PO-CH/NL/0143

PART B

Alex Lawson

PART B

SECRET

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PART B

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Begins: ~~16/4/86~~ 21/2/86 DD: 25 years

Ends: ~~16/6/86~~ (CONTINUED)

22/4/86

5/9/95

CHANCELLOR'S 1986 PAPERS ON ECONOMIC STATISTICS, TRADE FIGURES AND THE RETAIL PRICE INDEX (RPI)

PO -CH /NL/0143 PART B

CONFIDENTIAL

FROM: S J DAVIES
DATE: 21 FEBRUARY 1986

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Terence Burns
Sir G Littler
Mr F E R Butler
Mr Byatt
Mr F Cassell
Mr N Monck
Mr E P Kemp
Mr H P Evans
Mr G E Fitchew
Mr J Odling-Smee
Mr D Peretz
Mr M Scholar
Mr A Turnbull
Mr R Culpin
Mr J F Gilhooly
Mr C Melliss
Mr C Mowl
Miss M O'Mara
Miss M Peirson
Mr C Riley
Mr Pickford
Mr H J Davies
Mr Norgrove No 10

Ch.
It may be a matter of the time at which forecasts are done as opposed to published, but the outside forecasters, incl LBS, are using significantly higher assumptions about oil prices than us.
See some charts & extracts from the Outlook — including the article on lower oil prices & the Holt Report, by Bill Robinson.
RL
21/2

The Robinson piece may have some ideas for the Budget speech; also has some nice charts.

Yes:! Have retained!

Thanks. I do not recognise X (p5). NB also Y: HMT [illegible] higher inflation [illegible] (RPI) as [illegible] fall in oil price: [illegible] a lower rate of [illegible] assumption (if wrong) needs [illegible] Budget.

LBS FEBRUARY ECONOMIC OUTLOOK

The latest London Business School forecast will be released over the weekend. For their central forecast, the LBS have assumed that the price of North Sea Oil averages $20 a barrel for the rest of the year.

2. The main features of the forecast are:

- GDP growth of 2½ per cent in 1986, followed by 3 per cent in 1987.
- Retail price inflation falls below 3½ per cent by the middle of this year.

- Total employment rises by 1½ per cent a year over the medium term, and unemployment falls by 100,000 a year.

- No tax cuts in the Budget, and a PSBR of £9.1 bn in 1986-87.

- Current account surplus of £3½ bn in 1986, but a deficit emerging in later years.

Demand and output

3. The overall shape of the forecast is not dissimilar to our own and other recent forecasts. Falling price inflation and some inertia in earnings lead to a relatively large increase in personal income in 1986; the savings ratio rises and personal consumption grows slightly less than real personal disposable income. The LBS have a 3¾ per cent rise in RPDI (with no fiscal adjustment) and a 3¼ per cent rise in personal consumption (with a 5 per cent rise in spending on durables).

4. The LBS have a fairly bullish forecast for private non-oil investment in 1986. A pick up in private residential investment is forecast, reflecting the strength of house prices in 1985; in 1986 as a whole this category of investment rises by 5 per cent. Non oil private business investment is also forecast to rise by 5 per cent in 1986 (after adjustment for privatisation): the LBS believe that the fall in oil prices has improved prospects here. However, with investment in the North Sea forecast to fall, and a slight decline in general government investment, fixed investment in total rises by 2½ per cent.

Inflation

5. The LBS expect the 12 month increase in the RPI to fall below 3½ per cent by mid-year, and the next pay round to start against the background of inflation at around 3½ per cent. The rate of growth of average earnings for the whole economy, currently around 7½ per cent, is expected to fall to 6 per cent by 1987. The deceleration of earnings and a fall in interest rates leads to RPI inflation falling below 3 per cent during 1987: the rate of increase of the consumers' expenditure deflator (which is, as usual, the measure of

inflation to which the LBS give prominence) is 3.8 per cent in 1986 and 3.3 per cent in 1987. The LBS, however, have not allowed for much by way of real increases in domestic rates. As well from biasing down their forecasts of public revenue, this will tend to make their inflation forecasts too low: a more realistic forecast for domestic rates could add almost ½ per cent to their inflation forecast for the end of 1986.

