- 802	3614	4417	119·5	119·8	99·7	89·5	112·4	3408	4152	93·8	119·4
Feb	- 553	3985	4538	121·1	122·4	99·0	97·9	113·7	3589	4173	97·6	117·5
Mar	- 243	4114	4357	122·3	124·9	97·9	100·3	107·6	3650	4089	98·8	113·5
Apr	- 730	3888	4617	123·7	126·4	97·9	92·5	111·2	3531	4339	93·5	118·2
May	- 887	3818	4705	123·6	125·9	98·1	91·5	114·0	3484	4190	93·2	115·1
June	- 400	4087	4486	124·1	124·2	99·9	97·7	117·9	3659	4262	97·5	119·8
July	- 686	3833	4519	125·3	125·5	99·8	90·7	111·6	3546	4243	93·4	118·3
Aug	- 610	3958	4568 4468	126·5	126·3	100·2	93·1	113·3	3574	4342	93·5	121·4
Sept	- 473	4112	4584	126·9	126·6	100·2	95·5	112·8	3623	4314	94·3	120·0
Oct	- 984	4064	5048	126·5	127·2	99·4	95·5	124·6	3743	4735	98·3	132·5
Nov	- 591	4149	4740	126·9	128·2	99·0	97·2	114·9	3859	4567	100·7	124·7
Dec	- 543	4513	5056	128·2	129·1	99·3	104·7	121·2	4126	4871	107·2	131·8
1984 Jan	- 1058	4131	5189	130·4	131·0	99·5	96·9	122·5	3867	4951	99·0	132·1
Aug-Oct	- 2066	12133	14200	126·6	126·7	99·9	94·7	116·9	10939	13391	95·4	124·6
Nov-Jan	- 2192	12793	14985	128·5	129·4	99·3	98·9	119·5	11852	14388	102·3	129·5
Percentage change	—	+5½	+5½	+1½	+2	-½	+4½	+2	+8½	+7½	+7½	+4

g These are defined as ships, North Seas installations, aircraft, precious stones, and silver.

f Export unit value index as a percentage of the import unit value index.

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EXPORTS BY COMMODITY

(Overseas Trade Statistics basis)

Table 8

£ million, fob, seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[g]: Total	Semi-manufactures excluding precious stones & silver(PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Finished: Passenger Motor Cars	Finished: Other Consumer	Finished: Intermediate	Finished: Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	k	k	k	k
1982	55558	3960	1340	11237	37313	34052	12687	6119	6568	21365	960	3523	9225	7656
1983	60534	4235	1586	13127	39919	35756	13332	6929	6903	21924	996	3914	9288	7726
1982 Q4	14472	1045	334	3165	9522	8469	3103	1534	1569	5366	258	883	2302	1924
1983 Q1	14781	1113	374	3260	9631	8613	3314	1656	1658	5299	238	950	2230	1882
Q2	14687	994	387	3122	9780	8747	3427	1693	1734	5319	209	933	2272	1905
Q3	14831	1024	389	3086	9935	8809	3397	1737	1660	5412	243	959	2273	1937
Q4	16234	1104	436	3658	10573	9587	3694	1843	1851	5893	305	1072	2513	2003
1983 Nov	5279	371	141	1164	3467	3172	1224	614	610	1948	93	362	814	679
Dec	5782	382	155	1340	3720	3354	1276	620	655	2078	116	382	867	712
1984 Jan	5187	388	139	1151	3411	3170	1237	619	618	1932	70	343	841	678
Aug-Oct	15232	1043	399	3242	10149	8971	3457	1768	1690	5513	273	980	2337	1922
Nov-Jan	16248	1141	436	3655	10598	9695	3737	1853	1884	5958	280	1087	2522	2070
Percentage change	+ 6½	+ 9½	+ 9	+ 13	+ 4½	+ 8	+ 8	+ 5	+ 11	+ 8	+ 2½	+ 11	+ 8	+ 7½

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

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

EXPORTS BY COMMODITY: VOLUME INDICES

(Overseas Trade Statistics basis)

Table 9

INDICES 1980 = 100, seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[g]: Total	Semi-manufactures excluding precious stones & silver(PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Finished: Passenger Motor Cars	Finished: Other Consumer	Finished: Intermediate	Finished: Capital
						658	252		141					
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	k	k	k	k
Weights	1000	69	31	136	735	~~672~~ 658	~~266~~	112	~~154~~	406	18	71	170	147
1982	102.0	107	94	133	96	98	99	106	93	97	94	94	99	98
1983	102.2	110	101	148	93	94	102	113	93	90	86	96	89	87
1982 Q4	103.9	113	97	143	96	96	96	106	89	95	97	91	96	97
1983 Q1	102.1	118	104	145	93	93	100	111	91	89	85	96	88	89
Q2	100.0	105	99	143	92	93	101	110	94	87	70	92	87	87
Q3	99.1	105	95	141	92	92	100	113	89	87	80	93	86	86
Q4	107.6	112	106	163	97	100	108	119	100	95	107	105	95	88
1983 Nov	105.2	112	102	155	96	99	108	120	98	94	99	106	92	90
Dec	114.1	118	111	178	102	104	122	121	106	99	118	112	97	93
1984 Jan	101.6	117	100	153	92	97	105	116	97	92	72	99	94	88
Aug-Oct	101.4	107	97	146	93	94	101	114	91	89	94	95	88	85
Nov-Jan	106.9	116	105	162	97	100	108	119	100	95	96	105	94	90
Percentage change	+ 5½	+ 9	+ 7½	+ 11	+ 3½	+ 7	+ 7½	+ 4	+ 11	+ 7	+ 2½	+ 11	+ 7	+ 5½

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

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

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Table 10

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

INDICES 1980 = 100 not seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[9]								
						Total	Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
							Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capita
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	k	k	k	k
Weights	1000	69	31	136	735	~~672~~ 658	~~266~~ 252	112	~~154~~ 141	406	18	71	170	147
1982	116.5	115	102	132	115	115	110	112	109	118	126	114	120	117
1983	126.5	122	112	140	125	124	117	119	115	129	144	122	132	128
1982 Q4	119.4	116	100	139	117	117	111	113	109	121	130	117	124	120
1983 Q1	123.5	119	104	141	122	121	114	116	113	126	137	119	129	124
Q2	125.6	122	111	138	125	124	116	118	115	129	146	121	132	127
Q3	127.9	123	115	139	127	126	118	120	116	131	147	123	134	129
Q4	129.2	125	117	142	128	127	119	121	117	132	144	125	134	131
1983 Nov	128.9	125	116	143	128	126	118	120	117	131	143	125	134	130
Dec	130.2	125	120	144	129	128	120	122	118	133	147	126	135	132
1984 Jan	132.2	126	121	144	132	130	122	125	120	135	153	128	138	135
Aug-Oct	128.4	124	116	140	128	126	118	120	117	131	145	124	134	129
Nov-Jan	130.4	125	119	143	129	128	120	123	118	133	148	126	135	132
Percentage change	+ 1½	+ 1½	+ 3	+ 2	+ 1½	+ 1½	+ 1½	+ 2	+ 1½	+ 1½	+ 2	+ 1½	+ 1	+ 2

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

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

Table 11

EXPORTS BY AREA
(Overseas Trade Statistics basis)

£ million, fob, seasonally adjustec

	Total	Developed Countries					Developing Countries			Centrally planned economies
		Total	European Community	Rest of W Europe	North America	Other	Total	Oil exporting countries	Other	
1982	55558	41393	23124	6681	8353	3235	13053	6445	6608	974
1983	60534	46508	26516	7516	9342	3133	12783	6122	6661	1112
1982 Q4	14472	10770	5865	1736	2424	744	3369	1700	1669	288
1983 Q1	14781	11233	6584	1901	2077	671	3221	1564	1656	277
Q2	14687	11190	6313	1814	2296	767	3028	1490	1539	274
Q3	14831	11493	6386	1777	2496	835	3202	1540	1662	290
Q4	16234	12592	7234	2025	2473	860	3332	1528	1804	271
1983 Nov	5279	4075	2310	674	828	263	1061	504	557	95
Dec	5782	4451	2497	721	905	327	1199	557	643	91
1984 Jan	5187	4001	2353	684	695	268	1030	465	565	101
Aug-Oct	15232	11911	6612	1874	2589	836	3166	1503	1663	284
Nov-Jan	16248	12526	7161	2079	2428	859	3290	1525	1765	286
Percentage change	+ 6½	+ 5	+ 8½	+ 11	- 6	+ 2½	+ 4	+ 1½	+ 6	+ ½

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IMPORTS BY COMMODITY
(Overseas Trade Statistics basis)

Table 12

£ million cif seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[g]: Total	Semi-manufactures excluding precious stones & silver (PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	k	k	k	k
1982	56978	7251	3930	7409	37114	34795	12795	4179	8616	22000	2882	5909	6674	6536
1983	65993	7853	4723	7067	44105 ~~49905~~	41609	14886	5120	9766	26723	3659	6902	8121	8041
1982 Q4	14289	1781	959	1679	9515	8882	3172	1054	2118	5710	755	1476	1740	1739
1983 Q1	15962	1925	1096	1656	10810	9924	3514	1219	2295	6410	843	1662	1989	1916
Q2	16405	1901	1201	1799	11120 ~~11102~~	10093	3603	1234	2369	6490	922	1633	1974	1961
Q3	16288	1917	1146	1813	11119	10349	3716	1254	2461	6634	1013	1671	1970	1980
Q4	17338	2111	1280	1800	11855	11243	4053	1413	2640	7190	881	1936	2189	2184
1983 Nov	5581	704	424	600	3759	3593	1340	459	880	2253	285	589	705	674
Dec	5803	691	412	535	4061	3891	1362	487	875	2530	318	697	749	766
1984 Jan	5927	715	427	524	4183	3947	1432	503	929	2515	329	626	806	754
Aug-Oct	16835	2001	1240	1863	11448	10674	3832	1312	2520	6842	948	1775	2044	2075
Nov-Jan	17312	2110	1263	1659	12003	11431	4134	1449	2685	7298	931	1912	2260	2194
Percentage change	+3	+5½	+2	-11	+5	+7	+8	+10	+6½	+6½	-2	+7½	+11	+5½

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

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

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

Table 13

INDICES 1980 = 100 seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[g]: Total	Semi-manufactures excluding precious stones & silver (PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	k	k	k	k
Weights	1000	124	81	138	626	543 ~~566~~	217 ~~240~~	63	154 ~~177~~	326	42	94	96	94
1982	100.1	108	93	75	106	115	111	123	107	117	110	113	120	122
1983	107.8	108	104	67	119	128	123	143	115	131	125	125	129	142
1982 Q4	99.0	104	93	64	107	116	111	124	105	120	110	112	122	131
1983 Q1	105.9	109	101	62	116	123	118	135	111	127	113	122	129	137
Q2	106.6	105	107	69	116	123	119	138	111	126	124	118	123	137
Q3	106.7	105	99	69	118	128	124	144	115	131	144	120	125	140
Q4	111.9	112	108	67	125	138	133	157	123	141	121	140	139	154
1983 Nov	107.9	111	104	68	119	132	131	151	123	133	116	128	134	142
Dec	111.1	109	103	59	127	141	132	158	121	148	130	152	140	161
1984 Jan	111.3	111	101	55	129	142	137	160	127	145	135	133	148	158
Aug-Oct	110.1	109	107	70	122	132	127	151	118	135	135	128	130	148
Nov-Jan	110.1	110	103	60	125	139	133	157	124	142	127	138	141	154
Percentage change	–	+1½	-3½	-14	+2½	+5	+4½	+4	+5	+5	-6	+8	+8½	+4

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

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

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Table 14

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

INDICES 1980 = 100 not seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[g]: Total 543	Semi-manufactures excluding precious stones & silver(PS): Total 217	Semi-manufactures: Chemicals	Semi-manufactures: Other 154	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Finished: Passenger Motor Cars	Finished: Other Consumer	Finished: Intermediate	Finished: Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	k	k	k	k
Weights	1000	124	81	138	626	566	240	63	177	326	42	94	96	94
1982	116·8	112	104	146	114	115	10	114	107	119	123	113	119	122
1983	127·7	120	116	153	126	125	116	121	113	131	137	122	138	131
1982 Q4	120·5	113	106	154	117	118	109	117	108	123	129	116	124	126
1983 Q1	125·5	117	111	156	123	123	113	120	110	129	139	119	133	130
Q2	127·3	120	114	151	126	126	116	121	114	132	140	121	139	132
Q3	128·0	121	117	153	126	125	116	121	114	131	132	123	139	131
Q4	129·8	123	120	155	128	127	117	123	115	133	137	125	141	131
1983 Nov	129·5	123	120	153	128	127	117	124	115	133	139	124	141	131
Dec	130·7	123	122	156	128	128	118	125	115	134	138	125	142	132
1984 Jan	133·3	125	127	162	130	129	120	128	117	135	139	126	145	133
Aug-Oct	128·7	121	118	154	127	126	116	121	114	132	133	124	139	131
Nov-Jan	131·2	124	123	157	129	128	119	126	116	134	139	125	143	132
Percentage change	+2	+2½	+4	+2	+1½	+2	+2	+3½	+1	+2	+4½	+1	+2½	+1

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

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

Table 15

IMPORTS BY AREA
(Overseas Trade Statistics basis)

£ million cif seasonally adjusted

	Total	Developed Countries: Total	European Community	Rest of W Europe	North America	Other	Developing Countries: Total	Oil exporting countries	Other	Centrally planned economies
1982	56978	46191	25269	8390	8095	4436	9349	3453	5876	1327
1983	65993	54729	30098	10444	9027	5159	9611	2824	6786	1534
1982 Q4	14289	11829	6525	2135	2061	1107	2167	752	1415	339
1983 Q1	15962	13158	7245	2367	2270	1276	2500	784	1716	366
Q2	16405	13537	7381	2638	2209	1308	2392	720	1673	398
Q3	16288	13346	7400	2541	2154	1251	2388	718	1670	373
Q4	17338	14689	8072	2898	2394	1324	2331	603	1727	397
1983 Nov	5581	4719	2620	918	779	402	771	165	606	132
Dec	5803	4955	2727	937	824	466	706	191	516	126
1984 Jan	5927	5004	2674	1067	800	463	745	157	588	127
Aug-Oct	16835	13862	7601	2687	2234	1339	2460	762	1698	389
Nov-Jan	17312	14678	8021	2922	2403	1332	2222	512	1709	385
Percentage change	+3	+6	+5½	+9	+7½	-½	-9½	-33	+½	-1

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COMMODITY ANALYSIS OF VISIBLE TRADE[a]
(Balance of Payments basis)

£ million, seasonally adjusted

SITC (R2)	Food Beverages and Tobacco 0 + 1			Basic Materials 2 + 4			Fuels 3		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1982	3936	6613	- 2676	1354	3315	- 1961	11237	7193	+ 4043
1983	4221	~~7169~~ 7196	- 2975	1610	3983	- 2373	13126	6743	+ 6383
1982 Q1	940	1662	- 723	326	898	- 572	2487	1942	+ 546
Q2	991	1684	- 693	361	826	- 464	2595	1824	+ 771
Q3	962	1637	- 675	328	781	- 452	2989	1792	+ 1197
Q4	1043	1629	- 586	338	811	- 472	3165	1636	+ 1529
1983 Q1	1114	1765	- 651	380	920	- 539	3260	1589	+ 1672
Q2	987	1740	- 753	393	1017	- 624	3121	1707	+ 1414
Q3	1017	1758	- 741	394	960	- 566	3086	1717	+ 1369
Q4	1103	1934	- 831	442	1086	- 644	3658	1730	+ 1928

SITC (R2)	Semi-Manufactures 5 + 6			Finished Manufactures 7 + 8			Total Manufactures 5 - 8		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1982	14112	12972	+ 1140	23218	21855	+ 1363	37330	34827	+ 2503
1983	15927	15736	+ 190	24111	26420	- 2309	40038	42156	- 2119
1982 Q1	3512	3205	+ 307	5786	5027	+ 758	9298	8232	+ 1066
Q2	3558	3372	+ 186	5922	5635	+ 287	9480	9007	+ 474
Q3	3370	3104	+ 266	5653	5521	+ 132	9024	8625	+ 399
Q4	3671	3291	+ 380	5857	5673	+ 185	9528	8963	+ 565
1983 Q1	3863	3712	+ 151	5799	6386	- 587	9662	10098	- 436
Q2	3923	3942	- 20	5924	6507	- 583	9847	10449	- 603
Q3	3901	3894	+ 87	5988	6546	- 558	9968	10440	- 472
Q4	4160	4188	- 28	6400	6981	- 581	10560	11169	- 609

[a] Monthly data for commodities on a balance of payments basis are not available.

CONFIDENTIAL

FROM: MISS M O'MARA

DATE: 27 February 1984

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Bailey
Mr Littler
Mr Cassell
Mr Monck
Mr Battishill
Mr Evans
Mr Lankester
Mr Odling-Smee
Mr Scholar
Mr Sedgwick
Mr Bottrill
Mr Hall
Mr Folger
Mr Mowl
Mr Riley
Mr Hibberd
Mr Lord
Mr Ridley
Mr Portillo

MR SHIELDS

NATIONAL INSTITUTE ECONOMIC REVIEW

The Chancellor has seen your minute of 23 February. Commenting on the National Institute's study of GDP measures, he has remarked that he himself has long thought that a simple average of the output and expenditure measures would be better than an average of O, E and I. He would be interested to know what views the CSO hold.

MOM

MISS M O'MARA

CONFIDENTIAL

E36

H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000

Direct Dialling 01-233 8784

Sir John Boreham KCB
Central Statistical Office
Great George Street
London
SW1

28 February 1984

Dear Sir John,

MEASURES OF GDP

The article about GDP measures in the latest NIESR Review has caught the Chancellor's attention (see the attached minute from the Private Office and my note on the Review).

2. You might like to consider replying directly to the Chancellor on this issue. The substance is of course relevant to Sir Peter Middleton's meeting on 1 March.

Yours sincerely,

J SHIELDS

hidden copies

cc Sir Peter Middleton
Sir Terence Burns
Mr Evans
Mr Smee
Mr Hibberd
Miss O'Mara

CONFIDENTIAL

67/2

Puf

EMBARGOED UNTIL 00.01 HOURS FRIDAY 2 MARCH 1984

FROM: NEIL MACKINNON

DATE: 29 FEBRUARY 1984

A shade more optimistic on the PSBR and growth than the February P&D forecast.

MJJ 1.3.84

1. MR ~~FOLGER~~

2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Sir Terence Burns
Mr H P Evans
Mr Battishill
Mr Shields
Mr Page
Mr Hall
Mr A Smith
Mr Lord
Mr Ridley
Mr Portillo

PHILLIPS AND DREW MARCH FORECAST

MAIN POINTS

PD's latest forecast will be released on Friday, 2 March 1984. They remain at the optimistic end ofthe range of outsiders. This year GDP grows by almost 3 per cent (consistent with the IAF in the Autumn Statement) but slows down to an annual rate of 1½ per cent in 1985. The 1984 inflation forecast has been revised downwards slightly, nevertheless the year on year RPI increase rises from 5 per cent at 1984 Q4 to 5½ per cent at 1985 Q4. (See attached tables).

2. MAIN ECONOMIC AND POLICY ASSUMPTIONS

(i) World trade grows by 3 per cent in 1984 and 1985 with some slowdown through next year as US activity moderates. OECD inflation rises gradually over the next 18 months to reach a peak of 7 per cent by mid-1985. Oil demand is sufficient to support the present $29/bl Saudi marker price until end-1985, thereafter the official price rises in line with OECD inflation.

(ii) Government economic policy adheres to the broad thrust of the MTFS as out in the 1983 FSBR. In the medium-term the Government aims to maintain "disinflationary pressure within a framework slightly more accommodative (SIC) to growth".

(iii) The Spring 1984 Budget is expected to be "broadly neutral" in order to achieve a PSBR of about £7½ billion (2½ per cent of GDP) for 1984-85. A target range of 4-8 per cent is announced for the narrow monetary aggregates with "MO probably superseding M1 as the priority target in this area". Personal tax allowances and excise duties are over-indexed in the personal sector while the corporate sector receives an additional tax burden eg higher capital transfer tax.

3. MAIN POINTS FROM THE FORECAST

(i) GDP (A) grows by almost 3 per cent this year mainly reflecting a "much improved picture" for exports, investment and stockbuilding. These factors partially offset a slowdown in consumer spending from 3½-4 per cent growth in 1983 to 2-2½ per cent in 1984 (the savings ratio remains constant at 8½ per cent throughout the forecast period).

(ii) Retail price inflation stays within a 5-5½ per cent range this year and next. Growth in average earnings moderates slightly from 7-7½ per cent in the present "pay round" to about 6½ per cent in the 1984-85 round.

(iii) The PSBR outturn for 1983-84 is expected to be £9-9½ billion as the final months of this fiscal year benefit from a slowdown in public spending growth and an increase in indirect tax revenues. There is little scope for a fall in interest rates during 1984 as the authorities maintain "positive real short-term interest rates as a means of depressing inflation expectations further."

NJM

N J MacKinnon
EB

EMBARGOED UNTIL 00.01 HOURS FRIDAY 2 MARCH 1984

PHILLIPS AND DREW FORECAST COMPARISON

	GDP (A)			RPI (Q4)		CURRENT ACCOUNT (£bn)		PSBR (£bn)	
	1983	1984	1985	1984	1985	1984	1985	1983-84	1984-85
IAF (November)	2.8	2.8	-	4.5	-	0	-	10.0	8.0
P&D (November)	3.2	1.9	1.0 (Q2)	6.3	5.8 (Q2)	0.1	0.2 (H1)	9.0	8.6
P&D (February)	2.8	2.5	1.3	5.6	5.1	0.4	- 1.1	9.5	8.5
P&D (March)	2.9	2.8	1.4	5.1	5.4	1.0	- 0.3	9.3	8.0 (pre Budget)

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C.
No problems here
— much of it is replayed
in today's Times, under
Thomas' signature.
No hint of Pepper
tantrums.

good.

Monetary Bulletin

No. 156 March 1984

MWP

The Budget's restructuring of corporate taxation will continue to affect capital markets for some time. It will also bring forward a substantial volume of fixed capital investment to take advantage of the phased reduction in first year capital allowances. This, together with a number of other developments, will put pressure on corporate cash flow in the second half of the coming financial year, temporarily raising bank lending and affecting the growth of the money supply.

The Chancellor's short term real economy forecasts look broadly plausible, and his inflation forecast up to mid-1985 seems at most only a little optimistic. In the longer run there threatens to be some tension between the projected monetary growth and the rate of wage inflation.

The 1984/5 PSBR target looks attainable, while the projections for the four following years have more in-built flexibility than some commentators have acknowledged.

The statement on monetary targets was much as expected and the absence of an explicit assignment of the narrow and broad aggregates to particular aspects of financial policy is welcome.

Finally, and separate from the Budget, Wednesday's cut in base rates is consistent with the recent behaviour of the monetary aggregates.

The Budget Measures and the Corporate Sector

Mr. Lawson's first Budget will have permanent historical significance. His breadth of vision in changing the tax structure and his powerful re-affirmation of the commitment to the Medium Term Financial Strategy are admirable.

By far the most significant aspect of the Budget for financial markets is the restructuring of corporate taxation. This will have a very complex series of effects, some affecting markets immediately, others operating in the medium term and still others being influential in the long term.

Mr. Lawson's proposals have lowered the average effective rate of tax on companies, i.e. the nominal corporation tax rate after adjusting for the various tax shelters. This obviously yields a once and for all windfall gain in post-tax profits on the existing stock of industrial assets and has contributed to the rise in the equity market. In the longer run, there are likely to be significant changes in the volume and quality of fixed investment, but the precise impact will not be apparent for some time. What is clear, however, is that the Budget proposals will have an important effect on the timing of fixed investment decisions over the next two years. This in turn is likely to have a significant impact on financing patterns and financial markets.

The Chancellor has announced major changes in first year capital allowances. On plant and machinery, for example, these will be cut in three annual steps from 100% to 25%. Combined with the staged reductions in corporation tax, from 52% to 35%, the Chancellor has given a very major incentive to companies to bring forward their fixed capital investment decisions.

The precise impact will depend on the end date of a company's financial year. For a company with a December year-end, the discounted net cost of an investment in plant and equipment will be reduced by 15% if it is brought forward from April 1985 to December 1984. For a company with a March year-end, the benefit from moving the investment forward by one month to March 1985 is as great. The saving from bringing forward investment by a whole year, say from March 1986 to March 1985, is much less, perhaps only some 2% plus the benefit from avoiding inflation over the intervening year. This suggests that little investment is likely to be brought forward by as much as a year. In general, we would expect substantial amounts of investment to be brought forward into the final two quarters of the 1984/5 financial year. The scale of this is difficult to gauge but there is some guidance from the late 1960's. Higher investment grants, announced as temporary, were given for capital expenditure in 1967 and 1968. It is estimated that these caused some 10% of investment in plant and machinery to be brought forward into the fourth quarter of 1968, mainly from the first quarter of 1969.

The Chancellor's present proposals offer an even greater incentive than those of 1968. In our view, companies will bring forward at least £1bn of investment into the fourth quarter of 1984 and the first quarter of 1985. It should be noted that this effect will take place at a time when fixed investment is forecast to be rising for other reasons. It will, therefore, be difficult to estimate the underlying rate of fixed investment around the end of the present calendar year.

The higher rate of investment will have to be financed. It will also be taking place at a time when there are two other pressures on corporate cash flow. First, corporation tax payments on the much higher corporate profits of 1983/4 will be due in January 1985, and will amount to some £1¼bn more than in January 1984. Secondly, the Budget proposal that VAT on imports will be paid earlier, will become operational from the fourth quarter of this year; this will bring in an extra £1.2bn tax revenue. It is likely, therefore, that there will be significant temporary financing pressures starting in the last quarter of 1984.

How will the financing be done? Again, the Budget proposals have implications. First, the reduction in first year capital allowances will eventually sharply diminish the attractiveness of leasing, although significant benefits will remain in the year to March 1985 with first year allowances at 75%. Secondly, the sequence of cuts in the rate of corporation tax will substantially reduce the incentive that companies have had to finance themselves through borrowing rather than by raising equity capital. Under the imputation system of corporation tax, interest paid is offsetable in full, but dividends can be offset only in part (currently, ACT is 30%). As the corporation tax rate comes closer to the income tax rate, equity finance will become more attractive relative to borrowing. This effect, however, will only be small for dividends paid in 1984; its full effect will not benefit companies until 1986.

Finally, the exemption from capital gains tax of corporate bonds issued after Budget Day, if they are held for more than a year, places these bonds on a similar tax basis to gilt-edged stock. Further, the clarification of the tax treatment of deep discount bonds removes a source of uncertainty which previously acted as a deterrent to their issue, as discussed in our Special Monetary Bulletin in November 1982. While these measures make new issues more attactive to private individuals and net funds, they are unlikely on their own to lead to an immediate significant revival in the corporate bond market. The main barrier remains the current height of nominal and real interest rates. Without a further fall in bond yields it is difficult to forsee a steady stream of these issues.

Summarising, the Budget proposals should have a significant long run impact on the way in which industry raises its finance. For the pressures which we envisage appearing around the end of this year, however, bank borrowing or leasing seem to be the most relevant.

This will imply a boost to sterling M3 and the other broad monetary aggregates in the second half of the 1984/5 financial year, and may very well make interpretation of the aggregates difficult. The surge may be only temporary, and should be reversed in the following financial year, but the market could become unsettled in the expectation of a reaction from the authorities.

The real economy in the short term

The Chancellor is forecasting GDP growth of 3% for 1984 over 1983. Is this reasonable? Our preferred starting point in answering this question is to look at recent rates of growth of the real money stock. The broad picture here is that the year on year rates of growth peaked in mid-1983 and have fallen significantly since. The latest figures show relatively moderate growth in all the aggregates except PSL2. This pattern is strongly reinforced on a six month basis, where Mo and sterling M3 have grown in real terms by 1% p.a., and PSL2 by 5% p.a., as shown in Table I.

Table I - Real Monetary Growth to mid-February

% p.a.	Last 6 months	Previous 6 months
Mo	1	1
Currency	0	0
Retail M1	0	5
M1	3	9
Sterling M3	1	8
PSL1	0	8
PSL2	5	10

These developments justify the recent cut in base rates and give no support for the view that the economy is growing too fast and a large upsurge in inflation is imminent. On the basis of recent trends in the real monetary aggregates, we believe that 3% GDP growth in 1984 is probably attainable. In view of the sharp deceleration in the rate of real monetary growth, however, this might require a further cut in base rates.

Turning to the components in the Chancellor's forecast, shown in Table II, we are offered the alluring prospect of a sustained recovery based on higher investment and exports rather than accelerating private and government consumption. To some, this must seem too good to be true. In our view, with some relatively minor qualifications, it is very reasonable, at least for 1984.

Table II - The Treasury's Real Terms Forecast

percentage change	1982 to 1983	1983 to 1984
GDP	3%	3%
Consumers' expenditure	$3\frac{1}{2}$%	3%
General government consumption	$2\frac{1}{2}$%	0
Fixed investment	$4\frac{1}{2}$%	$6\frac{1}{2}$%
Exports	$\frac{1}{2}$%	5%
Imports	5%	7%
Change in stocks (% of GDP)	$\frac{3}{4}$%	$\frac{1}{2}$%

Consumers' expenditure has so far been sustained by a falling savings ratio. Rising real earnings and higher disposable incomes have now taken over and should continue to underpin consumption for the next year. The forecast of no increase in general government consumption might seem optimistic, especially after a year in which the original forecast of a $\frac{1}{2}$% rise must be compared with the outturn of a $2\frac{1}{2}$% rise. Against that, last year's excess growth occurred around the end of the 1982/3 financial year, after which the government seems to have re-established greater control over spending. The outturn for 1984 may well be only a little more than the forecast.

We have already indicated that the Budget measures should substantially affect the timing of private sector fixed investment over the next two years, and some of this should materialise in calendar 1984. With corporate cash flow very substantially up, industrial confidence continuing to return and economic expansion underway, the stage was anyway set for an upturn in investment. The Treasury forecasts for fixed investment for 1984 and the first half of 1985 could well be an understatement.

The forecast for exports rests heavily on the predicted increase in world economic activity but in one respect may be a little low. The forecast assumes that sterling's effective exchange rate in 1984 "will be near to its average last year", whereas it is currently somewhat lower. The import forecast is more problematic. Stockbuilding cannot be expected to be buoyant, especially with the abolition of stock relief; the payment of VAT on imports, however, might bring some imports forward, as might accelerations in fixed investment stimulated by the Budget measures. The Government's forecast of a £2bn current account surplus in 1984 could well be too high.

Inflation

On inflation the Chancellor is forecasting a rise in the RPI of a little above 5% p.a. in the first half of 1984, slowing to $4\frac{1}{2}$% p.a. by the fourth quarter 1984 and 4% p.a. by the second quarter of 1985. It should be recalled that the Treasury's forecast of inflation last year was originally received with considerable scepticism, as being optimistically low. In the event it was 1% too high. This year the only substantial inflationary worry is the behaviour of earnings, currently increasing by $7\frac{3}{4}$% p.a. Productivity is continuing to rise fast, however, so that the Treasury's inflation forecast for 1984 seems only a fraction low.

Looking further into the future, the rate of inflation will depend on the growth in the money supply. This is discussed in some detail below but the projected illustrative target ranges in the new MTFS, showing an annual one percentage point fall in both ranges over the next five years, underline the Government's commitment to a sustained fall in inflation. The longer run difficulty facing the Government is the distinct possibility of tension between these target ranges and increases in average earnings. If productivity continues to rise rapidly, high earnings increases pose no great inflationary threat. But the expectation is that productivity increases will shortly begin to taper off. Unless the rate of increase in average earnings responds in a similar way the Government will be faced with the difficult choice between relaxing its monetary growth path and tolerating further unemployment.

The PSBR

The PSBR forecast for 1984/5 is now £7¼bn, or 2¼% of GDP. This looks achievable, although our central estimate is a little higher. In comparison to this time last year, there is a much more substantial contingency reserve (£2.7bn as against £1.1bn), no assumption of a shortfall in public expenditure (as against £1.6bn last year) and no gross lack of expenditure control going into the new year.

There is, however, some concern that the quality of the factors reducing the PSBR in 1984/5 is poor, in that they include both a once-and-for-all acceleration of VAT on imports of £1.2bn and higher asset sales of £1.9bn. It is likely that much of the former will be financed through the banking system and some of the latter by lower purchases of government debt. The reduction in the PSBR from these measures will not, therefore, have as large an offset on monetary growth as normal.

all in the Times piece today

A second point concerns fears of a rebound in the PSBR in 1985/6 given that there will no longer be a benefit from the acceleration of VAT on imports. The "full year" effect of the Budget measures in isolation is to raise the PSBR by £1.7bn more than in 1984/5. The Treasury's projection for 1985/6 is, however, for a PSBR of £5bn before "fiscal adjustment". The reason for this low figure is higher revenue from the forecast 3% growth in economic activity at a time when the Government plans to hold public expenditure unchanged in real terms. Further, receipts of corporation tax will rise because they will be based on the higher profits currently being earned.

The Chancellor's PSBR projections for later years allow for regular "fiscal adjustments". These are the amounts forecast to be available to absorb overruns in public expenditure, to compensate for lower real growth than assumed when making the projections or to provide for tax cuts over and above indexation adjustments, all while keeping to projected PSBR levels. In 1985/6 the fiscal adjustment is put at £2bn, while the cumulative adjustment by 1988/9 reaches £13½bn; this is equivalent to 8% of public expenditure or an extra 2% p.a. In addition, the Chancellor has provided for successively larger contingency reserves, up from £2¾bn in 1984/5 to £4¾bn in 1986/7.

The tax changes announced in the Budget are likely to make the profile of the PSBR during 1984/5 rather unusual. The accelerated VAT payments will be largely received in the three months from November, and the major asset sales are not expected until the autumn. This means that, in comparison with the normal seasonal factors, the PSBR will be tending to run at a higher rate in the first half of the year and a lower rate thereafter.

Our conclusions are that the Chancellor has built into his medium term PSBR arithmetic a substantial degree of flexibility and that his PSBR projections look attainable. His ability to cut taxes, however, will depend on his success in keeping down the growth in public expenditure. Recent history provides few grounds for optimism here.

Monetary Targets

The importance of the MTFS is to continue. The Chancellor envisages a gradual decline in the monetary target ranges through to 1988/9. This is designed to achieve consistency between monetary and fiscal policy and to confirm the discipline of the Government's overall approach.

As expected, Mo has replaced M1 as the target aggregate for narrow money, while for broad money only sterling M3 has been retained. M2 appears to have been considered as an alternative to Mo, but, since it is a relatively new aggregate for which seasonal adjustments are not yet available, it needs to be interpreted with particular care. The Chancellor stressed that, as in previous years, the growth of other aggregates will be taken into account. M2 will supplement Mo and PSL2 will supplement sterling M3. General financial conditions, the rate of inflation and other available evidence, especially the exchange rate, will continue to be influential.

The target ranges for broad and narrow money will no longer be the same, reflecting the fact that in the longer run the narrow aggregates tend to grow more slowly than the broader aggregates. The recent Treasury Working Paper, to which we referred in last month's Bulletin (No. 155), highlighted the slower growth in Mo. For the fourteen months from mid-February 1984 the target ranges for Mo and sterling M3 are 4 - 8% p.a. and 6 - 10% p.a. respectively. "Illustrative ranges" which fall by 1% a year have been given for successive years up to 1988/9, but the actual targets will be decided nearer the time.

One particularly relevant omission from both the MTFS and the Budget speech is the point made by the Chancellor in his Mansion House speech last October, to the effect that "there is some presumption that the narrower aggregates might have particular relevance for short term interest rates while the broader aggregates might be more relevant for decisions about fiscal and funding policy". Instead he now says that Mo and sterling M3 "will have an equal importance in the conduct of policy" and does not explicitly propose to assign either aggregates any special function.

The Chancellor did, however, stress that "the use of Mo as a target variable will not involve any change in the methods of monetary control". The implications are that a supply-side monetary base control regime is not being introduced.

A statistical change is being made in the Mo series. Although bankers' balances at the Bank of England account for less than 2% of Mo, they are subject to erratic short term fluctuations. In order to obtain a series which is easier to interpret, a new method of calculation is to be used. Up to now all the monetary series have measured the aggregates at the <u>end</u> of each banking month; but weekly data for each Wednesday are available from the Bank of England's weekly return for the main components of Mo. A new monthly series for Mo has been produced based on the <u>average weekly</u> levels on the Wednesdays within a banking month. Over more than a few months, the growth of the old and new series is very similar. For example, over the year to mid-January the growth rates were 5.7% p.a. and 6.0% p.a. on the old and new series respectively.

Monetary Growth in the Month to Mid-February

The seasonally adjusted data for the four weeks to 15th February are as follows:-

	£m.	p.a.
Mo*	20	2%
Currency	91	10%
Retail M1	144	6%
M1	287	8%
Sterling M3*	110	1%
PSL1	-69	-1%
PSL2	1,973	14%
Bank lending in sterling to private sector	1,032	12%

* New Basis

Monetary growth remained generally modest in the month to mid-February. The above table has already switched to the new definition for sterling M3, which excludes public sector deposits. On the old definition, sterling M3 would have fallen in the latest month by £16m, but over the latest three, six and twelve months the growth rates would have been almost exactly the same at 7.9% p.a., 7.1% p.a. and 9.7%, respectively.

Bank lending in sterling to the private sector rose by £1,032m in the month but this was after a fall of £120m in bills held outside the banking system; this suggests an underlying increase of only some £900m.

Two other counterparts were unusual in the month to mid-February. First, sterling M3 was reduced by a near-record £1,044m rise in banks' non-deposit liabilities, which include errors and omissions as well as banks' retained profits and proceeds from capital issues. Secondly, although the external counterpart reduced sterling M3 by £577m, this was a smaller reduction than expected after the exceptional £1,334m positive contribution in the previous month. These two factors, however, to some extent offset each other. The errors and omissions element of banks' non-deposit liabilities most frequently reflect errors in the counterparts, especially the external counterpart, rather than in sterling M3 itself. It is, therefore, more helpful to consider the sum of the two factors together. They reduced sterling M3 by an unusually large £1,621m in the month to mid-February. Over the last three months, however, sterling M3 was reduced on average by £399m by these two factors, which was about the same as in the previous nine months.

Monetary Growth to mid-February

% p.a.	3 months	6 months	1 year*
Mo+	4	6	6
Currency	3	5	4
Retail M1	4	6	8
M1	8	8	11
M2			9
Sterling M3+	8	7	10
PSL1	5	5	9
PSL2	14	10	12

* 1983/4 Target period so far
+ New Basis

The above table shows that the growth of the narrow monetary aggregates has been decelerating, and that the growth of sterling M3 and PSL1 has been steady during the last six months at around the bottom of the old target range. PSL2 is the only aggregate to have shown buoyancy. If PSL2 is ignored, the behaviour of the aggregates justifies the recent reduction in base rates.

Looking ahead to the month to mid-March, data for Mo on its new average weekly basis are available for only the first four of the five weeks of the banking month. The indications are that Mo will rise by about ½% in the month. This would reduce the three, six and twelve month growth rates to mid-March to 4% p.a., 5% p.a. and 5½% respectively. This should be compared with the new target range of 4 - 8% p.a. The justification for the cut in base rates is confirmed.

RLT
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MONETARY GROWTH

In Nominal Terms

Percentage annual rates

Changes in year to:

		Mo	Currency	Retail M1	M1	M2	Sterling M3	PSL1	PSL2
1983	Mar.	5	6	11	14	6	10	10	11
	Apr.	6	7	11	15	7	11	11	12
	May	7	7	12	16	8	11	10	12
	June	6	8	11	16	8	11	11	12
	July	6	7	11	15	8	12	11	13
	Aug.	7	7	10	14	8	11	11	13
	Sept.	6	7	9	12	8	10	9	12
	Oct.	7	8	8	13	7	11	10	13
	Nov.	6	8	8	12	7	10	10	12
	Dec.	7	7	9	12	9	11	11	13
1984	Jan.	6	6	9	11	9	11	10	13
	Feb.	6	5	8	11	9	10	9	12

Changes in 6 months to:

		Mo	Currency	Retail M1	M1	M2	Sterling M3	PSL1	PSL2
1983	Sept.	6	6	8	11		10	10	12
	Oct.	6	6	9	12		9	7	9
	Nov.	6	7	9	10		8	7	9
	Dec.	6	5	10	8		8	7	9
1984	Jan.	7	5	5	9		7	7	9
	Feb.	6	5	6	8		7	5	10

Changes in 3 months to:

		Mo	Currency	Retail M1	M1	M2	Sterling M3	PSL1	PSL2
1983	Dec.	6	4	12	16		12	11	11
1984	Jan.	5	2	4	8		8	6	11
	Feb.	4	3	4	8		8	5	14

In Real Terms

Changes in year to:

		Mo	Currency	Retail M1	M1	M2	Sterling M3	PSL1	PSL2
1983	Mar.	1	2	6	9	2	6	5	6
	Apr.	2	3	7	11	3	7	7	8
	May	3	4	8	12	4	8	7	8
	June	3	4	7	12	4	8	7	8
	July	2	3	7	11	4	8	7	9
	Aug.	2	3	6	9	3	7	6	9
	Sept.	1	2	4	7	2	5	4	7
	Oct.	2	3	3	8	2	6	5	8
	Nov.	2	3	3	7	2	5	5	8
	Dec.	1	1	4	7	4	6	5	8
1984	Jan.	1	1	4	6	4	5	5	8
	Feb.	1	0	3	6	4	4	4	7

Changes in 6 months to:

		Mo	Currency	Retail M1	M1	M2	Sterling M3	PSL1	PSL2
1983	Sept.	1	0	3	6		5	4	6
	Oct.	0	1	3	6		3	2	4
	Nov.	1	1	3	4		2	2	3
	Dec.	0	-1	5	3		3	2	3
1984	Jan.	1	0	-1	3		2	1	4
	Feb.	1	0	0	3		1	0	5

Changes in 3 months to:

		Mo	Currency	Retail M1	M1	M2	Sterling M3	PSL1	PSL2
1983	Dec.	0	-2	7	10		7	6	4
1984	Jan.	0	-3	-1	3		3	1	5
	Feb.	-2	-3	-1	3		2	0	8

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

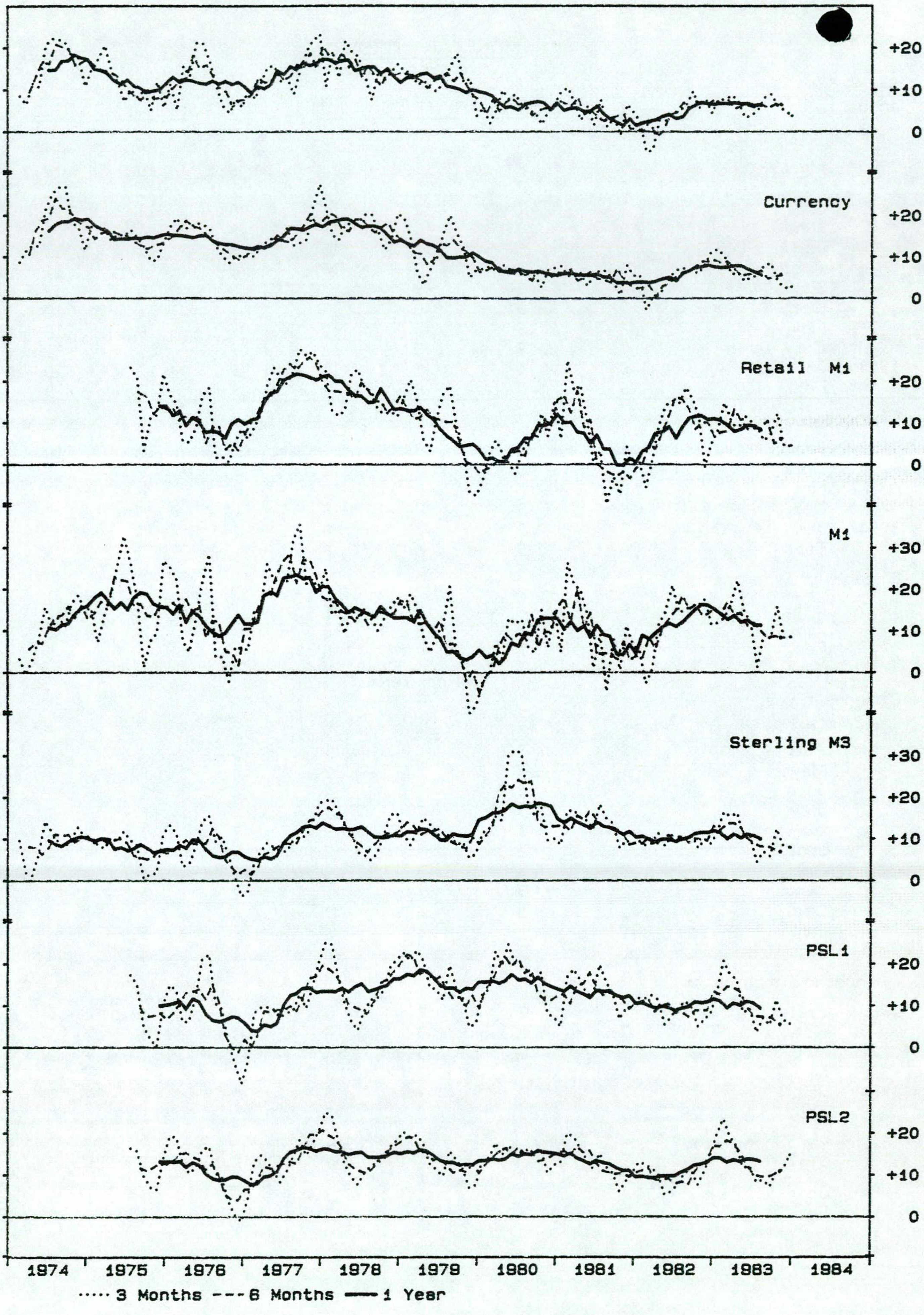


Chart 2 - Monetary Growth in REAL Terms (% p.a.)