Fiscal and Monetary Framework

6. The LBS expect a PSBR outturn of £8 bn in 1985-86. For 1986-87 the LBS expect expenditure to overshoot the planning total by almost £2 bn, and North Sea revenues to fall to just £6.3 bn - some £5 bn below the 1985 MTFS projection. The main counterparts to this total £7 bn deterioration in the accounts since the 1985 MTFS are (i) a £2½ bn higher PSBR than projected in the MTFS (at £9.1 bn) and (ii) no tax cuts: the LBS do not see any large offset to the lower oil revenues from more buoyant non oil receipts. At a meeting that Sir Terence Burns held with the LBS forecasters yesterday the LBS admitted to being surprised at the recent improvement in government revenues, but it was not clear whether they would now want to reconsider this part of their forecast.

7. The 7 per cent average growth in M0 shown for 1986 reflects a peculiarity in the quarterly data that the LBS are using for 1985: their data does not correspond to any published data. The text of the Outlook makes no reference to this high figure for M0 growth; indeed it says that monetary policy is assumed to be "broadly in line with £M3 and M0 targets" set out in the 1985 FSBR.

8. The LBS expect that sentiment towards sterling will improve during the course of the year, and that the authorities will take advantage of this improvement in sentiment to allow a fall in interest rates. The sterling index stands at 74 at the end of of 1986, and 73 at the end of 1987, while bank base rates fall to 11 at the end of this year and 9 at the end of 1987.

Balance of Payments

9. There is little difference between the LBS and the latest internal Treasury forecast on balance of payments prospects for 1986. A £2½ bn

deterioration in the visible trade balance is offset by a £2 bn improvement in invisibles.

The effect of lower oil prices

10. This issue of the Economic Outlook contains short articles about the effect of lower oil prices on the UK and the world economy, and about the relationship between oil and trade in manufactures. A separate brief by MP2 division on the LBS oil price simulation is attached.

Long term unemployment

11. The Economic Outlook also contains a note on some research carried out at the LBS into the relationship between long term and short term unemployment. This was not well received when delivered recently at an LSE seminar and seems unlikely to arouse much interest.

Assessment and Line to Take

12. In spite of the fall in oil prices since the Autumn Statement, the prospects that the LBS show now for 1986 are pretty similar to what we published in the Autumn Statement. It would be wrong to make anything of the difference between the LBS forecast of 2½ per cent growth in 1986 and the autumn Statement's 3 per cent - particularly in view of the record of downward bias in growth forecasts since 1981. And the LBS do show growth picking up further next year.

National Institute

13. A new forecast is to be published on Tuesday evening by the National Institute. A brief on it will be sent up on Tuesday. It is, as usual, rather more gloomy about prospects for the next two years than either ourselves or the LBS.

S J DAVIES

LBSFfsta

COMPARISON OF FORECASTS FOR 1986

	LBS February 1986	Treasury Autumn Statement	Treasury Winter Forecast*
% Change on year earlier			
Gross Domestic Product	2.4**	3½	3½
Consumers' expenditure	3.2	4	4
Total fixed investment	2.6	3½	3¾
Exports of goods and services	4.4	2	3½
Imports of goods and services	5.0	4	5½
General government consumption	1.2	½	½
Stockbuilding (contribution to GDP)	0.1	½	¼
Manufacturing output	3	2½	2½
Current Account (£ bn)	3.5	4	4¼
PSBR (£bn financial year)	9.1	7.7	7.6
£M3 (% change in financial year)	12.3	12*	13
MO (% change in financial year)	7.3	4*	3½
RPI Q4	3½	3¾	4

* Unpublished

** Output Measure

LBSFfsta

4/1474

LBS ECONOMIC OUTLOOK: EFFECTS ON FORECAST OF OIL PRICES

1. The LBS Economic Outlook includes the results of an assessment of the effect on the UK economy of a fall in world oil prices of $5 per barrel: their main forecast assumes that oil prices remain at about $20 per barrel. There is also an article by Robinson and McCullough discussing the response of the UK manufacturing sector to the decline in oil prices and relating this to the Report of the House of Lords Select Committee on Overseas Trade. They are encouraged by recent performance, although noting that an erosion of recent gains to competitiveness by excessive wage settlements would pose a serious problem.

2. For the UK economy LBS have assumed fixed nominal interest rates and a free PSBR. They have also assumed that the fall in oil prices leaves unchanged North Sea production, exploration and investment. The simulation of lower oil prices is summarized below.

Effect on key indicators of $5 fall in oil price

		oil price - $5 86Q1-88Q4
GDP (%)	86	0.4
	87	1.2
	88	1.3
Prices (%)	86	-0.9
	87	-0.8
	88	-0.3
Exchange rate (%)	86	-6.3
	87	-6.1
	88	-5.1
Current Account (£ bn)	86	-0.2
	87	-0.9
	88	-0.6
PSBR (£bn financial year)	86	1.7
	87	1.0
	88	0.4

The LBS assume that world inflation falls in 1986 and 1987, and production and trade rise: the magnitudes are broadly similar to our own assessment as reported in the Treasury Economic Forecast of 30th January.

3. Lower oil prices have a decidedly favourable effect on the UK economy, according to LBS. Inflation falls by almost 1 per cent in 1986 - although it rises slightly in 1988 compared with the base forecast. GDP is about ½ and 1 per cent higher in 1986 and 1987, implying that GDP would grow by 2¾ per cent in 1986 and 3¾ per cent in 1987. Underlying this increase in GDP are rises in net exports, consumption and investment. The fall in the exchange rate and earnings and prices help UK competitiveness, and this, along with the rise in OECD imports, explain the rise in net exports. Consumption rises because real personal disposable income improve as prices lead earnings down.

Comment

4. A Treasury assessment of $5 lower oil prices done on the same policy assumptions as those used by LBS would indicate a less favourable picture. This shows a smaller rise in the level of GDP, about ½ per cent a year from 1986 to 1988, and a small rise in RPI inflation, of about ¼ per cent over the same period. The main reason for this discrepancy is that the LBS do not allow for the rise in the price of manufactured imports resulting from the fall in the exchange rate to affect UK producer prices. This omission seems hard to justify and, perhaps as a result, the sterling price of oil is given too high a weight in their relationship for producer prices. Whilst this might not normally be expected to seriously distort results, it will tend to do so when oil prices diverge from prices generally. The fall in inflation in the first year seems to be the main reason why, compared with the Treasury assessment, on GDP. LBS is more optimistic on GDP.

Line to take

5. Assessments of changes in world oil prices are subject to great uncertainty, especially one as large as $5. This is particularly so in the areas of the trade response of OPEC countries, and the financial consequences on debtor nations and creditors. We are perhaps a little surprised by the size of the favourable effects on UK GDP and inflation obtained by LBS. Our own view is that a fall in oil prices would have broadly neutral effects.

MP2 DIVISION

FROM: SIR T BURNS
DATE: 21 February 1986

SIR P MIDDLETON cc Mrs Lomax

PANEL OF OUTSIDE ECONOMISTS

Rachel Lomax's minute of 20 February.

2. I agree that it would be a good idea to assemble a group of outside economists from time to time. In the past such sessions have been helpful. It gives us a chance to get some of them back on the right track, and I'm sure it is very good for the morale of those invited.

3. I would be cautious about the number of occasions per year for such gatherings, at least initially. To begin with we might think in terms of two; say, one soon after the Budget and a second next October. If they go well we could reconsider the timing.