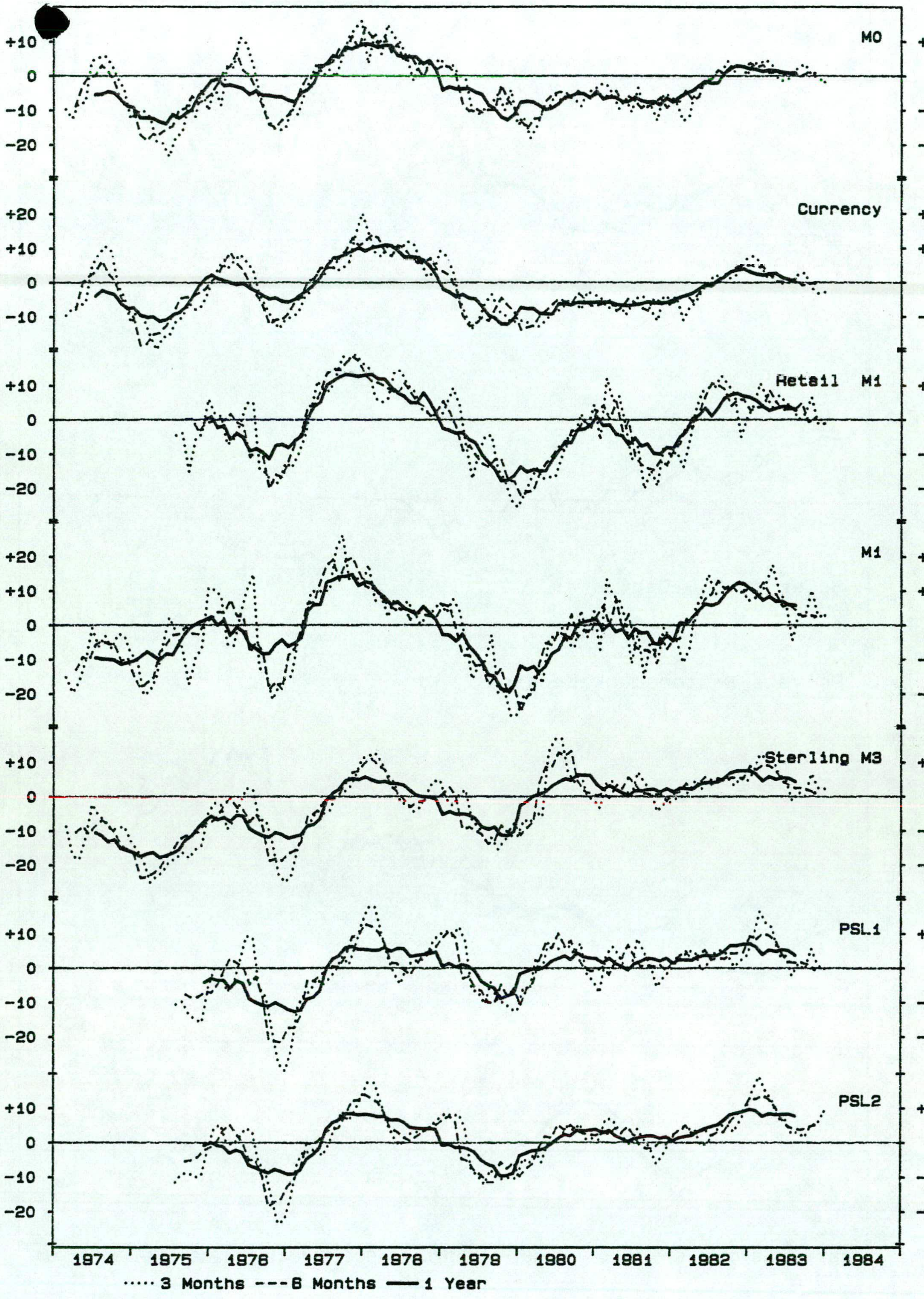
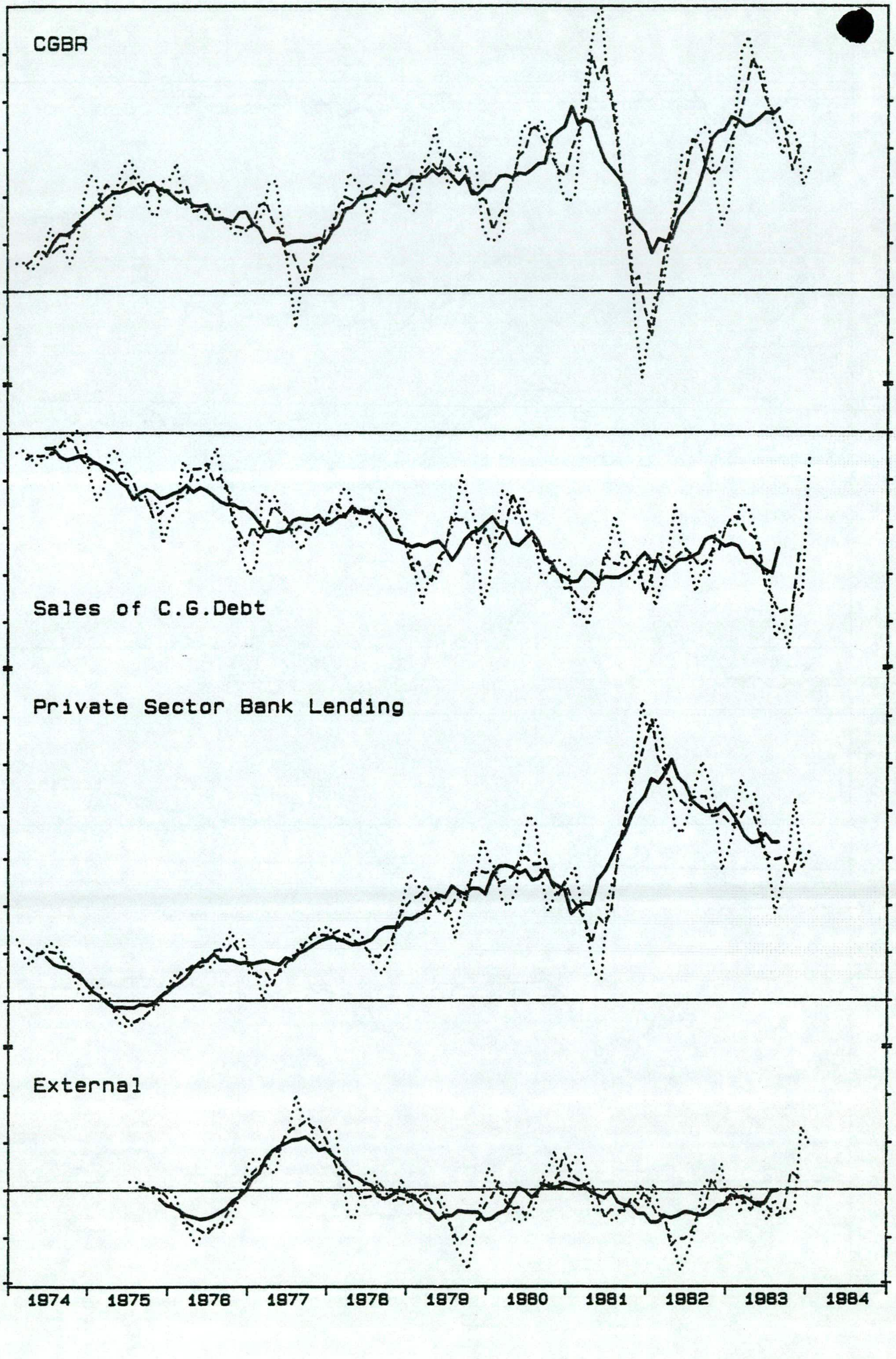


Chart 3 - Components of Monetary Growth (bns)



STATISTICS

reprinted from Bank of England, *Banking Statistics*

[**Table 11.1** in the *Quarterly Bulletin*]

Money stock: amounts outstanding

£ millions

	Notes and coin in circulation with public	UK private sector sterling sight deposits		Money stock M_1[b]		UK private sector sterling time deposits[c]	UK public sector sterling deposits	Money stock Sterling M_3[b]		UK residents' deposits in other currencies [c]	Money stock M_3 [b]	
		Non-interest-bearing[a]	Interest-bearing	Unadjusted	Seasonally adjusted			Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted
	1	*2*	*3*	*4*		*5*	*6*	*7*		*8*	*9*	
Month ended												
1983 Feb. 16	10,965	17,327	9,869	38,161	38,760	51,584	2,251	91,996	92,950	13,498	105,494	106,440
Mar. 16[d]	11,103	17,962	9,668	38,733	39,210	51,503	2,154	92,390	93,880	13,823	106,213	107,700
Apr. 20	11,194	18,609	10,319	40,122	39,660	52,994	2,103	95,219	95,450	13,562	108,781	109,010
May 18	11,263	18,415	10,656	40,334	40,210	53,261	1,989	95,584	95,950	13,357	108,941	109,310
June 15	11,328	18,564	11,102	40,994	41,140	53,803	2,463	97,260	97,520	13,550	110,810	111,070
July 20	11,601	18,978	10,714	41,293	40,960	55,029	2,766	99,088	98,300	13,767	112,855	112,060
Aug. 17	11,507	18,785	10,902	41,194	41,290	55,579	2,324	99,097	98,420	13,767	112,864	112,180
Sept. 21[d]	11,477	18,876	10,601	40,954	41,200	55,944	2,173	99,071	98,020	13,829	112,900	111,850
Oct. 19	11,473	19,369	11,172	42,014	41,810	56,133	2,165	100,312	99,440	14,392	114,704	113,830
Nov. 16	11,531	19,264	11,352	42,147	42,040	55,755	2,485	100,387	100,000	14,776	115,163	114,770
Dec. 14[d]	12,119	19,990	11,466	43,575	42,690	56,234	2,376	102,185	101,540	16,101	118,286	117,640
1984 Jan. 18	11,467	19,319	11,911	42,697	42,580	56,609	2,694	102,000	102,180	16,402	118,402	118,580
Feb. 15	11,531	19,017	11,944	42,492	42,830	56,076	2,572	101,140	102,180	17,075	118,215	119,260

[**Table 11.2** in the *Quarterly Bulletin*]

Money stock: changes[e]

£ millions: *percentages in italics*

	Notes and coin in circulation with public	UK private sector sterling sight deposits		Money stock		UK private sector sterling time deposits[c]	UK public sector sterling deposits	Money stock		UK residents' deposits in other currencies [c]		Money stock	
		Non-interest-bearing[a]	Interest-bearing	M_1[b]				Sterling M_3[b]		Trans-actions	Valuation changes[f]	M_3[b]	
	1	*2*	*3*	*4*		*5*	*6*	*7*		*8*		*9*	
Month ended (unadjusted)													
1983 Feb. 16	+ 140	− 212	− 217	− 289		+ 139	− 66	− 216		+ 539	+ 217	+ 540	
Mar. 16	+ 138	+ 635	− 204	+ 569		− 101	− 97	+ 371		+ 6	+ 310	+ 687	
Apr. 20	+ 91	+ 647	+ 651	+1,389		+1,491	− 51	+2,829		+ 157	− 418	+2,568	
May 18	+ 89	− 194	+ 337	+ 232		+ 267	− 114	+ 385		− 135	− 70	+ 180	
June 15	+ 65	+ 149	+ 446	+ 660		+ 542	+ 474	+1,676		− 93	+ 286	+1,869	
July 20	+ 273	+ 414	− 388	+ 299		+1,226	+ 303	+1,828		+ 280	− 63	+2,045	
Aug. 17	− 94	− 193	+ 188	− 99		+ 550	− 442	+ 9		− 81	+ 81	+ 9	
Sept. 21	− 30	+ 71	− 306	− 265		+ 315	− 151	− 101		− 61	+ 88	− 74	
Oct. 19	− 4	+ 493	+ 571	+1,060		+ 189	− 8	+1,241		+ 481	+ 82	+1,804	
Nov. 16	+ 58	− 105	+ 180	+ 133		− 378	+ 320	+ 75		+ 304	+ 80	+ 459	
Dec. 14	+ 588	+ 716	+ 109	+1,413		+ 289	− 109	+1,593		+ 644	+ 691	+2,928	
1984 Jan. 18	− 652	− 671	+ 445	− 878		+ 375	+ 318	− 185		+ 206	+ 95	+ 116	
Feb. 15	+ 64	− 302	+ 33	− 205		− 533	− 122	− 860		+ 958	− 285	− 187	
Month ended (seasonally adjusted)													
1983 Feb. 16	+ 150	+ 217	− 110	+ 257	*+ 0·7*	+ 503	− 137	+ 623	*+ 0·7*	+ 539	+ 217	+1,379	*+ 1·3*
Mar. 16	+ 85	+ 445	− 66	+ 464	*+ 1·2*	+ 586	− 105	+ 945	*+ 1·0*	+ 6	+ 310	+1,261	*+ 1·2*
Apr. 20	+ 26	+ 73	+ 364	+ 463	*+ 1·2*	+1,204	− 90	+1,577	*+ 1·7*	+ 157	− 418	+1,316	*+ 1·2*
May 18	+ 41	+ 64	+ 473	+ 578	*+ 1·5*	− 20	− 18	+ 540	*+ 0·6*	− 135	− 70	+ 335	*+ 0·3*
June 15	− 99	+ 261	+ 594	+ 954	*+ 2·4*	+ 322	+ 335	+1,611	*+ 1·7*	− 93	+ 286	+1,804	*+ 1·7*
July 20	− 30	+ 395	− 518	− 153	*− 0·4*	+ 788	+ 161	+ 796	*+ 0·8*	+ 280	− 63	+1,013	*+ 0·9*
Aug. 17	+ 71	− 68	+ 344	+ 347	*+ 0·8*	+ 87	− 277	+ 157	*+ 0·2*	− 81	+ 81	+ 157	*+ 0·1*
Sept. 21	+ 106	+ 165	− 353	− 82	*− 0·2*	+ 23	− 401	− 460	*− 0·5*	− 61	+ 88	− 433	*− 0·4*
Oct. 19	+ 41	+ 103	+ 489	+ 633	*+ 1·5*	+ 585	+ 197	+1,415	*+ 1·4*	+ 481	+ 82	+1,978	*+ 1·8*
Nov. 16	+ 80	+ 41	+ 129	+ 250	*+ 0·6*	− 76	+ 377	+ 551	*+ 0·6*	+ 304	+ 80	+ 935	*+ 0·8*
Dec. 14	− 9	+ 632	+ 32	+ 655	*+ 1·6*	+ 780	− 109	+1,326	*+ 1·3*	+ 644	+ 691	+2,661	*+ 2·3*
1984 Jan. 18	− 5	− 423	+ 344	− 84	*− 0·2*	+ 386	+ 318	+ 620	*+ 0·6*	+ 206	+ 95	+ 921	*+ 0·8*
Feb. 15	+ 91	+ 53	+ 143	+ 287	*+ 0·7*	− 181	− 122	− 16	—	+ 958	− 285	+ 657	*+ 0·6*

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

[b] M_1 equals columns 1 + 2 + 3. Sterling M_3 equals M_1 + columns 5 + 6. M_3 equals sterling M_3 + column 8.

[c] Including certificates of deposit.

[d] Changes in the monthly-reporting population occurred in these months. See also the additional notes to Table 3 in the *Quarterly Bulletin*, and, for December 1983, footnote [b] to Table 3 on page 5.

[e] Changes in the money stock may differ from those which can be calculated by reference to amounts outstanding. (See additional notes to Table 11 of the *Quarterly Bulletin*.)

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

[See page 529 in the December 1983 *Quarterly Bulletin*]

An alternative presentation of counterparts to changes in sterling M_3

£ millions

	Public sector borrowing requirement (surplus –): Central government borrowing requirement	Public sector borrowing requirement: Other public sector contribution / Purchases (–) of public sector debt by UK private sector (other than banks): Other public sector debt	Purchases (–) of public sector debt: Central government debt: British government stocks	Central government debt: Other	External and foreign currency finance of public sector (increase –): Purchases of British government stocks by overseas sector	External and foreign currency finance: Other	Banks' sterling lending to UK private sector[a]	External and foreign currency transactions of UK banks[b]: Sterling deposits from, net of market loans to, banks abroad (increase –)	Other overseas sterling deposits (increase –)	Other sterling lending to overseas sectors[c]	Banks' net foreign currency deposits liabilities (increase –)	Net non-deposit liabilities (increase –)	Money stock sterling M_3 (columns 1-13)
	1	*2 3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14*
Month ended (unadjusted)													
1983 Feb. 16	– 142	+ 8	– 408	– 286	– 284	– 204	+ 1.074	– 367	– 35	+ 202	– 41	+ 267	– 216
Mar. 16	+ 634	– 714	– 41	– 250	+ 399	– 211	+ 545	+ 16	– 322	+ 428	+ 592	– 705	+ 371
Apr. 20	+ 3.561	+ 31	– 113	– 296	– 405	– 79	+ 687	– 72	– 304	+ 233	+ 434	– 848	+ 2.829
May 18	+ 1.799	– 601	– 769	– 217	– 287	+ 145	+ 693	– 121	– 157	+ 47	+ 289	– 436	+ 385
June 15	+ 2.225	– 514	– 748	– 156	– 13	+ 80	+ 1.173	– 561	– 36	+ 224	+ 25	– 23	+ 1.676
July 20	+ 1.373	– 335	– 1.018	– 159	– 209	– 76	+ 2.011	+ 237	+ 149	– 37	– 108	—	+ 1.828
Aug. 17	+ 1.396	– 174	– 1.082	– 21	– 102	+ 77	+ 299	– 237	– 401	+ 146	+ 133	– 25	+ 9
Sept. 21	+ 797	+ 448	– 1.747	– 442	– 55	– 118	+ 1.410	+ 63	– 46	+ 230	+ 259	– 900	– 101
Oct. 19	+ 955	– 295	– 394	– 434	– 5	+ 50	+ 2.017	– 506	– 143	+ 277	– 104	– 177	+ 1.241
Nov. 16	+ 1.001	+ 239	– 1.143	– 428	+ 46	– 34	+ 820	+ 20	– 616	+ 66	+ 280	– 176	+ 75
Dec. 14	+ 1.786	– 265	– 572	– 180	+ 86	– 178	+ 605	– 152	+ 57	+ 267	+ 285	– 32	+ 1.593
1984 Jan. 18	– 1.270	– 253	– 738	– 239	– 164	+ 12	+ 1.782	+ 405	– 135	+ 891	+ 217	– 693	– 185
Feb. 15	– 208	+ 110	– 1.106	– 6	– 113		+ 1.251	– 72	– 463	+ 251	– 70	– 434	– 860
Month ended (seasonally adjusted)													
1983 Feb. 16	+ 1.382	– 38	– 408	– 461	– 284	– 209	+ 1.098	– 190				– 267	+ 623
Mar. 16	+ 1.954	– 773	– 41	– 265	+ 399	– 216	+ 635	+ 49				– 797	+ 945
Apr. 20	+ 1.742	– 44	– 113	– 207	– 405	– 60	+ 199	+ 397				+ 68	+ 1.577
May 18	+ 1.668	– 596	– 769	– 197	– 287	+ 140	+ 1.087	+ 85				– 591	+ 540
June 15	+ 1.285	– 432	– 748	– 85	– 13	+ 74	+ 1.553	– 257				+ 234	+ 1.611
July 20	+ 1.763	– 275	– 1.018	– 74	– 209	– 82	+ 305	+ 175				+ 211	+ 796
Aug. 17	+ 825	– 283	– 1.082	– 36	– 102	+ 71	+ 1.187	– 313				– 110	+ 157
Sept. 21	+ 827	+ 643	– 1.747	– 388	– 55	– 124	+ 1.160	+ 434				–1.210	– 460
Oct. 19	+ 1.203	– 620	– 394	– 404	– 5	+ 44	+ 1.554	– 515				+ 552	+ 1.415
Nov. 16	+ 1.490	+ 265	– 1.143	– 513	+ 46	– 40	+ 1.138	– 244				– 448	+ 551
Dec. 14	+ 580	+ 78	– 572	– 150	+ 86	– 184	+ 1.747	+ 324				– 583	+ 1.326
1984 Jan. 18	+ 157	– 433	– 738	– 400	– 164	+ 52	+ 1.254	+1.446				– 554	+ 620
Feb. 15	+ 1.864	+ 14	– 1.106	– 199	– 118		+ 1.032	– 459				–1.044	– 16

[a] Including net purchases of commercial bills by the Issue Department, and holdings of sterling certificates of deposit issued by building societies.
[b] A seasonally-adjusted breakdown of these transactions is not available.
[c] Including net purchases of ECGD-backed promissory notes by the Issue Department.

MO, the wide monetary base

[**Table 2** in the *Quarterly Bulletin*]

£ millions: *percentages in italics*

End-banking-month series

	Notes and coin in circulation outside the Bank of England: In circulation with public: Unadjusted	In circulation with public: Seasonally adjusted	Held by banks (till money): Unadjusted	Held by banks (till money): Seasonally adjusted	Bankers' deposits with the Banking Department: Operational deposits: Unadjusted	Cash ratio deposits: Unadjusted
	1		*2*		*3*	*4*
Amount outstanding at						
1983 Jan. 19	10.825	10.899	1.152	1.156	135	436
Feb. 16	10.965	11.049	1.077	1.111	101	436
Mar. 16	11.103	11.133	1.047	1.095	192	436
Apr. 20	11.194	11.157	1.084	1.064	137	435
May 18	11.263	11.177	1.113	1.121	96	468
June 15	11.328	11.276	1.137	1.170	223	468
July 20	11.601	11.245	1.250	1.195	118	468
Aug. 17	11.507	11.314	1.207	1.186	148	468
Sept. 21	11.477	11.418	1.196	1.210	149	468
Oct. 19	11.473	11.458	1.177	1.188	135	468
Nov. 16	11.531	11.537	1.157	1.174	199	500
Dec. 14	12.119	11.527	1.365	1.232	150	500
1984 Jan. 18	11.467	11.522	1.221	1.227	111	500
Feb. 15	11.531	11.612	1.170	1.211	278	500
Change in month ended						
1983 Jan. 19	– 371	+ 68	– 38	– 15	– 76	—
Feb. 16	+ 140	+ 150	– 75	– 45	– 34	—
Mar. 16	+ 138	+ 85	– 30	– 16	+ 91	—
Apr. 20	+ 91	+ 26	+ 37	– 31	– 55	– 1
May 18	+ 89	+ 41	+ 29	+ 56	– 41	+ 33
June 15	+ 65	+ 99	+ 24	+ 49	+ 127	—
July 20	+ 273	– 30	+ 113	+ 25	– 105	—
Aug. 17	– 94	+ 71	– 43	– 10	+ 30	—
Sept. 21	– 30	+ 106	– 11	+ 24	+ 1	—
Oct. 19	– 4	+ 41	– 19	– 23	– 14	—
Nov. 16	+ 58	+ 80	– 20	– 14	+ 64	+ 32
Dec. 14	+ 588	– 9	+ 208	+ 58	– 49	—
1984 Jan. 18	– 652	– 5	– 144	– 5	– 39	—
Feb. 15	+ 64	+ 91	– 51	– 16	+ 167	—

Monthly-average series

	Notes and coin in circulation outside the Bank of England: Unadjusted	Notes and coin: Seasonally adjusted	Bankers' operational deposits with the Banking Department: Unadjusted	MO (wide monetary base) (columns 5 + 6): Unadjusted	MO: Seasonally adjusted	
	5		*6*	*7*		
Average amount outstanding in month ended						
1983 Jan. 19	12.647	12.232	178	12.825	12.410	
Feb. 16	11.999	12.255	145	12.144	12.400	
Mar. 16	12.133	12.359	176	12.309	12.535	
Apr. 20	12.424	12.436	205	12.629	12.641	
May 18	12.411	12.510	131	12.542	12.641	
June 15	12.556	12.589	149	12.705	12.738	
July 20	12.669	12.619	105	12.774	12.724	
Aug. 17	12.772	12.599	162	12.934	12.761	
Sept. 21	12.773	12.749	154	12.927	12.903	
Oct. 19	12.685	12.810	166	12.851	12.976	
Nov. 16	12.689	12.867	171	12.860	13.038	
Dec. 14	13.106	12.931	155	13.261	13.086	
1984 Jan. 18	13.345	12.915	222	13.567	13.137	
Feb. 15	12.686	12.955	202	12.888	13.157	
Change						
1983 Jan. 19	+ 440	+ 92	+ 14	+ 454	+ 106	*+0.9*
Feb. 16	– 648	+ 23	– 33	– 681	– 10	*–0.1*
Mar. 16	+ 134	+ 104	+ 31	+ 165	+ 135	*+1.1*
Apr. 20	+ 291	+ 77	+ 29	+ 320	+ 106	*+0.8*
May 18	+ 7	+ 94	– 74	– 67	+ 20	*+0.2*
June 15	+ 145	+ 79	+ 18	+ 163	+ 97	*+0.8*
July 20	+ 113	+ 30	– 44	+ 69	– 14	*–0.1*
Aug. 17	+ 103	– 20	+ 57	+ 160	+ 37	*+0.3*
Sept. 21	+ 1	+ 150	– 8	– 7	+ 142	*+1.1*
Oct. 19	– 88	+ 61	+ 12	– 76	+ 73	*+0.6*
Nov. 16	+ 4	+ 57	+ 5	+ 9	+ 62	*+0.5*
Dec. 14	+ 417	+ 64	– 16	+ 401	+ 48	*+0.4*
1984 Jan. 18	+ 239	– 16	+ 67	+ 306	+ 51	*+0.4*
Feb. 15	– 659	+ 40	– 20	– 679	+ 20	*+0.2*

Transactions balances and components of M_2

£ millions: *not seasonally adjusted*

[Table 11.1 in the *Quarterly Bulletin*]

	Notes and coin in circulation with public	UK private sector sterling non-interest-bearing sight deposits with banks[a]	Non-interest-bearing M_1[b]	Other UK private sector sterling retail deposits with banks	UK private sector retail shares and deposits with building societies	National Savings Bank ordinary account	M_2[b]	Public sector retail deposits with banks	Overseas retail deposits with banks
	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
Amounts outstanding									
1983 Feb. 16	10.965	17.327	28.292	28.784	48.791	1.773	107.640	1,071	2.642
Mar. 16[c]	11.103	17.962	29.065	29.216	49.209	1.740	109.230	1,024	2.614
Apr. 20	11,194	18.609	29.803	29,591	49,580	1.753	110,727	1,169	2.620
May 18	11,263	18.415	29,678	29.903	49.846	1,769	111,196	998	2,736
June 15	11,328	18,564	29.892	30.259	50,389	1,751	112,291	1,160	2.637
July 20	11,601	18.978	30.579	30,512	50,546	1,749	113,386	1,193	2,741
Aug. 17	11,507	18,785	30.292	30.360	50.458	1,729	112.839	949	2,721
Sept. 21[c]	11.477	18.876	30.353	30,176	50,672	1,742	112.943	864	2,732
Oct. 19	11.473	19,369	30.842	30,066	51,001	1,742	113,651	935	2,794
Nov. 16[d]	11,331	19.264	30,795	30,089	51,200	1,745	113.829	1,045	2,669
	11,531	19,264	30,795	30,847	51,200	1,745	114,587	1,045	2,996
Dec. 14[c]	12.119	19.990	32.109	30,218	53,920	1,750	117,997	899	2,999
1984 Jan. 18	11,467	19.319	30,786	30,340	55,503	1,765	118,394	1,072	3,124
Feb 15	11.531	19.017	30.548	30,034	56,070	1,777	118.429	962	3,082
Changes in month ended									
1983 Feb. 16	+ 140	− 212	− 72	+ 81	+ 307	+ 64	+ 380	+ 76	+ 250
Mar. 16	+ 138	+ 635	+ 773	+ 432	+ 418	− 33	+1.590	− 47	− 28
Apr. 20	+ 91	+ 647	+ 738	+ 375	+ 371	+ 13	+1.497	+ 145	+ 6
May 18	+ 89	− 194	− 105	+ 312	+ 266	+ 16	+ 489	− 171	+ 116
June 15	+ 65	− 149	+ 214	+ 356	+ 543	− 18	+1.095	+ 162	− 99
July 20	+ 273	+ 414	+ 687	+ 253	+ 157	− 2	+1.095	+ 33	+ 104
Aug. 17	− 94	− 193	− 287	− 152	− 88	− 20	− 547	− 244	− 20
Sept. 21	− 30	+ 71	+ 41	− 184	+ 214	+ ·13	+ 84	− 85	+ 11
Oct. 19	− 4	+ 493	+ 489	− 110	+ 329	—	+ 708	+ 71	+ 62
Nov. 16	+ 58	− 105	− 47	+ 23	+ 199	+ 3	+ 178	+ 110	− 125
Dec. 14	+ 588	+ 716	+1,304	− 629	+2.444	+ 5	+3,124	− 146	+ 3
1984 Jan. 18	− 652	− 671	−1.323	+ 122	+1,552	+ 15	+ 366	+ 173	+ 125
Feb. 15	+ 64	− 302	− 238	− 306	+ 567	+ 12	+ 35	− 110	− 42

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

[b] Non-interest-bearing M_1 equals columns 1+2. M_2 equals non-interest-bearing M_1+columns 4+5+6.

[c] See footnote [d] to Table 11.1 on page 3.

[d] In November 1983 twenty contributors joined the population providing figures in columns 4, 8 and 9, and seven contributors left the series. (All monthly-reporting monetary sector institutions contribute to column 2. See article in June 1982 *Bulletin*, page 225.)

Private sector liquidity, and other deposits

£ millions

[Summary of **Table 12** in the *Quarterly Bulletin*]

	'Money'	Other money-market instruments	Savings institution deposits and securities		Certificates of tax deposit		PSL_1 (columns 1+2+5)	PSL_2 (columns 1+2+3+6)	PSL_1	PSL_2	Other shares and deposits with building societies	
	Seasonally adjusted	Unadjusted	Seasonally adjusted		Seasonally adjusted		Seasonally adjusted	Seasonally adjusted	Seasonally adjusted change in month[b]	Seasonally adjusted change in month[b]	Unadjusted	
			Total (net)	*of which shares and deposits with building societies*[a]	Issues net of surrenders	Column 5 less building society holdings					Amount outstanding	Change in month
	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*
Month ended												
1983 Jan. 19	88.723	2.541	54.998	*51.905*	2.061	1.875	93.325	148.137	+ 524 *+0.6*	+1,792 *+1.2*	16.208	+369
Feb. 16	89.314	2.654	56.404	*52.446*	2.183	1.999	94.151	150.371	+ 956 *+1.0*	+2.364 *+1.6*	16.352	+144
Mar. 16	90.371	2.783	57.355	*53.070*	2.305	2.123	95.459	152.632	+1.332 *+1.4*	+2.285 *+1.5*	16.449	+ 97
Apr. 20	92.012	3.295	58.249	*53.729*	2.305	2.123	97.612	155.679	+2.173 *+2.3*	+3.067 *+2.0*	16.491	+ 42
May 18	92.539	3.075	58.989	*54.317*	2.253	2.071	97.867	156.674	+ 306 *+0.3*	+1.046 *+0.7*	16.505	+ 14
June 15	93.748	3.090	59.474	*54.914*	2.135	1.953	98.973	158.265	+1.169 *+1.2*	+1.654 *+1.1*	16.519	+ 14
July 20	94.317	3.067	60.392	*55.984*	1.979	1.797	99.363	159.573	+ 444 *+0.4*	+1.362 *+0.9*	16.633	+114
Aug. 17	94.678	3.258	61.059	*56.838*	1.929	1.747	99.865	160.742	+ 564 *+0.6*	+1.231 *+0.8*	16.714	+ 81
Sept. 21	94.648	3.126	61.518	*57.446*	1.943	1.742	99.717	161.034	− 183 *−0.2*	+ 257 *+0.2*	17.246	+532
Oct. 19	95.812	3.097	61.865	*58.213*	2.067	1.849	100.976	162.623	+1.278 *+1.3*	+1.608 *+1.0*	17.804	+558
Nov. 16	96.000	2.982	62.335	*59.131*	2.147	1.915	101.129	163.232	+ 166 *+0.2*	+ 622 *+0.4*	18.241	+437
Dec. 14	97.616	2.872	62.674	*59.847*	2.096	1.843	102.584	165.005	+1.261 *+1.2*	+1.579 *+1·0*	18.556	+315
1984 Jan. 18	97.848	2.729	64.247	*61.172*	2.162	2.040	102.739	166.864	+ 159 *+0.2*	+1.863 *+1·1*	18.740	+184
Feb. 15	97.947	2.678	66.310	*62.568*	2.035	1.892	102.660	168.827	− 69 *−0.1*	+1.973 *+1·2*	18.880	+140

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

[b] Percentage changes are shown in italics.

UK monetary sector: transactions in liabilities and assets[a]

[illegible] 6 in the
Q[illegible] Bulletin]

£ millions

Liabilities

Month ended	Total	Domestic deposits: Total: Unadjusted	Domestic deposits: Total: Seasonally adjusted	Public sector: Sterling: Unadjusted	Public sector: Sterling: Seasonally adjusted	Public sector: Other currencies	Private sector: Sterling: Unadjusted	Private sector: Sterling: Seasonally adjusted	Private sector: Other currencies	Overseas sector deposits: Sterling	Overseas sector deposits: Other currencies	Non-deposit liabilities (net)
1983 Feb. 16	+ 1,642	+ 183	+ 1,012	- 66	- 137	+ 25	- 290	+ 610	+ 514	- 16	+ 1,742	- 267
Mar. 16	+ 198	+ 239	+ 866	- 97	- 105	- 15	+ 330	+ 965	+ 21	+ 444	- 1,190	+ 705
Apr. 20	+ 1,207	+ 2,895	+ 1,708	- 51	- 90	+ 29	+ 2,789	+ 1,641	+ 128	+ 600	- 3,136	+ 848
May 18	- 1,201	+ 161	+ 364	- 114	- 18	- 29	+ 410	+ 517	- 106	+ 131	- 1,929	+ 436
June 15	+ 7,419	+ 1,518	+ 1,419	+ 474	+ 335	+ 9	+ 1,137	+ 1,177	- 102	+ 752	+ 5,126	+ 23
July 20	+ 6,376	+ 1,835	+ 1,106	+ 303	+ 161	- 5	+ 1,252	+ 665	+ 285	- 267	+ 4,808	—
Aug. 17	+ 4,648	+ 22	+ 5	- 442	- 277	+ 6	+ 545	+ 363	- 87	+ 515	+ 4,086	+ 25
Sept. 21	+ 2,215	- 132	- 627	- 151	- 401	+ 5	+ 80	- 165	- 66	- 410	+ 1,857	+ 900
Oct. 19	+ 2,541	+ 1,726	+ 1,855	- 8	+ 197	+ 21	+ 1,253	+ 1,177	+ 460	+ 807	- 169	+ 177
Nov. 16	+ 1,881	+ 321	+ 775	+ 320	+ 377	- 6	- 303	+ 94	+ 310	+ 661	+ 723	+ 176
Dec. 14	+ 7,940	+ 1,649	+ 1,979	- 109	- 109	- 26	+ 1,114	+ 1,444	+ 670	+ 373	+ 5,886	+ 32
1984 Jan. 18	- 2,575	+ 673	+ 831	+ 318	+ 318	- 2	+ 149	+ 307	+ 208	- 229	- 3,712	+ 693
Feb. 15	+ 6,022	+ 34	+ 851	- 122	- 122	+ 10	- 802	+ 15	+ 948	+ 366	+ 5,188	+ 434

Assets

Month ended	Total	Lending to public sector: Sterling: Total: Unadjusted	Lending to public sector: Sterling: Total: Seasonally adjusted	Lending to public sector: Sterling: Central government	Lending to public sector: Sterling: Other	Lending to public sector: Other currencies	Lending to private sector: Sterling: Unadjusted	Lending to private sector: Sterling: Seasonally adjusted	Lending to private sector: Other currencies	Lending to overseas sector: Sterling	Lending to overseas sector: Other currencies
1983 Feb. 16	+ 1,642	- 1,630	- 342	- 1,545	- 85	+ 69	+ 1,907	+ 1,931	+ 181	- 875	+ 1,990
Mar. 16	+ 198	+ 112	+ 1,406	+ 709	- 597	- 9	- 102	- 12	- 316	+ 780	- 267
Apr. 20	+ 1,207	+ 2,190	+ 469	+ 2,199	- 9	+ 39	+ 660	+ 172	- 400	+ 902	- 2,184
May 18	- 1,201	- 181	- 244	+ 325	- 506	—	+ 855	+ 1,249	+ 391	- 100	- 2,166
June 15	+ 7,419	+ 200	- 627	+ 414	- 214	- 25	+ 1,782	+ 2,162	+ 549	- 379	+ 4,534
July 20	+ 6,376	- 807	+ 25	- 120	- 687	- 55	+ 2,121	+ 415	- 71	+ 82	+ 5,106
Aug. 17	+ 4,648	- 277	- 1,143	+ 66	- 343	+ 1	+ 764	+ 1,652	+ 357	+ 23	+ 3,780
Sept. 21	+ 2,215	+ 444	+ 581	+ 28	+ 416	- 54	- 121	- 371	+ 123	- 163	+ 1,986
Oct. 19	+ 2,541	+ 224	+ 126	+ 192	+ 32	+ 1	+ 1,674	+ 1,211	- 76	+ 435	+ 283
Nov. 16	+ 1,881	- 230	+ 172	- 334	+ 104	+ 176	+ 673	+ 991	+ 230	+ 131	+ 901
Dec. 14	+ 7,940	- 188	- 430	- 96	- 92	+ 19	+ 882	+ 2,024	+ 275	+ 431	+ 6,521
1984 Jan. 18	- 2,575	- 377	+ 102	- 136	- 241	- 1	+ 159	- 369	- 80	+ 932	- 3,208
Feb. 15	+ 6,022	- 865	+ 886	- 706	- 159	+ 3	+ 729	+ 510	+ 214	+ 82	+ 5,859

[a] The monetary sector comprises all banks included in Table 3 in the *Quarterly Bulletin* together with the discount market. Interbank items are excluded and adjustments made to allow for transit items (see additional notes to Table 6 in the *Quarterly Bulletin*).

Symbols and conventions

– nil or less than £½ million.

– – figures above and below are not strictly comparable.

Owing to rounding of figures, the sum of the separate items will sometimes differ from the total shown.

Issued by the Financial Statistics Division, Bank of England, London EC2R 8AH.

What have Greenwells
Sd abt
the Budget?
m

CHANCELLOR OF THE EXCHEQUER

NL.

I'm sorry to bore you once again with Gordon Pepper's views. But as you will see, there is an important political point at the end, as well as a fairly logical – if not totally convincing – line of concern about the Building Societies decision.

This was not delivered to me in a hectoring or threatening manner

AL 10/3

Arsq.

PERSONAL & CONFIDENTIAL.

9/3/84.

H M Treasury
Parliament Street London SW1P 3AG
Switchboard 01-233 3000
Direct Dialling 01-233 ....

A N Ridley
Special Adviser

NOTE OF CONVERSATION WITH GORDON PEPPER: MARCH 9th.

Some of this was a rehearsal of his familiar criticisms of the actions taken to tax building societies. But there were some further points which he had not made before, & which I now record:

(1) If the Registrar & Revenue were concerned about BS gilt activity, they should either have warned the ½ doz or so societies involved; or taxed those societies only (exemplarily) e.g. on last year's dealings. In both cases it would have been reasonable to do so, on the "over-trading" basis.

(2) It is now even clearer that moving to the "stock in trade" principle & applying it to all societies through the 5p.m announcement was unusually inequitable. Regards
- the fast moving societies who have dealt actively & reprehensibly – & have realised a lot of their recent gains already – generally managed to unload their stocks at decent prices;
- the sleepier London-based ones sold, took out their vulnerable holdings, but usually at bad prices;
- the smaller & above-all provincial societies whose dealings had very largely been least open to criticism tried for the most part to sell at all, & will lose v. heavily.

So the just have been punished mightily, & the unjust have largely got away free.

(3) All of this worries those who favour what the Govt. appears to be trying to do. GP hopes moreover that there will be no ~~such~~ further gratuitous failures to avoid treading on corns in Budget, which he feels he is likely to support v. strongly in broad terms.

And then there came the sting in the tail. He warned that his senior partners, who have been supporting the PM's private office financially (I assume in practice helping defray Alan Walters expenses etc) are so vexed by the Building Societies decision, that as of now they will not be likely to want to renew their support.

AR 9/3/84

A 05798

of with reply

Opr

CABINET OFFICE

Central Statistical Office

Great George Street, London SWIP 3AQ Telephone 01-233 6117

From the Director: Sir John Boreham, K.C.B.

Mr Shields (for draft reply)

Sir P Middleton

Sir T Burns

Mr Cassell

Mr Evans

Mr Ridley

Our reference: D4/17 14 March 1984

Dear Chancellor

AVERAGE MEASURE OF GDP

Commenting on the NIESR study of GDP measures, you invited CSO views on whether an average of the output and expenditure measures (O and E) would behave better than the average of O, E and the income measures, I. I have had this tested and found that it would not provide a significantly different result.

The published simple average of E, I and O is essentially neutral and does not constrain interpretative advice. There appears to be a real need for an alternative measure, for internal briefing, which incorporates all the information the CSO has on known economic distortions and technical measurement problems. Such a measure would better represent the underlying trend in activity. We hope that the work currently in hand in CSO on analysis of revisions, etc, will lead to the development of this additional aid.

Yours sincerely

John Boreham

JOHN BOREHAM

The Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1

FROM: E M EDWARDS
DATE: 16 MARCH 1984

ECONOMIC SECRETARY

cc: PPS
PS/CST
PS/FST
PS/MST
Mr Battishill
Mr Monck
Mr Hall
Mr Folger
Mr Allen
Mr Macrae
Mr Ridley
Mr Lord

Share options (8 + x)
PS 8 - [illegible] business tax
packages rather than
[illegible]

ECONOMIC PROGRESS REPORT - BUDGET ISSUE

I attach copies of drafts of articles intended for the Budget issue of Economic Progress Report, which is due to be published on Wednesday 28 March. This is a joint issue for March and April. Copy will be sent to the printer by lunchtime on Tuesday, 20 March.

2. The drafts have been cleared by divisions in the Treasury and, wherever necessary, in the Inland Revenue and Customs and Excise.

3. The drafts include a general article on the Budget and its underlying strategy, including an account of the updated MTFS; a more detailed article on the tax measures; the usual slightly abbreviated version of the Industry Act forecast (which has been cleared with Mr H Evans, not copied to all); and a short account of the Green Paper on long-term public expenditure trends. There will also be the usual article on the North Sea revenues and contribution to GNP, which will consist mainly of the Budget day press notice. I attach a copy of the press notice, together with the table and note on the contribution to GNP, which is added for Progress Report purposes (not copied to all).

E M Edwards

E M EDWARDS

A Radical Tax-Reforming Budget

The Chancellor of the Exchequer, Mr Nigel Lawson, made his first Budget statement in the House of Commons on 13 March. This article describes the Budget strategy, giving the main points from the statement, setting out the economic background, and putting the main measures in the context of continuing Government policies. The details of the tax measures are not given in this article but in the article beginning on page .

Themes of the Budget

The Chancellor noted that the Budget would set the Government's course for this Parliament, and was based on policies which had been followed consistently since 1979. The Budget has two main themes: the further reduction of inflation; and a series of tax reforms designed to make the economy work better. The Chancellor described these as reforms to stimulate enterprise, set British business on the road to profitable expansion and help to create new jobs.

It contains a major restatement of the medium-term financial strategy (MTFS) extended to cover the five years to 1988-89, which sets out the approach for bringing inflation down through steady reduction in the rate of increase in the money supply, supported by firm control of public spending and a continuing decline in public borrowing (see page).

The tax reform will help to create a simpler, more efficient system, which will be more broadly based, with fewer special reliefs, but lower rates of tax. The tax changes include various measures to reduce discriminatory tax treatment of different types of saving and investment, a major reform of business taxation, including a phased restructuring of the main capital allowances in parallel with a progressive reduction in the main corporation tax rate and an immediate reduction in the rate for small businesses, abolition of stock relief, the abolition of National Insurance Surcharge, the raising of basic income tax allowances by more than twice the rate of inflation, and the broadening of the coverage of VAT.

Economic background

Inflation has fallen steadily since the 1980 peak of over 20 per cent, with retail prices in 1983 up only about 4½ per cent on 1982, the smallest increase since the 1960s. It is expected to remain low, edging down to about 4 per cent by the middle of 1985. Interest rates have come down.

Falling inflation and interest rates, the Chancellor said, had led to an economic recovery whose underlying strength was beyond dispute, springing from sound finance and honest money, and benefiting industry, business and consumer confidence alike. With growth of 3 per cent, Britain's economy grew faster than any other in the European Community in 1983. Three per cent growth was expected to continue this year.

Productivity has continued to improve rapidly. During 1983 productivity in manufacturing grew by 6 per cent, and unit labour costs are likely to show the smallest annual increase since the sixties, with consequent benefits for profitability. However, three of Britain's major competitors, the US, Japan and West Germany, were yet more successful in keeping labour costs down. Job prospects would be considerably better if lower pay rises were to make a bigger contribution to our performance on costs.

The employed labour force went up by about 80,000 between March and September last year. The loss of jobs in manufacturing has slowed down, while jobs in services rose by approaching 200,000 in the first nine months of 1983.

Home demand has played a major part in the economic recovery. Personal consumption went up by over 3½ per cent in 1983, while fixed investment rose rather faster than consumption. Investment in housing and in services was especially strong. Investment overall is expected to rise by 6 per cent in 1984.

With world trade moving ahead, by the end of last year manufacturing exports had started to increase substantially. For 1984 total exports are expected to rise by 5 per cent and imports by 7 per cent, with the current account of the balance of payments forecast at a £2 billion surplus, as for 1983. Overseas prospects are better than for some time, with US output expected to grow strongly this year, and recovery spreading to the rest of the world.

The size and growth of the US budget deficit, and its effects pose risks for world economic progress. However, the Chancellor said that despite these risks there was a growing sense throughout the industrialised world that the recovery this time was one which could be sustained. The essential requirement was the continued pursuit of prudent monetary and fiscal policies.

The medium-term financial strategy

The Chancellor said in his statement that the MTFS would continue to be the cornerstone of monetary and fiscal policy. It provides a disciplined financial framework for the conduct of policy, and makes the Government's policy guidelines clear to industry and the financial markets. The aim is to keep monetary conditions consistent with a continuing downward trend in inflation. The MTFS figures are set out in tables 2 and 3.

Monetary policies

A continuing downward trend for monetary growth is projected over the next five years. The public sector borrowing requirement (PSBR) path takes account of important influences such as the pattern of revenues from North Sea oil and the level of sales of public assets in the privatisation programme and provides for a further reduction of public borrowing as a proportion of gross domestic product (GDP). Adjustments to the indicative figures may be needed as circumstances change, but as in the past these will not be allowed to affect the main thrust of the policy.

Table 2 shows the monetary growth ranges. Those for 1984-85 are targets, applying to the annual rate of growth over the period from mid-February 1984 to mid-April 1985. Targets for the later years will be fixed nearer the time. Sterling M3, which includes all UK residents' sterling deposits with the banks, and is regarded as a measure of liquidity, continues to be the range used for 'broad' money. MO (the monetary base), which consists of notes and coin together with the banks' holdings of cash and working balances of the Bank of England, and is regarded as a suitable measure of money used directly for transactions, will be the target aggregate for 'narrow' money. It replaces M1, which has become increasingly difficult to interpret owing to the growing proportion of interest-bearing accounts which it now contains.

Over the past two years, conditions have allowed a single range for broad and narrow money. In general, however, the narrow aggregates tend to move more slowly than the broad ones, and separate ranges are now considered more appropriate, especially as the period of the MTFS has been extended. Broad and narrow money will be of equal importance in the assessment of monetary conditions. The Government will also continue to pay attention to other measures of money as well as more general evidence of financial conditions, including the exchange rate. (Definitions of the various monetary aggregates appear on page 2 of the November 1983, and page 3 of the December 1983, issues of <u>Economic Progress Report</u>.)

In funding the borrowing requirement, National Savings will continue to be important. This year's target of £3 billion is likely to be reached. The target for next year will be held at £3 billion.

<u>Public sector borrowing</u>

Following the 1981 Budget the PSBR came down to about $3\frac{1}{2}$ per cent of GDP in 1981-82 - well below the $5\frac{1}{4}$ per cent average in the preceding two years. Since then it has fallen only slightly, and is estimated at £10 billion, $3\frac{1}{4}$ per cent, for 1983-84. This is about £$1\frac{3}{4}$ billion above what was intended at the time of the 1983 Budget, and would have been higher still had it not been for the measures taken to hold back the expenditure total in July 1983 (see <u>Economic Progress Report, August</u> 1983).

The Chancellor said it was necessary to secure a further marked fall in borrowing, so that interest rates could continue to decline as monetary growth slowed down. UK interest rates were influenced by US interest rates but this made it more, rather than less, necessary to curb domestic pressures and lessen the effect of high dollar interest rates. Last year's MTFS suggested a PSBR for 1984-85 of 2½ per cent of GDP, or about £8 billion. The Chancellor believed it would now be prudent to provide for a PSBR of 2¼ per cent of GDP, or £7¼ billion.

The Chancellor gave a warning in his Autumn Statement of 17 November 1983 (see Economic Progress Report, December 1983) that he might have to increase taxes slightly in this Budget, to secure a 1984-85 PSBR of £8 billion. The latest forecasts of more buoyant tax revenue in the coming year meant that he would now need no overall net increase in taxation. The measures announced in this Budget, which are broadly neutral in their effects on revenue in 1984-85, on the indexed base, will reduce tax next year by over £1.8 billion.

The MTFS suggests that there should be room to cut taxes in 1985-86 and later years of the MTFS period (see table 3), provided firm control of public spending is maintained. The actual scope for reductions will of course depend on the pace of improvement in economic performance over the period.

Prospects for public spending and taxation over the longer term

The Government published on Budget day a Green Paper on the prospects for public spending and taxation over the next ten years. This is a Government contribution to the current debate about the level of public expenditure in the long term and its effects on the burden of taxation. It does not attempt decisions, but sets out a framework for discussion based on reasonable assumptions about economic growth and the course of public borrowing. The figures in the paper underline the need to keep firm control of spending in order to bring the burden of tax back to tolerable levels.

The Chancellor said in his statement that for too long public spending had been growing faster than the economy as a whole. As a result the tax burden had steadily increased and income tax had extended lower and lower down the wage scale. The Green Paper concludes that to avoid past problems, it is necessary for spending to fit the financial resources available, not the other way round. The burden of taxation will be reduced by the 1990s to the levels of the early 1970s only if public spending is kept broadly stable in real terms.

See page for an account of the Green Paper.

Tax changes

The wide ranging tax changes announced by the Chancellor represent a major set of reforms leading to improved economic performance and a fairer, simpler tax system - affecting taxation of savings and investment, of business, and of personal income and spending. For details of the individual measures see the article beginning of page .

The tax changes the Chancellor is making are broadly neutral in revenue terms in 1984-85, when calculated from an indexed base, in which 1983-84 excise duty rates and the main personal income tax thresholds and allowances are increased in line with retail price inflation over the previous year (5.3 per cent). But because the economic effect of the changes builds up slowly, and the change in VAT on imports only affects revenue in the first year, in 1985-86 the increases will reduce taxation by well over £1¾ billion. Table 1 sets out the effects on revenue in 1984-85 and in a full year on both the indexed and non-indexed bases. There may be scope for further tax cuts in later Budgets, providing public expenditure can be held broadly flat in real terms (see table 3).

Savings and Investment

The Budget proposals in this context are aimed at improving the direction and quality of both savings and investment and increasing competition in the financial sector. The Chancellor said they would contribute further to the creation of a property-owning and share-owning democracy, in which more decisions are made by individuals than by institutions.

These measures include the withdrawal of life assurance premium relief, removing a bias towards investment via institutions rather than directly by individuals; the abolition of the investment income surcharge, removing another discrimination against individual savings and investment; the halving of stamp duty on house purchase and share transactions; the introduction of a composite rate for bank interest, providing more equal treatment of banks and building societies; and improvements in the tax treatment of share option schemes.

Income tax

On personal tax the Chancellor said that the right course for this coming year was ' to use every penny I have in hand, within the framework of a revenue-neutral Budget, to lift the level of the basic tax thresholds..... It makes very little sense to be collecting income tax from people who are at the same time receiving mean-tested benefits. Moreover low tax thresholds worsen the poverty and unemployment traps, so that there is little, if any, financial incentive to find a better job, or even any job at all.'

This is the third successive Budget making real increases in the basic personal income tax allownaces. In 1984-85 these will now be 16 per cent higher in real terms than they were in 1978-79. The real increases in 1982 to 1984 more than make up for the ground lost when there was no indexation in 1981.

Business taxation

The proposed changes in corporation tax constitute a major programme of reform, phased over a period of years, in which first year and initial capital allowances for plant and machinery and industrial building are to be abolished and corporation tax rates substantially reduced (to 35 per cent eventually for the main rate and 30 per cent with immediately effect for the small companies rate). Stock relief and the national insurance surcharge are also to be abolished.

The Budget measures directly affecting business will reduce its tax burden, taking 1984-85 and 1985-86 together, by about £900 million. In 1984-85, when the overall effect of the Budget is expected to be broadly revenue-neutral, business will pay up to £500 million more tax, compared with an indexed base. However, this will be outweighed in the succeeding year by a gain of about £1,400 million. The measures referred to here include the changes in corporation tax and the abolition of NIS, together with the North Sea tax changes, earlier payments of VAT on imports from next October and the halving of stamp duty.