4. Putting together a list of participants for these gatherings is never easy. Alan Budd, Harold Rose, Gordon Pepper, Walter Eltis, Patrick Minford, Michael Beenstock, Tim Congdon, and Sam Brittan came to the last meeting. It might also be sensible to invite Brian Griffiths and John Flemming. We could discuss with the Chancellor whether he wants to cast his net any wider.

T BURNS

COVERING SECRET AND PERSONAL

DEPARTMENTS OF INDUSTRY AND TRADE
– COMMON SERVICES
1 Victoria Street London SW1H 0ET
Telephone Direct Line 01-215 4887
Switchboard 01-215 7877

Mrs R Lomax
Principal Private Secretary
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON
SW1P 3AG

C. To see. Generally good. The big surplus on oil is striking. Ok? Ro 21/2

21 February 1986

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 26 February at 11.30 am and I should be grateful if you would arrange for the Notice to be cleared by 12.00 noon Tuesday 25 February 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

COVERING SECRET AND PERSONAL

LR2.58

FROM: MRS R LOMAX
DATE: 24 February 1986

SIR TERENCE BURNS

cc PS/Chief Secretary
Sir P Middleton
Mr F E R Butler
Mr Evans
Mr Scholar
Mr Turnbull
Mr Pratt

ECONOMIC PRESENTATION TO CABINET

Following last week's PCC discussion No 10 have pencilled in Friday 6 June for your economic presentation to Cabinet. I am told that - 23 ~~March~~ May apart - an earlier date is unlikely to be possible. But we can try for a later date if that seems sensible nearer the time.

RACHEL LOMAX

LR2.63

CONFIDENTIAL

FROM: MRS R LOMAX
DATE: 24 February 1986

MR S J DAVIES

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Cassell
Mr Monck
Mr Evans
Mr Odling-Smee
Mr Scholar
Miss O'Mara
Mr H Davies

LBS FEBRUARY ECONOMIC OUTLOOK

The Chancellor was grateful for your minute of 21 February.

2. He has commented that he does not recognise the Treasury Autumn and Winter Forecast for GDP shown in the table at the back of your note (3½ per cent in both cases).

2. The Chancellor has noted that the Treasury assessments of $5 lower oil prices done on the same policy assumptions as the LBS would indicate a less favourable view - including a small rise in RPI inflation. He has commented that the Treasury is alone in forecasting higher inflation as a result of a fall in the oil price: everyone else forecasts a lower rate of inflation. If this general assumption is wrong it needs disabusing well before the Budget. He is anyhow concerned that we are likely to forecast a rate of inflation which outsiders will find disappointing, in view of what has happened to oil prices.

RACHEL LOMAX

Ms/23

FROM: MRS M HENSON
DATE: 24 February 1986

MR VERNON

GDP (OUTPUT MEASURE) IN 1985Q4

The Chancellor has seen and was grateful for your minute of 21 February.

Meena Henson
MEENA HENSON

155/1

SECRET AND PERSONAL
until 11.30 am on Wednesday 26 February 1986
then CONFIDENTIAL

FROM: J E FLITTON
DATE: 24 FEBRUARY 1986

1. MR KELLY
2. CHANCELLOR

cc as attached list

C/ Context with press briefing?

Ro 24/2 Wed

JANUARY TRADE FIGURES

The January trade figures will be released on 26 February. The current account was in surplus by £1,140 million (c.f. £548 million in December), a record for a single month.

Summary

2. Visibles were in surplus by £140 million and invisibles £1,000 million. The rise in import volumes has levelled off.

Main points

3. (i) Both monthly import and export volumes fell sharply by 7 and 6 per cent respectively. This may reflect abnormally high processing of documents before Christmas;

(ii) the underlying level of non-oil export volume which peaked in the early months of 1985 has shown little change since then. Export volume (excluding oil and erratics) fell by ½ per cent in the latest three months to stand ½ per cent lower than the same three months a year ago. End-year seasonal adjustment has vitiated last month's tentative suggestion of a rise in volume;