The broad aim of the corporation tax measures is to reduce the tax bite on profits and reduce discrimination in the system between capital and labour, between different kinds of investment, and between borrowing and equity financing.

Reduction of the tax subsidy on certain types of capital investment is expected to stimulate more productive investment which will bring the economy a higher rate of return, and combined with the removal of NIS should encourage employment. Once the series of changes concerning corporation tax are fully implemented, British rates of capital allowances for most plant and machinery will be comparable with those in most other countries, while the rate of tax will be lower. Higher profits after tax will leave room for current expenditure on innovation in all its forms.

Stock relief was introduced as a rough and ready measure to counter the impact of high inflation. Its value and the need for it have declined with the fall in inflation. The effect of withdrawing it is more than offset by the other measure affecting business.

In the early years of transition, as the changes to business tax come into effect, there will be some losers among individual businesses though the majority will benefit. This is inevitable in any major measure of tax reform. But when the changes have fully worked through, companies will enjoy very substantial reductions in the tax they pay.

Table 1 - Direct effects of tax changes

£ million at current prices

	Effect in 1984-85		Effect in full year	
	Change from indexed base	Change from non-indexed base	Change from indexed base	Change from non-indexed base
Income tax allowances and threshold	-940	-1 820	-1 470	-2 610
Corporation tax rates, stock relief and capital allowances	-280	- 280	- 250	- 250
Other income tax and other direct taxes	+190	+ 175	+ 450	+ 395
Stamp Duty	-450	- 450	- 460	- 460
National Insurance Surcharge*	-335	- 335	- 865	- 865
Value Added Tax	+375	+ 375	+ 650	+ 650
Excise Duties	+200	+ 835	+ 215	860
VAT: withdrawal of postponed accounting arrangements	+1 200	+1 200	0	0
TOTAL	-40	- 300	-1 730	-2 280

* Figures exclude public sector payments of £120 million in 1984-85 and £485 million in a full year. Public expenditure will be reduced accordingly.

Notes

The figures in the Table are estimates of the direct effects of the measures on public sector transactions; they are not estimates of the net effects of all the changes in public sector transactions, both direct and indirect.

The direct effects of tax changes are generally estimated by applying the new and old tax rates and allowances to the taxable income and expenditure in the economic forecast (see p), in certain cases including estimates of the immediate effects of the change on taxpayers' behaviour. For instance the estimates of the Customs and Excise taxes allow for the changes in taxation resulting from both substitution by consumers between goods and the change in real incomes.

+/- indicates an increase/decrease in revenue.

TABLE ~~8~~ 2

MONETARY GROWTH RANGES

% change during year

	1984-85	1985-86	1986-87	1987-88	1988-89
Narrow money - M0(1)	4-8	3-7	2-6	1-5	0-4
Broad money - £M3(2)	6-10	5-9	4-8	3-7	2-6

(1) Weekly averages

(2) Now excluding public sector deposits

Table 3 Public Sector Borrowing~~(1)~~

£ billion, cash

	1982–83	1983–84	1984–85	1985–86	1986–87	1987–88	1988–89
General government expenditure	132·4	139	146	152	157½	161½	166
General government receipts	122·1	128½	138½	146½	156½	164½	172
Fiscal adjustments from previous years~~(2)~~*	—	—	—	—	2	6½	10
Annual fiscal adjustment~~(2)~~*	—	—	—	2	4½	3½	3½
GGBR	10·3	10½	8	7½	8	7	7
Public corporations market and overseas borrowing	−1·1	−½	−½	−½	−1	—	—
PSBR~~(3)~~+	**9·2**	**10**	**7**	**7**	**7**	**7**	**7**
as % of GDP	3·3	3¼	2¼	2	2	1¾	1¾
Money GDP at market prices~~(4)~~‡	281	304	328	350	371	392	412

~~(1) Further details for 1983–84 and 1984–85 are provided in Table 6.5.~~

* ~~(2)~~ Means lower taxes or higher expenditure than assumed in lines 1 and 2.

+ ~~(3)~~ From 1984–85 onwards, the definition of the PSBR and its components exclude changes in public sector deposits and certain other short-term assets of a similar nature.

‡ ~~(4)~~ Average measure.

Constituent items may not sum to totals due to rounding to nearest £½ billion.

THE BUDGET MEASURES

This article describes the Budget measures in more detail. The main proposed tax changes and their forecast revenue effects are set out in table 5 on page . Forecasts of public sector receipts, expenditure and borrowing for 1984-85, and estimates for the current year are in table 6 on page . All changes are subject to Parliamentary approval.

....

A series of radical tax reform measures are introduced in the Budget. Substantial changes are made in the areas of both business taxation (see Box on page) and the taxation of savings and investment (see Box on page). In addition there are large increases in the main income tax allowances. The aim of these changes is to improve overall economic performanc while at the same time making life simpler for the taxpayer.

The reforms particularly those on business taxation are designed to take effect over a number of years. They will significantly reduce the overall burden of tax. The medium term financial strategy indicates that there should also be scope for further reductions in tax in subsequent Budgets if firm control of public expenditure is reinforced.

Personal Taxes

Income tax relief is concentrated on the raising of thresholds. The main personal allowances - married and single - will be increased by about 12½ per cent, more than double the statutory indexation requirement of 5.3 per cent (the increase in the RPI between 1982 and December 1983). The single person's allowance will be increased by £220 from £1,785 to £2,005 and the married allowance by £360 from £2,795 to £3,155.

This is the third successive year in which there has been a real increase in basic personal allowances. A further step has thus been taken toward the long term objective of raising tax thresholds to more sensible levels. As a result work incentives will be improved and the poverty and unemployment traps will be reduced. Altogether more than 850,000 fewer people will pay tax in 1984-85 than if thresholds had remained at present levels. Weekly tax reductions for a basic rate taxpayer will be £2.08 a week for a married person (new threshold of £60.47) and £1.27 for a single person (new threshold of £38.56).

Other allowances and thresholds are increased in line with the statutory 5.3 per cent requirement. The single age allowances will rise from £2,360 to £2,490 and the married age allowances from £3,755 to £3,955. The first higher rate threshold of 40 per cent will apply when income reaches £15,401 a year and the top rate of 60 per cent to taxable income of over £38,100.

The changes will be seen in pay packets on the first pay day after 10 May.

Table 1 shows the proposed increases for 1984-85 compared with 1983-84 in personal allowances, the age allowances, and the additional personal allowance. The increases in tax thresholds and bands for 1984-85 compared with 1983-84 are shown in Table 2.

Other personal tax changes:

*Company car and car fuel benefits - scales which determine the cash equivalent of these benefits will be increased by 10 per cent for 1985-86.

*Foreign earnings relief - those working abroad will have the tax free portion of their salaries and profits reduced from 25 per cent to 12½ per cent in 1984-85 and thereafter the concession will be withdrawn.

The 50 per cent relief, reducing to 25 per cent after nine years, for foreign employees working for foreign employers in this country will be removed for all newcomers. For existing claimants the 25 per cent relief will be withdrawn from 6 April and the 50 per cent relief phased out over the five years to 5 April 1989.

*Capital Gains Tax - The exempt amount is increased in line with statutory indexation from £5,300 to £5,600. The limit for retirement relief is doubled £100,000 backdated to April 1983.

Social Security

Following legislation last year to return to the historic method of uprating benefits by reference to the Retail Price Index of the previous May there is no announcement of new rates in the Budget. The Secretary of State for Health and Social Security will announce new rates of social security benefits in June.

VAT

There is no increase in the 15 per cent VAT rate but the base of the tax will be broadened to raise extra revenue to help ease the direct tax burden. Two areas that have previously been zero-rates will now have VAT charged on them.

*Alterations to existing buildings and civil engineering works - To allow reasonable time for existing commitments to be completed this change will be deferred until 1 June. It will also apply to buildings such as garden sheds and garages. It will not apply to new buildings generally.

*Hot Take-Away Food and Drink - This brings take-away food in line with restaurant food and a range of other items such as ice cream and soft drinks, with which it competes.

The payment of VAT on imports is brought into line with the system generally used by our main competitors in the European Community. VAT will now be payable either at the ports or on the same deferred basis as customs payments within about a month of importation. This will come into force from 1 October. At present VAT is only payable on sale, giving importers on average three months free credit at the taxpayer's expense whereas purchasers from domestic suppliers have to finance VAT themselves. This has put UK industry at a competitive disadvantage to our European partners but it will now be able to trade on an equal footing. The UK system does have advantages and the EEC Commission has proposed that it be adopted by the Community. If this is agreed the UK will be prepared to revert to the original method of collection of VAT on imports.

Alcohol and Tobacco

Following a European Court of Justice ruling, the Government has altered the balance of taxation between beer and wine. The adjustment made is the minimum needed to comply with the judgment and maintain revenue. This will mean a 2p increase on a pint of beer and an 18p reduction on a bottle of wine. Cider, which competes with beer but attracts a lower duty, will go up by 3p a pint. Spirits, sherry and port and sparkling wine will rise by about 10p a bottle.

In order to raise revenue and in the light of representations made to the Chancellor on health grounds tobacco duty increases will put 10p on a packet of twenty cigarettes with similar increases for cigars and hand rolling tobacco. The duty on pipe tobacco is not increased. Table 4 sets out the changes in excise duties. Overall these changes will produce about the same extra revenue as raising duties in line with prices.

Petrol and Derv

Taxes on petrol and derv will increase pump prices by 4½p and 3½p respectively. Duty on Kerosene, used by many pensioners in paraffin stoves and in domestic central heating, is abolished.

Vehicle Excise Duty

Vehicle excise duty on cars and light vehicles is raised by £5 to £90. Duty will be decreased by 9-13 per cent for the lightest lorries. There will be no duty increases for 12-13 tonne lorries and 7 to 9 per cent increase for heavier lorries.

BUSINESS TAXATION

A major reform of the structure of company taxation has been undertaken. As a result over the next two years there will be a significant reduction in the burden of taxation borne by industry. Corporation tax will be substantially reduced overall while at the same time many reliefs and allowances are being phased out.

Corporation tax will be reduced on a phased annual basis starting with a 2 per cent cut in the main rate from 52 per cent to 50 per cent for profits earned in 1983-84. The rate will be cut further to 45 per cent for 1984-85 profits, to 40 per cent for 1985-86 profits, and for profits earned in 1986-87, 35 per cent. All these changes will be included in this year's Finance Bill.

The great majority of companies do not pay the main corporation tax rate but the small companies rate. This rate is reduced from 38 per cent to 30 per cent for profits earned in 1983-84 and after.

Current rates of corporation tax are seen as too high, penalising profit and success and blunting enterprise. The substantial cuts in this tax are aimed at improving efficiency and the fixing of rates for the years ahead will aid future business planning.

Special reliefs will be phased out. Many of the reliefs reflect economic circumstances which have long vanished and simply distort investment decisions and financial choices. With inflation down to 5 per cent and set to go lower the time is clearly right to review reliefs.

Stock relief will be abolished for accounting periods starting on or after 13 March 1984. The relief was introduced to help businesses cope with high inflation which they no longer face.

Tax incentives for investment have encouraged projects with low or even negative pre-tax profitability. The quality of investment has suffered. Uneconomic investment has been supported at the expense of jobs.

These incentives for plant and machinery and industrial building will be reduced in three annual stages. After 13 March 1984 the first year allowances for plant and machinery will be reduced from 100 per cent to 75 per cent, to 50 per cent after 31 March 1985, and after 31 March 1986 there will be no first year allowance and all expenditure on plant and machinery will qualify for annual allowances on a 25 per cent reducing balance basis. For industrial buildings, initial allowances will fall from 75 per cent to 50 per cent from 13 March 1984, be reduced to 25 per cent from 31 March 1985 and after 31 March 1986 the initial allowance will be abolished and expenditure written off on an annual 4 per cent straight line basis. These changes in the rates of allowances will not apply to payments under binding contracts entered into on or before 13 March 1984 provided that the expenditure is incurred within the next three years.

The above measures should in the short-term bring some investment forward over the next two years to take advantage of the benefit of higher capital allowances. The underlying effect, however, will be to encourage genuinely profitable ventures and discourage uneconomic investment.

Other business measures

*National Insurance Surcharge - will be abolished as from 1 October 1984. This will save private sector employers almost £350 million in 1984-85 and getting on for £1 billion in 1985-86.

*VAT registration threshold for small business is increased from £18,000 to £18,700.

Business Expansion Scheme (introduced in 1983 Budget) is designed to encourage equity investment in new or expanding high risk companies. Companies which own farm land clearly do not fall into this category. In future, such companies will not therefore be eligible.

*Corporate borrowing - The new arrangements for deep discount stock and the reliefs for companies issuing eurobonds and convertible loan stock which were announced but not enacted last year, are going ahead. Most corporate loan stock held for more than one year will be exempt from capital gains tax. This will make the tax treatment of private sector borrowing in the corporation finance market virtually the same as for government borrowing in the gilt edged market.

*North Sea Oil Tax

The main business tax changes reduce the marginal rate of tax on existing North Sea fields from 89.5 per cent to 85.8 per cent. The tax position of additional investments in existing fields will be reviewed with any resulting changes backdated to Budget Day. Two measures are being taken to prevent unjustified loss of tax in the North Sea. The petroleum revenue tax (PRT) and corporation tax cost of farmouts will be curtailed. And the provision allowing Advance Corporation Tax to be repaid where corporation tax is reduced by PRT will be abolished.

SAVING AND INVESTMENT

Changes in the taxation of personal savings and investment simplify the existing tax regime and encourage property and share ownership.

Stamp Duty is halved from 2 per cent to 1 per cent in respect of both land and buildings and share transactions. The threshold at which duty is paid on house sales is raised from £25,000 to £30,000.

The cut in the cost of buying shares will encourage share ownership, reduce the cost of raising new equity finance and help to maintain the international competitiveness of the UK stock market.

The reduction in the cost of home buying will make it easier for people to move house to new jobs. Raising the threshold will mean 90 per cent of first time buyers will not now be liable for stamp duty.

Investment income surcharge - is abolished. This removes an element of discrimination against direct savings and investment which bore particularly heavily on pensioners. In most cases it was a tax on savings which had been made out of hard earned and fully taxed income.

Life assurance premium relief - is abolished.

This relief only favours institutional rather than direct investment and encourages a multiplicity of tax management schemes. Greater freedom of choice will now be given to investors by removing a financial distortion in favour of life policies. Existing policy holders will not be affected at all. The change will only apply to new or newly enhanced policies.

A composite rate for bank interest is introduced. This allows the banks to tax at a special rate to the Inland Revenue and allows the depositors to recieve credit for income tax paid at the full basic rate. The Change will simplify the position of most taxpayers since tax liability is accounted for at source. It brings the tax treatment of bank and building societies closer together and allows them to compete on more equal terms in the market for personal deposits. It will enable the Inland Revenue to make staff savings of up to 1,000 civil Servants.

Under the composite rate scheme tax is not reclaimable by non-taxpayers but they will be able to continue to receive interest gross should they so wish to by putting money into National Savings.

Higher rate tax payers will still be liable for the higher rates although their basic rate liability will be met under the composite rate. The scheme does not apply to non-residents, nor to corporate or other non - individual depositors.

<u>Share options</u> - share options generally will, subject to certain conditions, be taken out of income tax, leaving any gain to be charged to capital gains tax when the shares are disposed of. This will apply to options granted from 6 April. The monthly limit on contributions to savings related share option schemes is increased from £50 to £100. Tax free limits under the concession on long service awards will be doubled, and extended to cover the gift of shares.

<u>Capital Transfer Tax</u> - the highest rate of 75 per cent is reduced to 60 per cent and the rate for lifetime gifts lowered across the whole scale to half the rate for deaths. This will be of particular help to those running family businesses not quoted on the Stock Exchange. Details of the new rates are shown in Table 3.

*<u>Development Land Tax</u> - threshold is increased by £25,000 from £50,000 to £75,000. This will reduce the numbers affected by the tax bymore than one third.

TABLE 1

Allowances

	84–85	83–84	Increase over 83–84		Increase over indexation
	£	£	£	%	£
Married man's	3155	2795	360	12.9	210
Single (& wife's earned income)	2005	1785	220	12.3	120
Additional personal and widow's bereavement	1150	1010	140	13.9	90
Age married man's	3955	3755	200	5.3	-
Age single	2490	2360	130	5.5	-
Age income limit	8100	7600	500	6.6	-

Higher rate thresholds and bands TABLE 2

Band	84–85	83–84	Increase in threshold	
%	£	£	£	%
40	15401–18200	14601–17200	800	5.5
45	18201–23100	17201–21800	1000	5.8
50	23101–30600	21801–28900	1300	6.0
55	30601–38100	28901–36000	1700	5.9
60	over 38100	over 36000	2100	5.8

TABLE 3

CAPITAL TRANSFER TAX — NEW SCHEDULES

Band of chargeable value £'000	Rate on death per cent	Lifetime rate per cent
0 – 64	Nil	Nil
64 – 85	30	15
85 – 116	35	17½
116 – 148	40	20
148 – 185	45	22½
185 – 232	50	25
232 – 285	55	27½
over 285	60	30

TABLE 4

Table 4 Approximate direct effect of changes in Duty Rates on certain product prices

(All except VED inclusive of 15 per cent VAT)

Spirits duty	+10p on a bottle of whisky
Beer duty	+2p on a pint of beer of average strength
Wine duty	−18p on a bottle of table wine
Fortified wine duty	+10p on a bottle of sherry
Cider duty	+3p on a pint of cider
Petrol duty	+4½p on a gallon of petrol
Derv duty	+3½p on a gallon of derv
Tobacco duty	+10p on a packet of 20 cigarettes
Vehicle excise duty	+£5 on a car licence

Table ~~12~~ Direct effects ~~(a)~~ of changes in taxation

5

£ million

	Forecast for 1984–85	Forecast for a full year (a)
INLAND REVENUE		
Income tax		
Increase in single allowance of £220 and married allowance of £360	−1 615 (b)	−1 990 (b)
Increase in additional personal allowance and widow's bereavement allowance of £140	−20 (b)	−20 (b)
Increase in age allowance of £130 (single) and £200 (married) and income limit of £500	−80 (b)	−100 (b)
Increase in basic rate limit of £800 to £15,400	−45 (b)	−75 (b)
Increase in further higher rate thresholds	−35 (b)	−65 (b)
Abolition of investment income surcharge	−25 (b)	−360 (b)
Abolition of life assurance premium relief for new policies	+90	+180 (c)
Fringe benefits—car and car fuel scales	Nil	+35 (d)
Withdrawal of relief from foreign earnings	+15	+60 (e)
Withdrawal of relief from foreign emoluments	+7	+15 (f)
~~Composite rate scheme for bank interest~~	~~Nil~~	~~(g)~~
~~Increase in limit on contributions to savings-related share option schemes~~	~~Nil~~	~~(h)~~
Extension of instalment period for unapproved share options granted before 6 April 1984	Negligible	−5
~~Exclusion of farming from the "Business Expansion Scheme"~~	~~Negligible~~	~~Negligible~~
~~Minor life assurance changes~~	~~Negligible~~	~~Negligible~~
~~Application of mortgage interest relief limit—bridging loans~~	~~Negligible~~	~~Negligible~~
~~Employee secondments to charities~~	~~Negligible~~	~~Negligible~~
~~Expenses of Members of Parliament~~	~~Negligible~~	~~Negligible~~
*Extension of mortgage interest relief to certain borrowers	−6 (i)	−5
~~*Limit for assessment of apportioned income~~	~~Negligible~~	~~Negligible~~
*Capital and income bonds	Nil	Nil
*Offshore life assurance	Nil	Nil
*Relaxation of interest relief for employee buy-outs	−1 (i)	−2
~~*Fringe benefits—scholarships~~	~~Negligible~~	~~Negligible~~
Income tax and corporation tax		
Abolition of stock relief	Nil	+900(j)
Reduction in rate of first year allowance for machinery and plant	Nil (k)	+375(j) (k)
Reduction in rate of initial allowance for industrial buildings and assured tenancies	Nil (k)	+15(j) (k)
Further reductions in rates of first year and initial allowances	Nil	(l)
Northern Ireland corporation tax relief grant and other grants	Negligible	−2
Application of Schedule B	Negligible	−2
~~Limits relating to friendly society life assurance~~	~~Negligible~~	~~Negligible~~
*Extension of stock relief for housebuilders for 1983–84	Negligible	−1
*Payment of Eurobond interest without deduction of tax	Negligible	−2
*Offshore and overseas funds	Negligible	+60 (m)
~~*Allowances for cars leased to recipients of mobility supplements~~	~~Negligible~~	~~Negligible~~
Income tax, corporation tax and capital gains tax		
Relief for housing associations in Northern Ireland	Negligible	Negligible
*Reliefs for furnished holiday lettings	−2	−5
*Deep discount securities	Negligible	−15 (n)
Income tax and capital gains tax		
Changes in employee share option reliefs	Nil	(o)
Corporation tax		
Reduction in main rate for financial year 1983	−190	−330 (p)
Reduction in main rate for financial year 1984	Nil	−1050 (p)
Reduction in main rate for financial years 1985 and 1986	Nil	(l)
Reduction in "small companies" rate	−90	−160
Extension of carry back period for advance corporation tax	−1	−30 (q)
Extension of consortium relief	Negligible	−10 (r)
*Treatment of TSB's as bodies corporate	Nil	−5
*Relief for discounts etc on bills of exchange	Negligible (i)	−1
~~*Incidental costs of obtaining loan finance~~	~~Negligible~~	~~Negligible~~
*Change in arrangements for setting off advance corporation tax and double taxation relief	Negligible	−5
*Provision against avoidance through group etc relief	Negligible	+10 (r)
*Charge to tax in respect of controlled foreign companies	Nil	+25 (s)
Corporation tax and capital gains tax		
~~Exemption of certain corporate fixed interest stock~~	~~Negligible~~	~~Negligible~~
Oil taxation		
Abolition of ACT repayments	+100	+150 (t)
New rules for farm-outs and minor changes	Nil	+35 (u)

~~Table 4.2 Direct effects (a) of changes in taxation (continued)~~

£ million

	Forecast for 1984–85	Forecast for a full year (a)
INLAND REVENUE *(continued)*		
Capital gains tax		
Indexation of annual exempt amount	Nil (b)	−15 (b)(v)
~~Abolition of roll-over relief for maintenance funds~~	~~Negligible~~	~~Negligible~~
*Increase in limit for retirement relief	−4	−10
*Increase in other monetary limits	Negligible	−1
~~*Relief for transactions through overseas bank accounts~~	~~Negligible~~	~~Negligible~~
*Deferment of payment of tax assessed on beneficiaries of non-resident trusts	−3	Negligible (w)
~~*Other changes~~	~~Negligible~~	~~Negligible~~
Development land tax		
Increase in annual exempt amount	−1	−9 (x)
Deferment of the charge on deemed disposals	−1	−4
~~Relief for housing associations etc~~	~~Negligible~~	~~Negligible~~
~~*Extension of instalment period~~	~~Negligible~~	~~Negligible~~
*Disposals by non-residents	+2	+2
Capital transfer tax		
Increase in thresholds and changes in bands	−19 (b)	−49 (b)
~~Other changes~~	~~Negligible~~	~~Negligible~~
Stamp duties		
Reduction in rates and increase in threshold	−450 (y)	−460 (y)
~~Sales of houses at a discount~~	~~Negligible~~	~~Negligible~~
TOTAL INLAND REVENUE	−2 375 (z)	−2 925 (z)
CUSTOMS AND EXCISE		
Value added tax		
Increase in registration limits	Negligible	Negligible
Withdrawal of certain zero-rates	+375	+650 (aa)
Withdrawal of postponed accounting for imports	+1 200	Nil (bb)
Excise duties		
Increases in rates of duty on light oil, etc.	+225	+225
Increase in rate of duty on heavy oil for use in road vehicles	+45	+45
Removal of duty on kerosene	−5	−5
Increases in rates of tobacco products duties	+330	+340
Increase in rate of spirits duty	+10	+10
Increases in rates of beer duties	+175	+180
Changes in rates of wine and made-wine duties	−60	−60
Increase in rate of duty on cider and perry	+15	+15
Changes in gaming licence and *gaming machine licence duties	−5	+5
TOTAL CUSTOMS AND EXCISE	+2 305	+1 405
Vehicle excise duty		
Changes in rates of duty	+110	+110
National insurance surcharge		
Abolition	−335 (cc)	−865 (cc)
Other		
Bus fuel grants	−5 (dd)	−5 (dd)
TOTAL CHANGES IN TAXATION	−300 (z)	−2 280 (z)

~~Table 4.2 Direct effects (a) of changes in taxation (*continued*)~~

* Items so marked were announced before Budget Day (see paragraph 4.01).

(*a*) The direct effects of tax changes are generally estimated by applying the new and old tax rates and allowances to the taxable income and expenditure expected in the economic forecast in Part 3, in certain cases including estimates of the immediate effects of the changes on taxpayers' behaviour. For example, the estimates for Customs and Excise duties allow for the effects of relative price changes on the composition of consumers' expenditure; those for taxes on profits now allow for changes in investment behaviour following from the changes in capital allowances and stock relief; and those for stamp duties now allow for changes in the volume of transactions following from changes in rates. ~~For the meaning of a full year see the note on page 9 of the Financial Statement and Budget Report 1981–82. A fuller description of the estimation of the direct effects of expenditure tax changes is provided in an article in Economic Trends, March 1980.~~

(*b*) *Taxes subject to statutory indexation.* ~~The table below shows the direct revenue effects of indexing the income tax main allowances and thresholds, the capital gains tax exempt~~ amount and the capital transfer tax threshold and bands by reference to the increase in the general index of retail prices between December 1982 and December 1983 (5·3 per cent), rounded in accordance with the statutory provisions, together with the costs of the proposed changes on top of indexation:

Direct Revenue Effects				(£ million)
	Indexation		Proposed changes on top of indexation	
	1984–85	Full Year	1984–85	Full Year
Income tax				
Main allowances	−800	−980	−915	−1 130
Basic rate limit	−45	−75	0	0
Further higher rate thresholds	−35	−65	0	0
Investment income surcharge	Negligible	−20	−25	−340
Total income tax	**−880**	**−1 140**	**−940**	**−1 470**
Capital gains tax				
Exempt amount	Nil	−15	Nil	Nil
Capital transfer tax				
Thresholds and bands	−16	−40	−3	−9

(*c*) The full year yield is the amount of relief which would have been due on a full year's premiums for policies commencing in 1984–85. The eventual effect will be substantial (the cost of premium relief in 1983–84 was £700 million).

(*d*) Effective from 1985–86; the yield in 1985–86 will be £30 million.

(*e*) Withdrawal of the relief will be fully effective from 1985–86; the yield in 1985–86 will be some £55 million.

(*f*) Withdrawal of the relief will be completed by 1989–90; the eventual yield will be some £100 million.

(*g*) ~~The composite rate scheme is designed to collect tax, which, taking one year with another, is equivalent to the normal basic rate tax liability~~ of all depositors concerned. Deduction at source will however ensure that the full amount of tax due is collected, ~~including~~ tax which for one reason or another is not collected under present arrangements. ~~This should mean some additional~~ Exchequer yield, although this cannot be quantified. ~~On the other hand,~~ in 1985–86 there is the possibility of transitional net cash flow loss to the ~~Exchequer mainly because banks will be able to get earlier set off of tax deducted from interest they receive.~~

(*h*) Costs will not arise until 1989–90. The yield from taxation of gains arising in respect of rates of contribution in 1984–85 above the previous limit might approach £5 million.

(*i*) Includes some delayed costs for 1983–84.

(*j*) Represents the difference, at the pre-Budget rates of corporation tax, between the effect of the relief or allowance on tax liability in 1984–85 before the change (that is, at the levels of stocks and fixed capital formation expected before the change) and the effects on tax liability after the change (that is, at the levels of stocks and fixed capital formation expected as a result of the change).

(*k*) Effect after taking into account the abolition of stock relief.

(*l*) The changes in tax liabilities in later years resulting from the proposed further reductions in the main rate of corporation tax will be affected by the proposed further reductions in capital allowances. The precise net effects of the combined changes will depend on the levels of profits and investment at the time.

(*m*) Based on the estimated holdings by United Kingdom taxpayers in the funds in September 1983.

(*n*) Effect on tax liabilities for 1984–85; over a period of years there will be some deferment of tax liabilities. This estimate is highly uncertain.

(*o*) Highly uncertain, since revenue effects depend upon exercise of options and their value. The cost in respect of 1989–90 (the first year in which qualifying options granted in 1984–85 could be exercised) might be some £35 million.

(*p*) Represents the difference between tax at the pre-Budget rates for financial year 1982 (52 per cent and 38 per cent) and tax at the rates proposed on the chargeable profits now expected in 1984–85. The amounts covered by this footnote and footnote (*j*) above broadly represent, in total, the difference between the tax liabilities in respect of 1984–85 (in both cases including the second-round effects on the level of profits) expected before and after the changes in rates of corporation tax, stock relief and capital allowances.

~~Table 4.2 Direct effects of changes in taxation~~ *(continued)*

(*q*) Tax liabilities for accounting periods ending in 1978–79 and later will be reduced. The cost in 1985–86 is tentatively estimated at £30 million, and there will be some continuing costs thereafter.

(*r*) These estimates are highly uncertain.

(*s*) The yield will be some £25 million in 1985–86, building up to £100 million in later years.

(*t*) This figure is very uncertain as it depends on companies' future distribution policy.

(*u*) This figure is very uncertain, as it will depend on the level of future farm-outs. Protection against a possible substantial loss of PRT through acceleration of reliefs for past expenditure was also announced on 13 September 1983.

(*v*) The cost in 1985–86 will be £5 million.

(*w*) Payment of some £35 million due in 1983–84 will now be deferred.

(*x*) The cost in 1985–86 will be £4 million.

(*y*) The estimated duty on additional transactions expected to follow from the reduction of the rate is taken into account. It is subject to a wide margin of error.

(*z*) Components will not necessarily sum to the totals because of rounding. In the full year, no figures are included for the changes covered by footnotes (*g*), (*h*), (*l*) and (*o*) above.

(*aa*) The yield from withdrawing the zero rate from hot food and drink is £125 million in 1984–85 and £200 million in a full year; the yield from withdrawing the zero rate from building alterations is £250 million in 1984–85 and £450 million in a full year.

(*bb*) There will be a continuing reduction of Government debt interest.

(*cc*) Figures exclude public sector payments of £120 million in 1984–85 and £485 million in a full year. Public expenditure will be reduced accordingly. See Table 5.1.

(*dd*) Bus fuel grants are included in the figures for excise duties in Part 1.

Table [redacted] Public expenditure, receipts and the PSBR

6

£ billion

	1983–84 Budget forecast	1983–84 Latest estimate	1984–85 Forecast
Receipts(1)			
Central government taxation			
Income tax	31·4	31·3	33·8
Value added tax	15·5	15·3	18·0
Corporation tax	6·2	6·0	8·4
Oil duties	5·7	5·6	6·1
Petroleum revenue tax	5·2	6·1	6·0
Spirits, beer, wine, cider and perry	3·9	3·9	4·0
Tobacco	3·7	3·8	4·1
Vehicle excise duty	1·9	2·0	2·1
National insurance surcharge	1·7	1·7	0·9
Taxes on capital	1·5	1·6	1·7
European Community duties	1·4	1·3	1·4
Other (including accruals adjustments)	3·3	3·9	2·9
Total(2)	81·5	82·5	89·4
National insurance, etc. contributions	21·2	21·4	23·0
Local authorities rates	13·0	12·1	12·9
North Sea oil royalties, etc.	1·6	1·9	2·0
General government trading surplus and rent	3·3	3·1	3·0
General government interest and dividend receipts	2·3	2·2	2·4
Adjustments			
Accruals	—	−0·2	0·6
Public corporations transactions(3)	3·4	3·7	3·5
Other(4)	−0·5	−0·8	−1·8
Total receipts	**125·9**	**126·1**	**135·1**
Public sector borrowing requirement	8·2	10·0	7·2
Total receipts and borrowing	**134·1**	**136·0**	**142·3**

	1983–84 Budget forecast	1983–84 Latest estimate	1984–85 Forecast
Expenditure			
Social security	34·6	35·3	37·2
Defence	16·0	15·7	17·0
Health and personal social services	14·6	14·7	15·4
Education and science	12·6	13·4	13·1
Scotland	6·7	6·8	6·9
Industry, energy, trade and employment	6·2	6·1	5·6
Law, order and protective services	4·6	4·7	4·9
Transport	4·4	4·6	4·4
Northern Ireland	3·8	3·8	4·0
Other environmental services	3·5	3·8	3·5
Housing	2·8	2·8	2·5
Wales	2·5	2·6	2·6
Overseas services	2·0	2·3	2·3
Agriculture, fisheries, food and forestry	1·8	2·1	2·0
Other public services	1·7	1·7	1·8
Common services	1·0	1·0	1·1
Arts and libraries	0·6	0·6	0·6
Local authority current expenditure not allocated to programmes (England)	0·9	—	0·7
Adjustments			
Special sales of assets	−0·8	−1·2	−1·9
Reserve	1·1	0·1	2·8(5)
General allowance for shortfall	−1·2	−0·3	—
Planning total in Cmnd 9143(6)	**119·3**	**120·3**	**126·4**
Revisions since Cmnd 9143	—	—	−0·1(7)
Revised planning total	**119·3**	**120·3**	**126·2**
Gross debt interest	14·8	15·7	16·0
Planning total plus gross debt interest	**134·1**	**136·0**	**142·3**

(1) See Table 6.8 for taxation and Table 6.5 for other items.

(2) Total taxes on income, expenditure and capital on a national income accounts basis as in lines 1, 2 and 9 of Table 6.5.

(3) Comprises total interest payments by nationalised industries (and other public corporations treated similarly for public expenditure planning) and the trading income of the remaining corporations.

(4) Comprises other miscellaneous receipts and adjustments from the definition of public expenditure used in the national income accounts to that used in Cmnd. 9143.

(5) See Table 5.2.

(6) Figures in the first column are from Table 5.5 in the *Financial Statement and Budget Report 1983–84* translated from Cmnd. 8789 to Cmnd. 9143 definitions.

(7) See Table 5.1.

EPR DRAFT

Taxation and public spending: looking ahead

The Government believe that public debate on the future of public spending and taxation is of the first importance.

A Green Paper, "The Next Ten Years: Public Expenditure and Taxation into the 1990s" was published on Budget Day as a contribution to that debate.

It argues that powerful forces were at work driving public expenditure upwards over the last 20 years; and that this rise has necessarily led to a corresponding rise in taxation. The Government believe that it is necessary to reverse this
and should
process, to decide first what can/be afforded, then to set expenditure plans for individual programmes consistently with that decision.

The Green Paper supplements both the 1984 Public Expenditure White Paper (Cmnd 9143) and the 1984-85 MTFS (see page 0), but looks further ahead - over the next ten years.

The past

Over the last 20 years public spending has grown, after allowing for inflation, by an average of 3 per cent a year, while real GDP grew by 2 per cent a year - a 90 per cent rise in real spending, but one of only 50 per cent in real GDP.

Rising expectations about the help the Government should give to the less well-off were one force behind this. Another was the hope that a stimulus to demand would encourage economic growth and jobs.

"At the same time there has all too often been over-optimism about the prospective growth in total national output."

The inflation and recession brought by the oil shocks of the 1970s themselves led to higher expenditure; while, at the same time, "rising expectations of public services continued unabated, notwithstanding the greatly increased difficulty of financing higher spending."

The rise in public spending over the past 20 years has necessarily led to a corresponding rise in the taxes needed to pay for it.

Taxes and rates plus national insurance contributions were some 29 per cent of GDP in 1963-64. They rose to over 37 per cent by the end of the 1960s.

The proportion fluctuated during the 1970s but the total tax burden on the economy, excluding North Sea output and revenues, has risen further since 1978-79 from 34½ per cent to an estimated 38 per cent in 1984-85.

One important result of these trends has been that more people on low incomes are now paying tax. The tax threshold for a married man fell from 45 per cent of average earnings in 1963-64 to about 33 per cent in 1983-84.

The low starting-point for tax means not only that large numbers of low-paid people have been brought into tax for the first time, but also that the average rate of tax paid by those above the threshold, who may be on average earnings or less, has increased.

A married man, without children, on average earnings, paid about 13 per cent of his income in income tax in 1963-64. He pays 20 per cent today.

A further result is that increasing numbers of people on low incomes have become subject to tax and entitled to means-tested benefits at the same time. If their incomes rise they suffer both an increase in tax and a withdrawal of benefits (the poverty trap), so that their marginal rate of tax can be higher than if they had an income of £50,000 a year. For some people, income in unemployment has become a high proportion of, and can even exceed, net income in work (the unemployment trap).

The Future

The plans in the public expenditure White Paper published in February (Cmnd 9143) show the level of total public spending over the next three years. Given the likely prospects for inflation, the Government expect the total level to remain broadly constant in real terms up to 1986-87. And the MTFS assumes a further two years of a total constant in real terms up to 1988-89, although decisions for those two years have yet to be taken.

The Green Paper next discusses the likely pressures for higher spending in such areas as social security, defence, health and education beyond 1988-89. One notable pressure is that of population changes (demography), especially the likely numbers of the very elderly - the number of people over 75 is expected to increase from 3.3 million in 1981 to 3.9 million in 1991.

A key passage makes the Government's view clear on how decisions should be taken:

"There will be some who will argue that it makes little sense to consider, still less to decide upon, public spending totals without a clear idea of the implications for individual programmes.

"The Government believe that such thinking has been largely responsible for the upward drift of public expenditure over many years. It is necessary to turn the argument round the other way, to decide first what can and should be afforded, then to set expenditure plans for individual programmes consistently with that decision.

"This Green Paper is primarily concerned with this major issue. It does not, accordingly, attempt to make detailed projections of individual expenditure programmes so far ahead in the future. But it is possible now to discern some of the pressures for still higher public spending.

"It is in the nature of the public services that demands are literally limitless, because they are not restrained by the price mechanism which forces those making demands to balance them against costs."

"Wherever it is possible and sensible to do so, the Government are seeking to transfer the provision of services into the market sector."

"In other areas it may be possible to use charges as a more direct way of testing demand, even within the public sector."

There may, too, be a case for 'hypothecating' (or 'earmarking') revenues to individual expenditure programmes, particularly in the social field, in order to bring home the costs. "But over a wide range of services the only means of controlling the cost is for the Government to limit the supply."

Where the Green Paper does make projections is on the possible consequences for the tax burden (excluding the effects of North Sea output on both GDP and revenue) of different future levels of public expenditure.

Illustrations

Among illustrations of effects on the basic burden are these:

If the public expenditure planning total is held flat in real terms and GDP grows by an average 2¼ per cent a year as assumed in the MTFS (see page 0), the burden of tax in 1988-89 will be lighter than in 1983-84, but still slightly heavier than in 1978-79.

Any further reduction in tax burden after that will depend on what happens to public spending.

If the planned total is not allowed to grow at all, the tax burden should be down to 31½ per cent by 1993-94, given GDP growth of 2 per cent a year after 1988-89.

If an extreme assumption is made that the whole benefit of this reduction in tax burden were passed on in higher personal income tax allowances, then someone on average earnings would pay 13 per cent of his pay in tax instead of the present 20 per cent.

If, on the other hand, public spending were to grow by an average 1 per cent a year for the five years and GDP grew by 1½ per cent a year, the tax burden would come down only to 34 per cent of GDP, much the same as in 1978-79.

Conclusion

It is difficult to escape the conclusion, the Green Paper says, "that there is an inbuilt tendency for spending to rise; and an inbuilt resistance to expenditure reductions.

"The inevitable consequence has been that the taxes required to pay for this spending - taxes on people and on the firms they work for - have risen broadly in step, except for limited periods when Governments increased their borrowing. Such borrowing, however, has to be repaid by a tax on future generations.

"These increases in taxation have, in the Government's view, had a serious impact on Britain's economic performance over many years. Since lower growth has not led to lower demands for public services, the outcome, year after year, has been still higher taxation to finance ever higher public expenditure.

"As public spending takes a larger and larger share of GDP, so the public sector steadily encroaches on the rest of the economy. This is a process which could not be allowed to go on indefinitely."

"The Government and Parliament must reach their judgement about what public expenditure in total can be afforded, then contain individual programmes within that total. If the public discussion of these important issues leads to a wider understanding of this fact - that finance must determine expenditure, not expenditure finance - the discussion will have served a useful purpose."

The Government look forward to a continuing debate on the fiscal prospects in the longer term. They hope that the main theme of this Green Paper will remain at the centre of the debate: "that to break away from the debilitating pattern of the past in which public spending and taxation took an ever-larger share of our national product, we must establish a clear view of what can be afforded; set our spending plans accordingly; then stick to those plans."

4.19

2 Drawer (pmp)

FROM: MISS M O'MARA

DATE: 21 March 1984

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Mr Battishill
Mr Monck
Mr Hall
Mr Folger
Mr Allen
Mr Macrae
Miss E Edwards
Mr Ridley
Mr Lord

PS/ECONOMIC SECRETARY

ECONOMIC PROGRESS REPORT - BUDGET ISSUE

The Chancellor has seen the draft articles attached to Miss Edwards' minute of 16 March. He has commented that the discussion of share options should appear with the other business tax measures and not, as at present, under savings and investment.

MOM

MISS M O'MARA

51:1

CONFIDENTIAL

until 2.30pm Monday 21 May

FROM: M T FOLGER
DATE: 18 May 1984

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Byatt
Mr Cassell
Mr Battishill
Mr Evans
Mr Culpin
Mr Robson
Mr Shields o.r.
Mr Page
Mr Salveson (for No.10)
Mr A Smith o.r.
Mr Mansell CSO
Mr Lord
Mr Portillo
Mr Ridley

GDP figures

GDP (OUTPUT MEASURE) IN FIRST QUARTER 1984

The CSO will publish the preliminary estimate for this, together with some revisions to the data for the second half of 1983, on 21 May. An advance copy of their press release* is attached.

First quarter figures

2. GDP(O) is estimated to have been broadly unchanged between Q4 (index 103.3) and Q1 (103.5). Compared with a year earlier, GDP(O) is up 3 per cent.

3. Leaving aside the direct effects of the coal strike, the increases in the quarter and over a year earlier would have been about ½ per cent and 3½ per cent respectively. (½ per cent is broadly in line with the kind of quarterly increase seen through 1983.) These figures - from which the effects of the strike itself are immediately obvious -are not given in the Press Notice, which makes only an incidental reference to the dispute.

4. A significant positive contribution to growth came from the catch-all "other services" category. Communications output was also up but most other categories were estimated level at best.

* not quite finalised: comments are awaited from Energy officials.

Revisions to 1983

5. In line with the upward revisions to estimates of manufacturing output made earlier in the spring, CSO have taken this opportunity to publish increases in their estimates of GDP(O) for Q3 and Q4 1983. These have the effect of raising the estimated end-year level by over ½ per cent. Year on year growth rates for GDP(O) now become 2¾ per cent for Q3 and 3¼ per cent for Q4, ie rather closer to the rates of growth of the expenditure and income measures of GDP.

Assessment

6. These figures suggest that, through the second half of 1983 and into the first quarter of 1984, the underlying growth rate of GDP(O) has been consistent with the Budget-time forecast of a 3 per cent rise in GDP (on the average measure) for 1984. The eventual effect of the coal strike on 1984 GDP will obviously depend on its duration: the Q1 figures do not mean much in themselves.

Suggested line to take

7. Figures show healthy year on year growth rate for GDP(O), consistent with Treasury forecasts of 3 per cent rise in output for 1984.

[If pressed on the coal strike: effects on first quarter figures slight, being restricted to direct effect of lost coal output. Estimated growth in year to first quarter a healthy 3 per cent, despite any strike effects.]

MTF

M T FOLGER

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

CONFIDENTIAL
until 2.30pm Monday 21 May

CSO(84) 46

21 May 1984

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

Preliminary estimates suggest that output of the whole economy was broadly unchanged between the fourth quarter of 1983 and the first quarter of 1984. Output of the production industries showed little change, with the reduction in coal output offsetting an overall increase elsewhere. Distribution output fell slightly from its recent buoyant levels, but there were small increases elsewhere within the service sector. The preliminary output-based estimate of gross domestic product (GDP) in the first quarter, from which this assessment has been derived, is 103.5 (seasonally adjusted at constant prices, with 1980=100).

The output-based measure of GDP in the first quarter is estimated to have been 3 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~~,~~. ~~the~~ The output series ~~having~~ has tended to grow more slowly on the year-on-year comparisons.

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	98.0	98.6
1982		101.4	100.8	99.4	100.5
1983		105.0	104.1	101.8 (2)	103.6
1980	1	101.2	102.8	102.7	102.2
	2	100.1	101.4	100.7	100.7
	3	99.3	98.1	98.9	98.8
	4	99.3	97.8	97.7	98.2
1981	1	100.4	97.0	97.4	98.3
	2	98.5	96.5	97.6	97.5
	3	98.2	98.8	98.5	98.5
	4	100.1	101.6	98.5	100.1
1982	1	100.9	100.7	98.5	100.0
	2	101.1	100.7	99.3	100.3
	3	100.5	100.5	99.7	100.2
	4	103.1	101.4	100.0	101.5
1983	1	105.6	103.4	100.6	103.2
	2	103.7	103.7	100.7	102.7
	3	104.0	103.5	102.4 (2)	103.3
	4	106.7	105.8	103.3 (2)	105.3 (2)
1984	1	..	..	103.5 (3)	..

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

(2) Revised estimate.

(3) Preliminary estimate.

confirm growth
continuing @ 3%

(plp)

DEPARTMENTS OF INDUSTRY AND TRADE
– COMMON SERVICES - STATS 2
1 Victoria Street London SW1H 0ET
Telephone Direct Line 01-215 3055
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J Kerr Esq
Principal Private Secretary
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON
SW1P 3AG

23 May 1984

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

Publication is set for Tuesday 29 May at 3.30 pm and I should be grateful if you would arrange for the Notice to be cleared by noon Friday 25 May and to inform me accordingly.

A copy of this letter and draft Press Notice is being sent to Sir Peter Middleton.

Yours sincerely

W. E. Boyd.

W E BOYD

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT 3.30PM ON 29 MAY 1984 AFTER WHICH UNCLASSIFIED

Copy No ..11..(14)

THE CURRENT ACCOUNT OF THE UNITED KINGDOM
BALANCE OF PAYMENTS

APRIL 1984

The current account for April is estimated to have been in deficit by £588 million compared with a revised surplus of £23 million in March. Exports in April amounted to £5370 million and imports to £6207 million so that trade in goods was in deficit by £838 million compared with a deficit of £227 million in March.

The invisibles account is projected at a monthly surplus of £250 million, a large surplus on the transactions of the private sector and public corporations being partly offset by a deficit on Government transactions.

FEBRUARY TO APRIL 1984

In the period February to April the current account was in surplus by £177 million compared with a surplus of £577 million in the previous three months. There was a deficit on visible trade of £573 million in the latest three months compared with a surplus of £104 million in the previous three months. The surplus on invisibles is projected at £750 million.

CURRENT ACCOUNT

TABLE 1 **£ million, Seasonally adjusted**

	Current Balance	Visible Trade: Balance	Visible Trade: Exports fob	Visible Trade: Imports fob	Invisibles[c]: Balance	Invisibles[c]: Credits	Invisibles[c]: Debits
1982	+ 5551	+ 2384	55565	53181	+ 3167	31742	28575
1983	+ 2049	- 500	60658	61158	+ 2549	33637	31088
1983 Q1	+ 1094	+ 203	14819	14616	+ 891	8231	7340
Q2	- 37	- 460	14752	15212	+ 423	8224	7801
Q3	+ 653	- 248	14862	15110	+ 901	8586	7685
Q4	+ 339	+ 5	16225	16220	+ 334	8596	8262
1984 Q1	+ 691	- 59	16853	16912	+ 750a		
1983 Nov	+ 183	+ 71	5266	5196	+ 112b		
Dec	+ 469	+ 358	5795	5438	+ 111b		
1984 Jan	- 74	- 324	5214	5538	+ 250a		
Feb	+ 742	+ 492	5948	5456	+ 250a	Monthly figures of credits and debits are not available	
Mar	+ 23	- 227	5691	5918	+ 250a		
Apr	- 588a	- 838	5370	~~6270~~ 6207	+ 250a		
Nov-Jan	+ 577	+ 104	16275	16171	+ 473		
Feb-Apr	+ 177	- 573	17009	17581	+ 750		

a Invisibles are projections and subject to revision as information becomes available.
b One-third of the appropriate calendar quarter's estimate; monthly figures of invisibles are not available.
c Information relating to credits and debits of the private sector and public corporations can be found in Table 3.

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT 3.30PM ON 29 MAY 1984 AFTER WHICH UNCLASSIFIED

VISIBLE TRADE IN APRIL 1984

The visible trade balance in April was in deficit by £838 million compared with a deficit of £227 million in March. There was a surplus on oil of £370 million compared with £776 million in March. The deficit on trade in non-oil goods of £1003 million in March increased to £1208 million in April.

The value of exports was £321 million (5½ per cent) lower than in March. Exports of oil fell by £262 million and exports of the erratic items* by £122 million. Excluding these, exports of non-oil goods rose by 1½ per cent reflecting higher deliveries of chemicals and other semi-manufactures.

Total imports were £290 million (5 per cent) higher than in March. Excluding the erratic items which fell by £155 million, imports of non-oil goods increased by £301 million and imports of oil by £143 million.

The terms of trade index was virtually unchanged as the export unit value index increased by 1 per cent and the import unit value index increased by 1½ per cent.

RECENT TRENDS

Visible balance

In the three months ended April there was a deficit on visible trade of £0.6 billion compared with a surplus of £0.1 billion in the previous three months. The surplus on trade in oil fell by £0.3 billion to £2.0 billion and the deficit on trade in non-oil goods increased by £0.4 billion to £2.5 billion.

Exports

Exports in the three months ended April were valued at £17.0 billion; 4½ per cent higher than in the previous three months. Exports of oil increased by £0.1 billion (2 per cent) while exports of non-oil goods increased by £0.7 billion (5 per cent). Excluding the erratic items, exports of manufactures rose by 3½ per cent with chemicals increasing by 7 per cent and finished manufactures by 3 per cent.

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

Total export volume was 3 per cent higher in the latest three months than in the previous three months and 7½ per cent higher than a year ago. The underlying level of non-oil export volume which increased strongly during the second half of last year, may have begun to level out in recent months.

Imports

Imports were valued at £17.6 billion in the latest three months; £1.4 billion (8½ per cent) higher than in the previous three months. Imports of oil increased by £0.4 billion and imports of the erratic items by £0.3 billion.

Imports of non-oil goods, excluding the erratic items, rose by £0.7 billion (5 per cent). Imports of passenger motor cars fell by 5 per cent in the latest three months and imports of capital goods were virtually unchanged. All of the other broad sectors experienced some increase in the latest three months.

Total import volume in the three months ended April was 5½ per cent higher than in the three months ended January and 12 per cent higher than a year ago. The underlying level of non-oil import volume continues to rise.

Terms of trade (see table 4)

The terms of trade index fell by 1½ per cent in the latest three months as the export unit value index rose by 2 per cent and the import unit value index rose by 3½ per cent.

Analysis by Area

Exports to the developed countries increased by 7 per cent in the three months ended April with exports to North America increasing by 16 per cent and exports to Western Europe by 5 per cent. Imports from the developed countries and developing countries increased by 7 per cent and 16 per cent respectively. Imports from the oil exporting countries were 23 per cent higher than in the previous three months and imports from the other developing countries were 14 per cent higher.

INVISIBLES

The latest estimates of invisibles - services, interest, profits and dividends and transfers - relate to the fourth quarter of 1983 when credits were £8.6 billion and debits were £8.3 billion giving a surplus of £0.3 billion in the quarter. Invisibles in the private sector and public corporations (excluding transfers) were in surplus by £1.6 billion. The figures relating to the first four months of this year are CSO projections.

NOTES TO EDITORS

1 REVISIONS

Figures relating to the first three months of 1984 have been revised owing to further information becoming available.

2 STANDARD NOTES

The standard notes which were issued with the January Press Notice describe in detail the differences between the Balance of Payments (BOP) and the Overseas Trade Statistics (OTS) bases of compilation. The principal difference is the deduction of freight from the OTS valuation of imports. Additional copies can be obtained from the address below.

3 VISIBLE TRADE BALANCES BY COMMODITY (BALANCE OF PAYMENTS BASIS)

Table 16 of the Press Notice shows the value of exports, imports and the visible balance, measured on a comparable (BOP) basis, for each of the major commodity groups including manufactured goods. Monthly data at this level of detail, are published in the Monthly Review of External Trade Statistics.

4 MONTHLY REVIEW OF EXTERNAL TRADE STATISTICS

The Monthly Review of External Trade Statistics, prepared mainly as an internal working document, is made available publicly by the Department of Trade and Industry (price £3 a copy).

This is a monthly publication containing a commentary, charts, and tables, on topics such as the current account of the UK balance of payments, UK exports and imports of goods by commodity and area and certain international comparisons. An annual supplement of which a revised issue (No 5), has just been published, price £4 a copy, provides longer historical runs for the series shown in the monthly edition and additional international data.

5 ROUNDING

The data published in this Press Notice has been rounded to the nearest £million. Therefore figures may not sum to the aggregates and balances may not derive exactly from the export and import figures shown.

Enquiries about the Standard Notes, and the Monthly Review, should be addressed to S2A, Room 255, Department of Trade and Industry, 1 Victoria Street, London SW1H 0ET, Telephone: 01-215 5703.

SECRET and Personal until release of press notice on 29/5/84 at 3.30 pm and thereafter unclassified.

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

£ million seasonally adjusted

	Current Balance	Visible Trade					Invisible Balance
		Exports fob	Imports fob	Visible Balance	of which		
					Oil	Non-Oil	
1982	+ 5551	55565	53181	+ 2384	+ 4556	- 2172	+ 3167
1983	+ 2049	60658	61158	- 500	+ 7001	- 7501	+ 2549
1983 Q1	+ 1094	14819	14616	+ 203	+ 1801	- 1598	+ 891
Q2	- 37	14752	15212	- 460	+ 1556	- 2016	+ 423
Q3	+ 653	14862	15110	- 248	+ 1521	- 1769	+ 901
Q4	+ 339	16225	16220	+ 5	+ 2123	- 2118	+ 334
1984 Q1	+ 691	16853	16912	- 59	+ 2316	- 2374	+ 750a
1983 Apr	- 41	4866	5048	- 182	+ 547	- 730	+ 141b
May	- 296	4811	5248	- 437	+ 450	- 887	+ 141b
June	+ 300	5075	4916	+ 159	+ 559	- 400	+ 141b
July	+ 78	4786	5007	- 222	+ 464	- 686	+ 300b
Aug	+ 223	4934	5012	- 78	+ 532	- 610	+ 301b
Sept	+ 352	5142	5091	+ 52	+ 525	- 473	+ 300b
Oct	- 312	5164	5586	- 423	+ 561	- 984	+ 111b
Nov	+ 183	5266	5196	+ 71	+ 661	- 591	+ 112b
Dec	+ 469	5795	5438	+ 358	+ 901	- 543	+ 111b
1984 Jan	- 74a	5214	5538	- 324	+ 719	- 1042	+ 250a
Feb	+ 742a	5948	5456	+ 492	+ 821	- 329	+ 250a
Mar	+ 23a	5691	5918	- 227	+ 776	- 1003	+ 250a
Apr	- 588a	5370	6207	- 838	+ 370	- 1208	+ 250a
Nov-Jan	+ 577	16275	16171	+ 104	+ 2281	- 2177	+ 473
Feb-Apr	+ 177	17009	17581	- 573	+ 1968	- 2540	+ 750
Percentage Change		+ 4½	+ 8½				

a Invisibles are projections and subject to revision as more information becomes available.

b One third of the appropriate calendar quarter's estimate; monthly figures of invisibles are not available.

c Percentage change: latest three months on previous three months.

INVISIBLES[e]

£ million seasonally adjusted

	All Sectors						Private Sector and public Corporations[d]		
	Credits	Debits	Balance	of which			Credits	Debits	Balance
				Services	Interest Profits Dividends	Transfers			
1982	31742	28575	+ 3167	+ 3874	+ 1402	- 2109	27338	20461	+ 6877
1983	33637	31088	+ 2549	+ 4389	+ 480	- 2320	29287	22467	+ 6820
1982 Q1	7589	6953	+ 636	+ 1096	+ 29	- 489	6450	5010	+ 1440
Q2	7943	7127	+ 816	+ 1052	+ 385	- 621	6947	5094	+ 1853
Q3	7885	7236	+ 649	+ 807	+ 398	- 556	6817	5188	+ 1629
Q4	8325	7259	+ 1066	+ 919	+ 590	- 443	7124	5169	+ 1955
1983 Q1	8231	7340	+ 891	+ 1121	+ 291	- 521	7099	5257	+ 1842
Q2	8224	7801	+ 423	+ 1273	- 172	- 678	7176	5594	+ 1582
Q3	8586	7685	+ 901	+ 959	+ 299	- 357	7410	5636	+ 1774
Q4	8596	8262	+ 334	+ 1036	+ 62	- 764	7602	5980	+ 1622

d ie excluding general government transactions and all transfers.

e Monthly figures of invisibles are not available.

SECRET

UKBAAC

EXPORT AND IMPORT UNIT VALUE AND VOLUME INDEX NUMBERS

Table 4

(Balance of Payments basis)

Indices 1980 = 100

	Unit Value (Not seasonally adjusted)			Volume (seasonally adjusted)	
	Exports	Imports	Terms of Trade[f]	Exports	Imports
1982	116.7	117.9	99.0	101.5	100.7
1983	126.6	128.6	98.4	102.3	107.6
1983 Q1	123.6	126.3	97.9	102.3	104.5
Q2	125.6	128.1	98.1	100.3	106.6
Q3	127.9	128.9	99.2	99.3	106.6
Q4	129.2	131.0	98.6	107.4	112.7
1984 Q1	132.6	136.1	97.4	109.5	113.2
1983 Apr	125.9	129.2	97.5	98.5	105.0
May	125.2	128.2	97.7	98.6	109.3
June	125.7	126.9	99.1	103.9	105.4
July	126.8	128.1	99.0	96.9	106.2
Aug	128.2	129.3	99.2	98.9	106.5
Sept	128.7	129.3	99.5	102.0	107.2
Oct	128.4	130.3	98.5	103.2	118.0
Nov	128.9	130.7	98.7	104.8	108.2
Dec	130.2	131.9	98.7	114.3	112.1
1984 Jan	132.5	135.1	98.1	101.8	111.7
Feb	132.8	136.4	97.4	115.4	110.2
Mar	132.5	136.7	96.9	111.3	117.9
Apr	133.9	138.4	96.7	104.4	122.9
Nov-Jan	130.5	132.6	98.5	107.0	110.7
Feb-Apr	133.0	137.2	97.0	110.4	117.0
Percentage Change	+ 2	+ 3½	- 1½	+ 3	+ 5½

[f] Export unit value index as a percentage of the import unit value index.

VALUE AND VOLUME OF EXPORTS AND IMPORTS EXCLUDING THE MORE ERRATIC ITEMS[g]

Table 5

(Balance of Payments basis)

seasonally adjusted

	Value £ million fob		Volume Index 1980 = 100	
	Exports	Imports	Exports	Imports
1982	52118	50723	103.6	106.2
1983	56316	57800	104.1	112.9
1983 Q1	13752	13719	103.6	108.6
Q2	13634	14194	101.6	110.5
Q3	13702	14338	100.3	112.3
Q4	15228	15549	110.7	120.1
1984 Q1	15689	16113	111.9	119.9
1983 Apr	4510	4770	99.9	110.4
May	4476	4733	100.7	109.7
June	4648	4692	104.4	111.5
July	4499	4732	99.8	111.4
Aug	4550	4786	99.7	112.7
Sept	4653	4820	101.5	112.8
Oct	4843	5274	106.3	124.0
Nov	4976	5022	108.5	116.0
Dec	5409	5253	117.3	120.2
1984 Jan	4951	5332	105.9	119.3
Feb	5444	5308	116.1	118.6
Mar	5294	5473	113.6	121.7
Apr	5094	5917	108.7	129.9
Nov-Jan	15336	~~15067~~ 15607	110.6	118.5
Feb-Apr	15832	16698	112.8	123.4
Percentage Change	+ 3	+ 7	+ 2	+ 4

[g] These are defined as ships, North Sea installations, aircraft, precious stones, and silver.

SECRET and Personal until release of press notice on 29/5/84 at 3.30 pm and thereafter unclassified.

TRADE IN OIL[h]
(Balance of Payments basis)

seasonally adjusted

	Balance of Trade in oil	Exports of Oil: Total	Exports of Oil: Crude Oil[j] [SITC (REV 2) 333.0]			Exports of Oil: Rest of Division 33	Imports of Oil: Total	Imports of Oil: Crude Oil [SITC (REV 2) 333.0]			Imports of Oil: Rest of Division 33
	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob
1982	+ 4556	10686	8542	60.3	141.6	2144	6130	3861	28.3	136.6	2269
1983	+ 7001	12525	10111	60.4	147.8	2414	5524	3199	22.8	140.4	2324
1983 Q1	+ 1801	3106	2474	16.4	150.7	632	1305	647	4.4	146.6	658
Q2	+ 1556	2960	2366	16.4	144.7	594	1404	795	5.8	137.5	609
Q3	+ 1521	2960	2361	16.2	145.8	599	1439	942	6.8	137.8	497
Q4	+ 2123	3500	2910	19.5	149.6	589	1376	816	5.8	141.9	561
1984 Q1	+ 2316	3654	2951	19.1	154.2	703	1338	643	4.3	148.6	695
1983 Apr	+ 547	978	843	5.7	149.1	136	431	228	1.6	140.5	203
May	+ 450	993	779	5.5	142.5	213	543	324	2.4	136.6	219
June	+ 559	989	744	5.2	142.3	245	430	243	1.8	136.0	187
July	+ 464	953	751	5.2	143.3	202	488	325	2.4	135.5	163
Aug	+ 532	977	792	5.4	146.6	185	445	277	2.0	141.3	168
Sept	+ 525	1031	818	5.6	147.4	213	506	340	2.5	137.2	166
Oct	+ 561	1100	905	6.1	148.4	195	539	360	2.5	142.9	179
Nov	+ 661	1117	935	6.1	154.0	182	456	261	1.9	139.3	195
Dec	+ 901	1283	1070	7.3	147.0	212	382	195	1.4	143.5	187
1984 Jan	+ 719	1101	874	5.8	151.8	226	382	205	1.4	151.1	177
Feb	+ 821	1277	1019	6.5	156.2	258	456	226	1.5	149.7	230
Mar	+ 776	1276	1058	6.9	154.2	218	500	212	1.5	145.1	288
Apr	+ 370	1014	809	5.2	155.9	205	643	355	2.4	147.2	288
Nov-Jan	+ 2281	3500	2879	19.1	150.7	621	1220	661	4.6	144.1	558
Feb-Apr	+ 1968	3567	2886	18.6	155.4	681	1599	793	5.4	147.4	807
Percentage Change		+ 2	-	- 3	+ 3	+ 9½	+ 31	+ 20	+ 17	+ 2½	+ 44

h Trade in petroleum and petroleum products. These figures differ from those published by the Department of Energy which are on a time of shipment basis (see paragraph 7 of the standard notes).

j Not seasonally adjusted.

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TRADE IN GOODS OTHER THAN OIL
(Balance of Payments basis)

	Total								Excluding Erratics[g]			
	Value, £ million, fob (seasonally adjusted)			Unit value index 1980 = 100 (not seasonally adjusted)			Volume index 1980 = 100 (seasonally adjusted)		Value, £ million fob (seasonally adjusted)		Volume index 1980 = 100 (seasonally adjusted)	
	Balance of non oil trade	Exports	Imports	Exports	Imports	Terms of Trade[f]	Exports	Imports	Exports	Imports	Exports	Imports
1982	- 2172	44879	47051	114.4	113.9	100.4	96.9	105.0	41432	44593	98.8	111.9
1983	- 7501	48133	55634	124.5	125.6	99.2	95.5	114.1	43791	52276	96.8	121.0
1983 Q1	- 1598	11713	13312	121.0	122.4	98.8	95.9	111.2	10646	12414	96.7	116.8
Q2	- 2016	11792	13808	123.8	125.5	98.6	93.9	112.4	10674	12790	94.7	117.7
Q3	- 1769	11902	13671	126.2	126.2	100.0	93.1	112.6	10742	12899	93.8	119.9
Q4	- 2118	12726	14844	127.2	128.2	99.2	99.1	120.2	11728	14173	102.1	129.7
1984 Q1	- 2374	13199	15573	130.5	133.0	98.1	101.1	121.4	12035	147~~44~~74	102.9	130.1
1983 Apr	- 730	3888	4617	123.7	126.4	97.9	92.5	111.2	3531	4339	93.5	118.2
May	- 887	3818	4705	123.6	125.9	98.1	91.5	114.0	3484	4190	93.2	115.1
June	- 400	4087	4486	124.1	124.2	99.9	97.7	111.9	3659	4262	97.5	119.8
July	- 686	3833	4519	125.3	125.5	99.8	90.7	111.6	3546	4243	93.4	118.3
Aug	- 610	3958	4568	126.5	126.3	100.2	93.1	113.3	3574	4342	93.5	121.4
Sept	- 473	4112	4584	126.9	126.6	100.2	95.5	112.8	3623	4314	94.3	120.0
Oct	- 984	4064	5048	126.5	127.2	99.4	95.5	124.6	3743	4735	98.3	132.5
Nov	- 591	4149	4740	126.9	128.2	99.0	97.2	114.9	3859	4567	100.7	124.7
Dec	- 543	4513	5056	128.2	129.1	99.3	104.7	121.2	4126	4871	107.2	131.8
1984 Jan	- 1042	411~~2~~3	5156	130.6	131.7	99.2	94.3	121.3	3851	4950	98.4	131.4
Feb	- 329	4671	5000	130.5	133.2	98.0	106.9	117.7	4166	4852	106.9	128.4
Mar	- 1003	4415	5418	130.3	134.3	97.1	101.8	125.1	4018	4973	103.4	130.5
Apr	- 1208	4356	5564	131.8	136.2	96.8	99.4	128.1	4081	5274	103.8	136.8
Nov-Jan	- 2177	12775	14952	128.5	129.6	99.2	98.7	119.1	11836	14387	102.1	129.3
Feb-Apr	- 2540	13442	15982	130.9	134.5	97.3	102.7	123.6	12265	15098	104.7	131.9
Percentage Change		+ 5	+ 7	+ 2	+ 4	- 2	+ 4	+ 4	+ 3½	+ 5	+ 2½	+ 2

g These are defined as ships, North Seas installations, aircraft, precious stones, and silver.

f Export unit value index as a percentage of the import unit value index.

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EXPORTS BY COMMODITY
(Overseas Trade Statistics basis)

Table 8

£ million, fob, seasonally adjusted

						Manufactures excluding erratics[g]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	k	k	k	k
1982	55558	3960	1340	11237	37313	34052	12687	6119	6568	21365	960	3523	9225	7656
1983	60534	4235	1586	13127	39919	35756	13832	6929	6903	21924	996	3914	9288	7726
1983 Q1	14781	1113	374	3260	9631	8613	3314	1656	1658	5299	238	950	2230	1882
Q2	14687	994	387	3122	9780	8747	3427	1693	1734	5319	209	933	2272	1905
Q3	14831	1024	389	3086	9935	8809	3397	1737	1660	5412	243	959	2273	1937
Q4	16234	1104	436	3658	10573	9587	3694	1843	1851	5893	305	1072	2513	2003
1984 Q1	16859	1177	436	3784	11067	9876	3816	1935	1881	6060	267	1100	2598	2095
1984 Feb	5987	395	141	1319	3979	3425	1308	683	624	2117	106	380	917	715
Mar	5685	393	156	1315	3678	3282	1272	633	638	2010	91	377	841	702
Apr	5412	393	165	1055	3647	3321	1324	670	654	1996	87	364	862	683
Nov-Jan	16248	1141	436	3655	10598	9695	3737	1853	1884	5958	280	1087	2522	2070
Feb-Apr	17084	1182	462	3688	11303	10027	3904	1986	1917	6124	283	1121	2620	2099
Percentage Change	+5	+ 3½	+ 6	+ 1	+ 6½	+ 3½	+ 4½	+ 7	+ 2	+ 3	+ 1½	+ 3	+ 4	+ 1½

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

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

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

Table 9

INDICES 1980 = 100, seasonally adjusted

						Manufactures excluding erratics[g]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	k	k	k	k
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1982	101.6	107	94	133	95	97	99	106	93	96	94	94	99	95
1983	102.2	110	101	148	93	94	102	113	93	90	86	96	89	87
1983 Q1	102.1	118	104	145	93	93	100	111	91	89	85	96	88	89
Q2	100.0	105	99	143	92	93	101	110	94	87	70	92	87	87
Q3	99.1	105	95	141	92	92	100	113	89	87	80	93	86	86
Q4	107.6	112	106	163	97	100	108	119	100	95	107	105	95	88
1984 Q1	109.5	119	103	165	100	101	109	121	99	96	91	105	96	91
1984 Feb	115.9	121	99	170	107	105	112	129	99	100	111	110	102	93
Mar	111.2	119	109	172	100	101	109	118	102	96	91	107	93	93
Apr	105.0	119	113	136	98	101	112	125	103	94	83	103	94	90
Nov-Jan	106.9	115	105	162	97	100	108	119	100	95	96	105	94	90
Feb-Apr	110.7	120	107	159	101	102	111	124	101	97	95	107	96	92
Percentage Change	+3½	+3½	+2½	- 1½	+ 5	+ 2	+ 2½	+ 4½	+ ½	+ 2	- 1	+ 1	+ 2	+ 2½

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

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

SECRET

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

INDICES 1980 = 100 not seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[g]: Total	Semi-manufactures excluding precious stones & silver(PS): Total	Chemicals	Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	k	k	k	k
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1982	116.6	115	102	132	115	115	110	112	109	118	126	114	120	118
1983	126.5	122	112	140	125	124	117	119	115	129	144	122	132	128
1983 Q1	123.5	119	104	141	122	121	114	116	113	126	137	119	129	124
Q2	125.6	122	111	138	125	124	116	118	115	129	146	121	132	127
Q3	127.9	123	115	139	127	126	118	120	116	131	147	123	134	129
Q4	129.2	125	117	142	128	127	119	121	117	132	144	125	134	131
1984 Q1	132.6	127	122	146	131	130	123	125	120	135	153	129	138	133
1984 Feb	132.8	127	122	147	132	130	123	125	121	135	151	129	138	133
Mar	132.4	127	123	146	131	130	123	126	121	135	154	130	138	131
Apr	133.9	128	125	147	133	132	125	127	123	136	158	130	140	131
Nov-Jan	130.5	126	119	144	129	128	120	123	118	133	148	126	135	132
Feb-Apr	133.0	127	123	147	132	131	124	126	121	135	154	130	139	132
Percentage Change	+ 2	+ 1½	+ 3½	+ 2½	+ 2	+ 2	+ 3	+ 3	+ 3	+ 1½	+ 4½	+ 2½	+ 2½	- ½

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

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

Table 11

EXPORTS BY AREA
(Overseas Trade Statistics basis)

£ million, fob, seasonally adjusted

	Total	Developed Countries: Total	European Community	Rest of W Europe	North America	Other	Developing Countries: Total	Oil exporting countries	Other	Centrally planned economies
1982	55558	41393	23124	6681	8353	3235	13053	6445	6608	974
1983	60534	46508	26516	7516	9342	3133	12783	6122	6661	1112
1983 Q1	14781	11233	6584	1901	2077	671	3221	1564	1656	277
Q2	14687	11190	6313	1814	2296	767	3028	1490	1539	274
Q3	14831	11493	6386	1777	2496	835	3202	1540	1662	290
Q4	16234	12592	7234	2025	2473	860	3332	1528	1804	271
1984 Q1	16859	13240	7427	2197	2703	912	3263	1477	1786	340
1984 Feb	5987	4771	2501	833	1108	328	1169	512	657	116
Mar	5685	4469	2573	680	900	315	1063	500	563	124
Apr	5412	4191	2421	673	815	282	1017	445	572	122
Nov-Jan	16248	12526	7161	2079	2428	859	3290	1525	1765	286
Feb-Apr	17084	13431	7495	2187	2824	926	3249	1457	1793	362
Percentage Change	+ 5	+ 7	+ 4½	+ 5	+ 16	+ 8	- 1	- 4½	+ 1½	+ 27

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IMPORTS BY COMMODITY (Overseas Trade Statistics basis)

Table 12

£ million cif seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[g]: Total	Semi-manufactures excluding precious stones & silver(PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Finished: Passenger Motor Cars	Finished: Other Consumer	Finished: Intermediate	Finished: Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	k	k	k	k
1982	56978	7251	3930	7409	37114	34795	12795	4179	8616	22000	2882	5909	6674	6536
1983	65993	7853	4723	7067	44905	41609	14886	5120	9766	26723	3659	6902	8121	8041
1983 Q1	15962	1925	1096	1656	10810	9924	3514	1219	2295	6410	843	1662	1989	1916
Q2	16405	1901	1201	1799	11120	10093	3603	1234	2369	6490	922	1633	1974	1961
Q3	16288	1917	1146	1813	11119	10349	3716	1254	2461	6634	1013	1671	1970	1980
Q4	17338	2111	1280	1800	11855	11243	4053	1413	2640	7190	881	1936	2189	2184
1984 Q1	18064	2175	1300	1792	12530	11684	4293	1513	2780	7391	902	1938	2363	2188
1984 Feb	5820	722	430	592	3999	3846	1426	500	926	2420	301	663	766	690
Mar	6316	738	442	675	4348	3890	1435	510	925	2455	272	649	791	743
Apr	6657	786	450	842	4471	4114	1494	533	961	2620	311	725	822	762
Nov-Jan	17312	2110	1263	1659	12003	11431	4134	1449	2685	7298	931	1912	2260	2194
Feb-Apr	18794	2246	1322	2110	12819	11850	4355	1543	2812	7495	884	2036	2379	2196
Percentage Change	+ 8½	+ 6½	+4½	+ 27	+ 7	+ 3½	+ 5½	+ 6½	+ 4½	+ 2½	- 5	+ 6½	+ 5	-

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

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

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

Table 13

INDICES 1980 = 100 seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[g]: Total	Semi-manufactures excluding precious stones & silver(PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Finished: Passenger Motor Cars	Finished: Other Consumer	Finished: Intermediate	Finished: Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	k	k	k	k
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94
1982	100.1	108	93	75	106	115	111	123	107	117	110	113	120	122
1983	107.8	108	104	67	119	128	123	143	115	131	125	125	129	142
1983 Q1	105.9	109	101	62	116	123	118	135	111	127	113	122	129	137
Q2	106.6	105	107	69	116	123	119	138	111	125	124	118	123	137
Q3	106.7	105	99	69	118	128	124	144	115	131	144	120	125	140
Q4	111.9	112	108	67	125	138	133	157	123	141	121	140	139	154
1984 Q1	112.7	112	105	64	128	139	137	163	126	140	121	137	144	149
Apr Feb	109.6	112	106	62	123	137	137	162	126	138	121	142	139	142
Mar	117.2	114	108	74	131	137	137	168	124	138	107	135	143	149
Apr	122.4	120	105	93	134	144	140	171	127	146	121	152	149	151
Nov-Jan	110.1	110	103	60	125	139	133	157	124	142	127	138	141	154
Feb-Apr	164.4	115	106	77	129	139	138	167	126	141	116	143	144	147
Percentage Change	+ 5½	+ 4½	+ 3	+ 27	+ 3½	+ ½	+ 3½	+ 6½	+ 1½	- 1	- 8	+ 4	+ 2	- 4

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

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

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

INDICES 1980 = 100 not seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[g] Total	Semi-manufactures excluding precious stones & silver(PS) Total	Semi-manufactures Chemicals	Semi-manufactures Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA) Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	k	k	k	k
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94
1982	116.8	112	104	146	114	115	109	114	107	119	123	113	119	122
1983	127.7	120	116	153	126	125	116	121	113	131	137	122	138	131
1983 Q1	125.5	117	111	156	123	123	113	120	110	129	139	119	133	130
Q2	127.3	120	114	151	126	126	116	121	114	132	140	121	139	132
Q3	128.0	121	117	153	126	125	116	121	114	131	132	123	139	131
Q4	129.8	123	120	155	128	127	117	123	115	133	137	125	141	131
1984 Q1	134.2	127	127	160	132	131	121	128	119	137	141	128	147	135
1984 Feb	134.5	127	127	161	132	131	121	128	119	137	142	128	147	135
Mar	134.9	128	126	157	133	132	122	128	120	139	143	129	149	136
Apr	136.7	130	128	158	135	134	125	131	122	140	146	129	151	138
Nov-Jan	131.1	124	123	157	129	128	119	126	116	134	139	125	143	132
Feb-Apr	135.4	128	127	159	134	132	123	1249	120	139	144	129	149	136
Percentage Change	+ 3½	+ 3½	+ 3½	+ 1	+ 3½	+ 3½	+ 3½	+ 2½	+ 4	+ 3½	+ 3½	+ 2½	+ 4½	+ 3

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

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

Table 15

IMPORTS BY AREA
(Overseas Trade Statistics basis)

£ million cif seasonally adjusted

	Total	Developed Countries Total	European Community	Rest of W Europe	North America	Other	Developing Countries Total	Oil exporting countries	Other	Centrally planned economies
1982	56978	46191	25269	8390	8095	4436	9349	3453	5896	1327
1983	65993	54729	30098	10444	9027	5159	9611	2824	6786	1534
1983 Q1	15962	13158	7245	2367	2270	1276	2500	784	1716	366
Q2	16405	13537	7381	2638	2209	1308	2392	720	1673	398
Q3	16288	13346	7400	2541	2154	1251	2388	718	1670	373
Q4	17338	14689	8072	2898	2394	1324	2331	603	1727	397
1984 Q1	18064	15295	8235	3188	2447	1425	2314	478	1835	431
1984 Feb	5820	4931	2669	968	812	482	796	162	634	148
Mar	6316	5360	2892	1152	836	480	773	159	614	155
Apr	6657	5449	3029	1112	851	457	1012	309	703	147
Nov-Jan	17312	14678	8021	2922	2403	1332	2222	512	1709	385
Feb-Apr	18794	15740	8590	3232	2498	1419	2581	630	1951	450
Percentage Change	+ 8½	+ 7	+ 7	+ 11	+ 4	+ 6½	+ 16	+ 23	+ 14	+ 17

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COMMODITY ANALYSIS OF VISIBLE TRADE*
(Balance of Payments basis)

£ million, seasonally adjusted

	Food Beverages and Tobacco			Basic Materials			Fuels		
SITC (R2)	0 + 1			2 + 4			3		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1982	3936	6613	- 2676	1354	3315	- 1961	11237	7193	+ 4043
1983	4221	7196	- 2975	1610	3983	- 2373	13126	6743	+ 6383
1982 Q2	991	1684	- 693	361	826	- 464	2595	1824	+ 771
Q3	962	1637	- 675	320	781	- 452	2989	1792	+ 1197
Q4	1043	1629	- 586	338	811	- 472	3165	1636	+ 1529
1983 Q1	1114	1765	- 651	380	920	- 539	3260	1589	+ 1672
Q2	987	1740	- 753	393	1017	- 624	3121	1707	+ 1414
Q3	1017	1758	- 741	394	960	- 566	3086	1717	+ 1369
Q4	1103	1934	- 831	442	1086	- 644	3658	1730	+ 1928
1984 Q1	1178	2026	- 849	443	1156	- 712	3805	1751	+ 2054

	Semi-Manufactures			Finished Manufactures			Total Manufactures		
SITC (R2)	5 + 6			7 + 8			5 - 8		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1982	14112	12972	+ 1140	23218	21855	+ 1363	37330	34827	+ 2503
1983	15927	15736	+ 190	24111	26420	- 2309	40038	42156	- 2119
1982 Q2	3558	3372	+ 186	5922	5635	+ 287	9480	9007	+ 474
Q3	3370	3104	+ 266	5653	5521	+ 132	9024	8625	+ 399
Q4	3671	3291	+ 380	5857	5673	+ 185	9528	8963	+ 565
1983 Q1	3863	3712	+ 151	5799	6386	- 587	9662	10098	- 436
Q2	3923	3942	- 20	5924	6507	- 583	9847	10449	- 603
Q3	3981	3894	+ 87	5988	6546	- 558	9968	10440	- 472
Q4	4160	4188	- 28	6400	6981	- 581	10560	11169	- 609
1984 Q1	4319	4455	- 136	6710	7231	- 520	11030	11686	- 656

~~* Monthly data for commodities on a balance of payments basis are not available.~~

9:4

EMBARGOED UNTIL 00.01 HOURS FRIDAY, 1 JUNE 1984

FROM: M T FOLGER
DATE: 31 May 1984

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Sir P Middleton
Mr Bailey
Sir T Burns
Mr Cassell
Mr Battishill
Mr H P Evans
Mr Lankester
Mr Scholar
Mr Culpin
Miss Peirson
Mr Shields
Mr Page
Mr A Smith
Mr MacKinnon
Mr Lord
Mr Ridley
Mr Portillo
JD/02

PHILLIPS AND DREW JUNE FORECAST

1. P&D's latest assessment will be released on Friday, 1 June. Their forecasts are summarised in the attached note. The main changes from last month's forecast include a reduction in the balance of payments current account surplus from £1½bn to £800m as oil imports increase in response to the coal strike. Their views on output growth for this year remain unchanged and broadly in line with the Treasury view. However inflation increases slightly to reach 5¾ per cent by 1985Q4.

2. P&D have taken the opportunity, in their accompanying press notice (copy attached), to start a hare about the case for "a package" similar to the July 1983 £1 billion of public spending reductions. It is not clear whether they would see this as aimed at the current year (as the July 1983 package was) or covering later years too. (In their forecast they speak of a possible overshoot on public spending in 1985-86.) The reasoning for their recommendation is obscure - though they speak loosely of "a credibility gap" having "arisen whether justified or not between the Government's presumed intentions and its actions". They suggest that "domestic inflation expectations are now probably rising."

3. Suggested line to take:

On the forecast Output and inflation forecasts broadly in line with Budget forecast for 1984. Balance of payments figure is lower but subject to large error, just as official forecasts are.

Basis of forecast rise in inflation in 1985 not at all clear.

on a "package" (as discussed with GEP)

(i) suggestion of rising inflationary expectations not well-founded. Note that Gavyn Davies of Simon and Coates, (bulletin to be issued 4 June) reported in FT on 31 May as seeing underlying rate of increase of producer output prices as having fallen so far this year. That is consistent with Budget forecast of RPI inflation edging down through the year.

(ii) recent statistics give no reason to suppose that fiscal and monetary position out of line with Budget forecast:

(a) target monetary aggregates have recently been growing at rates within 1984-85 target ranges

(b) PSBR expected to be heavily front-end loaded and April PSBR (£2.4 billion) has to be interpreted in that content.

(c) [IF PRESSED] government's supply spending in April distorted by new carry-over arrangements, in particular carry-over of £¼ billion of defence spending. So provides no reason to believe 1984-85 spending limits are threatened.

Neil MacKinnon

pp M T FOLGER

PHILLIPS AND DREW (JUNE) FORECAST

Latest assessment continues to remain close to the Treasury view on output and inflation this year. 1984 GDP increases at a similar rate to last year (about 3 per cent) but with stronger contributions from exports and investment. Retail price inflation falls to about 5 per cent by end-1984, rising slightly to 5¾ per cent by end-1985.

ASSUMPTIONS

- OECD real GNP grows by 4½ per cent this year reflecting continuation of strong growth in USA and accelerating activity in Europe and Japan. As a result UK export markets expand by 4-5 per cent this year and, despite a slowdown in US growth, 4 per cent in 1985. OECD inflation rises steadily over the next two years to peak at 7½ per cent in mid-1985: the impact of increasing activity is partly offset by the effect of high unemployment on earnings. Total non-oil commodity prices (in constant currency terms) rise by 2 per cent from end-1983 to end-1984 and by 3 per cent in the following year. The official crude oil price remains at $29/bl up to end-1985.

POLICY ASSESSMENT

- Argued that fiscal policy is procyclical because PSBR target of £7¼bn for 1984-85 is higher than what might have been expected once nature of Budget measures, asset sales and cyclical position are taken into account. This indicates "a shift in policy emphasis "away from concentrating on the anti-inflationary bias to policy towards concern over unemployment."

Positive fiscal adjustments are assumed to be limited to £1bn pa upto 1988-89 (amounting to less than a third of the planned cumulative fiscal adjustment of £13½bn in the new MTFS) reflecting real increases in public expenditure and "balance of payments constraints on growth and inflation." Claimed that "credibility gap" has arisen over government's anti-inflation objectives; a firm policy move (similar to last year's package) is required to dampen domestic inflationary expectations.

FORECAST DETAILS

- Little change is expected in the saving ratio but rpdi grows by 3 per cent this year and next. This underpins growth in consumer spending of 2½-3 per cent in 1984 and about 2½ per cent in 1985.

- Budget measures expected to bring forward investment expenditures. As a result manufacturing investment (inc. leased assets) rises by 10-12 per cent this year compared to 6½-7 per cent pre-budget. Total fixed investment grows by 5½ per cent in 1984.

- Rising OECD activity sees export volumes expanding by almost 6 per cent this year while non-oil export volumes expand by 4 per cent. The current account shows a surplus of £0.8bn for 1984 (down on their previous forecast) but moves into virtual balance in 1985.

- Average earnings grow by 7-7½ per cent in the current round with slightly lower settlements offset by higher wage drift. Inflationary pressures remain subdued and retail price inflation moves slowly up to 5½ -6 per cent by end-1985.

KEY INDICATORS

(May forecast in brackets)

	GDP(A) (% chg on prev yr)	RPI (% chg on prev year - Q4)	Unemployment (UK adults-Q4) millions	Balance of payments on current account (£bn)	PSBR (£bn -fiscal year)
1984	3.2 (3.2)	5.0 (4.9)	2.98 (2.97)	0.8(1.5)	8.0 (8.0)
1985	2.2 (2.1)	5.9 (5.5)	2.89 (2.85)	-0.1 (-0.6)	6.7 (6.7)

EB
31 May 1984

Phillips & Drew
ECONOMICS UNIT

PRESS INFORMATION

Embargo: 00.01 hours Friday 1 June 1984

Further information: Dr. Paul Neild 01-628 4444 Night: 0480-65993

TROUBLES IN PERSPECTIVE

When confidence is undermined it is easy to lose a sense of perspective regarding underlying economic trends. The large US budget deficit, US banking difficulties, Latin American debt and the response of the Federal Reserve to escalating US inflation expectations have combined to weaken confidence in the world economy. Simultaneously, a perception that the UK Government has diluted its anti-inflation stance has meant that the credibility of the Government's own economic strategy has been put into doubt at home. However, it is necessary to put these developments in perspective.

The US economy is in fundamental imbalance. This is serious. The budget deficit keeps interest rates higher than otherwise, which boosts capital inflows and underpins the dollar. The resulting uncompetitiveness of US production fosters a massive trade deficit. An upturn in activity on this basis cannot be sustained beyond the point at which inflation expectations begin to escalate. This point has been reached. The US represents 40% of free-world output. It is difficult for the UK to insulate itself from nearly half the world. This can only be done if there is absolute confidence in policies at home.

Unfortunately, this is no longer the case. A credibility gap has arisen, no matter whether justified or not, between the Government's presumed intentions and its actions. The Government's intention is presumably to keep inflation at worst on a stable path and at best on a downward path. The latest (April) output price and retail price figures have left a feeling of uneasiness that neither of these objectives is being attained. Meanwhile, the well-known front-end loading of the PSBR in conjunction with strong private sector lending has put the Government's £M3 guideline potentially in jeopardy, even though it is not being exceeded at the moment. Hence domestic inflation expectations are now probably rising, along with those in the US.

Contd/.....

PAUL NEILD DAVID ROBINS BRENDAN BROWN TIM O'DELL
STEPHEN LEWIS CHRIS ANTHONY BILL MARTIN JOHN SILLS

The first point to make here is that the UK Government is in a much better position to deal with this escalation than is the US Administration. UK fiscal and monetary policies are in much better balance. The second point to make is that, as in the US, actual cost pressures, as opposed to potential pressures, are being largely contained. A firm policy move now can stop the rather more pessimistic expectations from being turned into reality.

The Government has already accepted higher base rates. Last July the Chancellor introduced a £1bn package aimed at reducing public sector net spending. Circumstances were different then in that we had a new Chancellor operating in a post-Election environment. It is no doubt more difficult for a Chancellor to accept that similar action may be needed this year, when the ink on his first Budget is hardly dry. Yet such a package would go a long way towards restoring confidence in what is basically a much more soundly based economic revival than the example provided by the United States.

Failure to act may still see the present difficulties overcome. But it cannot be guaranteed to do so.

Phillips & Drew
120 Moorgate
London EC2M 6XP
Telephone 01-628 4444
Telex 291163

96:1

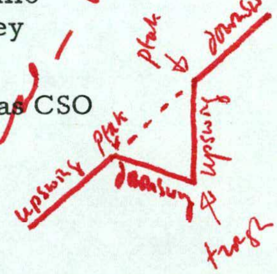
FROM: A SMITH
DATE: 12 June 1984

CHANCELLOR OF THE EXCHEQUER ← 12|2

cc Sir Peter Middleton
Sir Terence Burns
Mr Battishill
Mr Evans
Mr Odling-Smee
Mr Culpin
Mr Folger o.r.
Mr Shields
Mr Horton
Mr Lord
Mr Portillo
Mr Ridley
HE/13

Mr Lomas CSO

Thanks. I note para 6, & agree with it. At para 7, we mustn't clearly talk of the 'recovery', rather than the 'upswing', and say something about the pace of recovery slowing down at the time (when) the CSO downswing appears notwithstanding – NB:



N.

CYCLICAL PEAKS

You asked, when we met to discuss last month's first order Questions, for a note on what it would take for the CSO's cyclical indicators to define a peak in the current increase in activity and hence a subsequent "downswing".

2. I attach a factual note, based on advice from CSO, which explains how the cyclical indicators are applied. The short answer to your question is that a peak is defined when the level of activity, as defined in the composite coincident indicator, shows its maximum divergence from its long term trend value. This is illustrated in the chart also attached. It is important to note that a cyclical peak, as defined, can occur without the level of activity dropping at all. Indeed GDP can go on growing through the downswing (as it did 1964 to 1967, for example).

The next peak

3. In considering the timing of the next peak there are several specific points to note given the recent and possible future path of activity:

(i) In the absence of shocks, it could well be that the next peak - however defined and dated - will not be followed by a fall in the level of output over the "downswing" as a whole. A 1960's style "growth recession" seems more likely.

(ii) Preliminary assessments of the current 'trend' involve extrapolations of recent centred moving averages of actual growth rates. This means that the trend is only slowly moving up to the recent actual rate of increase of 3 per cent. If growth merely now stays at about 3 per cent pa the effect will be to show a flattening-off in the indicator, but no peak.

(iii) A peak will, however, be registered if the growth rate falls below 3 per cent p.a. for a sustained period - whatever the reason. Thus, a decline in North Sea output (or even a reduction in its contribution to GDP) could contribute to a downswing being registered even if utilisation rates in the onshore economy remain unchanged.

4. The possible sensitivity of the cyclical indicators to structural change has always been of concern. EA have raised with CSO the issues both of the impact of chnges in North Sea output on the coincident indicator and the weight attached to manufacturing sector series in the leading indicators. Further discussions should help, at the least, in establishing a solid defensive line on briefing if what seems to be an 'inappropriate' peak looks like being registered.

Conclusions

6. Clearly, further discussions with CSO about the significance of the points above will be useful, in advance of any warning signs from the leading indicators.

7. More immediately, one lesson seems to be that, save for specialised audiences, we should avoid talking about present growth as an "upswing". Otherwise we shall be hooked onto calling the post-peak phase a "downswing" or "recession" when from the lay point of view it may well be more sensible to talk of a period of "moderating growth". It would be helpful to have your views on that, please.

A. Smith
A SMITH
EB

how long a 'sustained period'?
miners' strike?

Annex 1

Definition of cyclical peak

1. A peak in the business cycle is defined by the CSO as the time at which when economic activity (as assessed in their cyclical indicator system by the three measures of GDP at constant prices, retail sales and the output of the production industries) reaches the maximum deviation from a calculated long-term trend (a centred 5 year moving average growth). This is shown schematically in the chart attached.

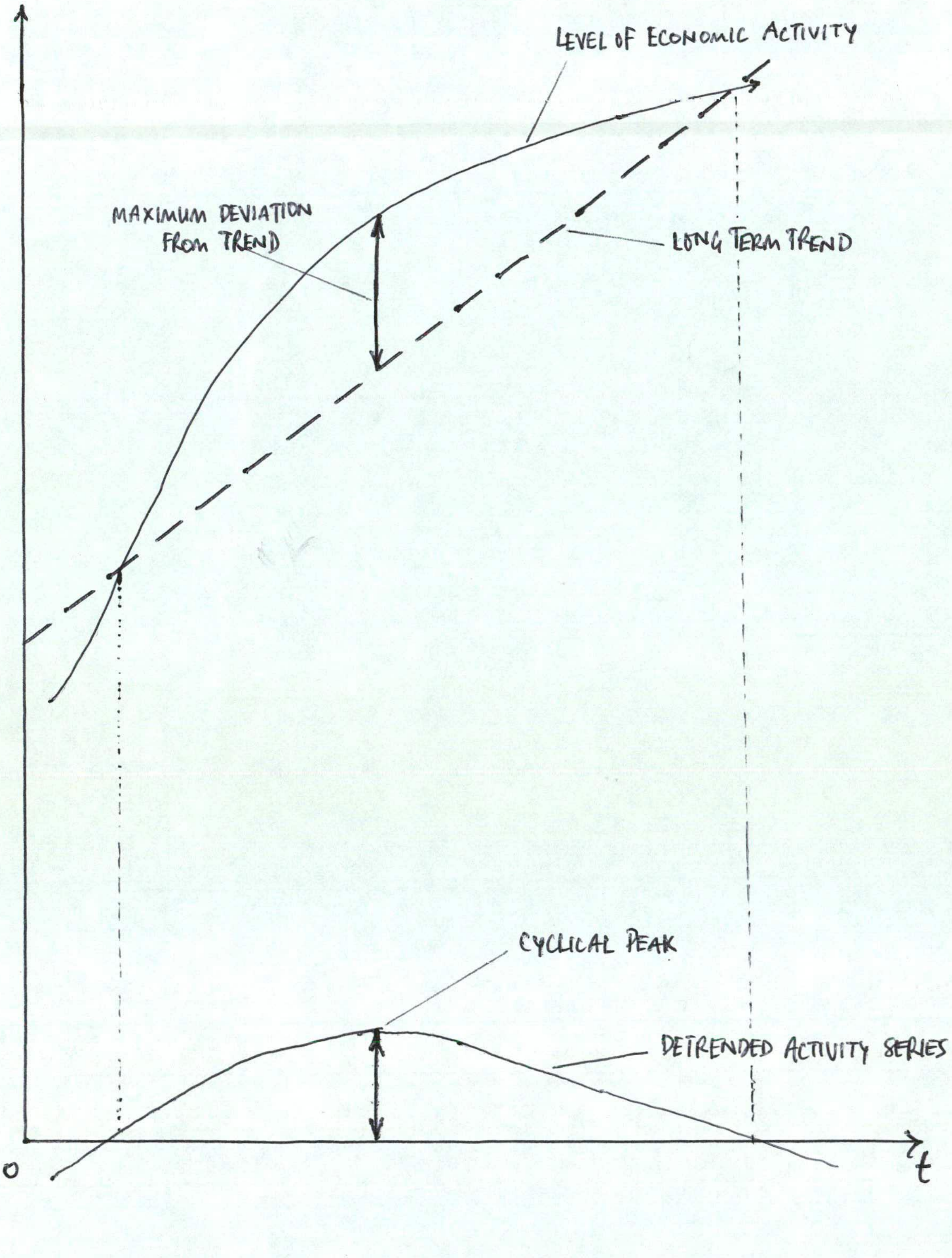
2. Identification of a peak and subsequent downswing does not imply that the level of activity will necessarily start to fall, merely that its rate of growth will change from being above that of long-term trend to being below. Peaks may therefore occur because growth slackens off; in some previous cyclical 'downswings', economic activity continued to rise, though at a slower rate.

Prediction and confirmation of cyclical peaks

3. The CSO cyclical indicators also give advance warning of peaks and troughs in the business cycle (as defined above). The longer and shorter leading indicators exhibit peaks and troughs on average about 12 and 6 months respectively in advance of, and the coincident indicator at about the same time as, the business cycle. However, because the most recent values of the cyclical indicators, based on partial information, are subejct to revision and because the measures themselves can behave erratically, peaks and troughs in the indicators are typically only identified positively around 3 to 6 months after they have occurred. Irregularity in the movement of the indicators caused by industrial disputes, weather conditions and other seasonal influences may make more difficult and could delay the final confirmation of, a cyclical peak (and give rise to 'local' turning points).

4. The first stage in identifying a peak is tentative identification of a peak in the longer leading indicator. It will normally be some 3 to 6 months after a peak in this indicator has occurred before it can be confirmed, thus giving on average around 9 to 6 months' effective warning of a peak in the business cycle. On average, about six months later, the shorter leading indicator should also be exhibiting a peak and the coincident indicator about six months after that. (There can be considerable variation about the average lead times of the indicators but, at each successive stage, confidence in the identification of a cyclical peak increases and the range of most likely dates for the peak is narrowed.)

LOCATION OF CYCLICAL PEAK



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CONFIDENTIAL

FROM: DAVID PERETZ

DATE: 13 June 1984

cc Sir P Middleton
Sir T Burns
Mr Battishill
Mr Evans
Mr Odling-Smee
Mr Culpin
Mr Folger o.r.
Mr Shields
Mr Horton
Mr Lord
Mr Portillo
Mr Ridley

Mr Lomas - CSO

MR SMITH

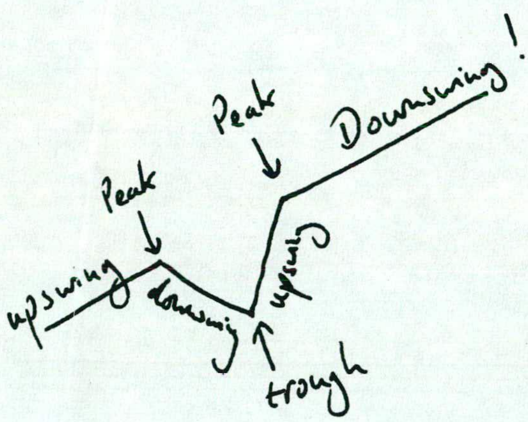
CYCLICAL PEAKS

The Chancellor was grateful for your note of 12 June.

2. On your conclusions, he has noted, and agrees with, paragraph 6.

3. On paragraph 7, he thinks we must clearly talk of the "recovery" rather than the "upswing", and (when the time comes) say something about the pace of recovery slowing down.

4. He has also asked how long a "sustained period" (your paragraph 3(iii)) would be (miners strike?). And he has noted that the CSO terminology could easily produce a complete nonsense, as below:



D L C PERETZ