(iii) non-oil import volumes having risen steadily during most of 1985 levelled off in recent months and are now

4 per cent higher than a year ago;

(iv) the oil trade surplus of £997 million was more than double the surplus in December and well above the 1985 monthly average. It was a one-off response to falling oil prices, with exports brought forward and imports postponed;

(v) manufacturing trade was in deficit by £700 million in the latest three months compared with £600 million in the previous three months;

(vi) the invisibles estimate of £1,000 million includes £440 million EC VAT abatement relating to the 1984 budget and the first monthly instalment of £70 million of the 1985 abatement. The current £400 million a month projected surplus will be increased to £600 million from February to reflect the VAT instalment and other changes.

Comparison with forecast

4. The internal January forecast expected both import and export volumes of non-oil goods to pick up during the course of 1986 Q1. The fall in both in January reinforces the impression of an erratic month.

Trade prices

5. The fall in the ERI has produced the expected rise in the UVI of both exports and imports, excluding fuels. However, the rises have so far been muted, especially for manufactures, and more can be expected in the coming months. The terms of trade in non-oil goods stayed constant and remains 5 per cent better than a year ago.

Effect on markets

6. The markets are expecting a current account surplus of £500 million (and a trade deficit of £300 million). There is

unlikely to be any significant market impact from the better figures.

Press briefing

7. I should be grateful for clearance of the attached press briefing.

John Flitton

J E FLITTON

SECRET AND PERSONAL
until 11.30 am on Wednesday 26 February 1986
then UNCLASSIFIED

Draft briefing for IDT

Positive

1. The current account surplus of £1,140 million was a monthly record.

2. Continues 1985 pattern of current account surplus in every month in 1985 apart from the erratic March deficit which reflected coal strike effects.

3. Surplus of £140 million on visible trade, compared with average monthly deficit of £170 million in 1985.

4. Fall of 1½ per cent in import unit value index in latest three months will maintain downward pressure on UK inflation.

Defensive

1. **Export volumes falling**

   [Export volume excluding oil and erratics down 7½ per cent since February 1985 peak].

   Some fall from the peak recorded in early 1985 was to be expected. Export volume in latest three months only slightly down on same period a year ago. UK exporters of manufactures retained volume of world trade in 1985.

2. **Manufacturing trade deficit**

   [1985 deficit of £3.0 billion improvement, of over £850 million on 1984.]

   Deficit more than offset by substantial surplus on oil and invisibles. Growing oil surplus bound to mean some

adjustment to structure of balance of payments; has permitted both higher investment overseas and increase in non-oil imports. UK exporters increased share of world trade 1981-85 in volume terms. UK manufacturing output (up 4 per cent in 1984 and 3 per cent in 1985) more important indicator of industrial performance than trade balance.

3. **Invisible projection**

January figure includes £440 million VAT abatement from EC relating to 1984 budget and first instalment of £70 million instalment of 1985 abatement. Other revisions also included.

SECRET AND PERSONAL

until 11.30 AM ON WEDNESDAY 26 FEBRUARY 1986

TABLE 1: CURRENT ACCOUNT

	1985	Aug-Oct	Nov-Jan	1985 Nov	Dec	1986 Jan	1986 year to date
Oil	+ 6.9	+ 2.1	+ 2.1	+ 0.6	+ 0.5	+ 1.0	+1.0
Non-oil	-10.2	- 2.3	- 2.2	- 0.9	- 0.5	- 0.9	-0.9
Total Visible trade	- 2.1	- 0.2	- 0.1	- 0.2	0	+ 0.1	+0.1
o/w trade in manufacturers (BOP basis)	- 3.0	- 0.6	- 0.7	- 0.4	0	- 0.3	-0.3
Invisibles	+ 5.6	+ 1.5	+ 2.0	+ 0.4*	+ 0.6*	- 1.0*	+1.0*
Current Account	+ 3.5	+ 1.3	+ 1.9	+ 0.2	+ 0.5	+ 1.1	+1.1

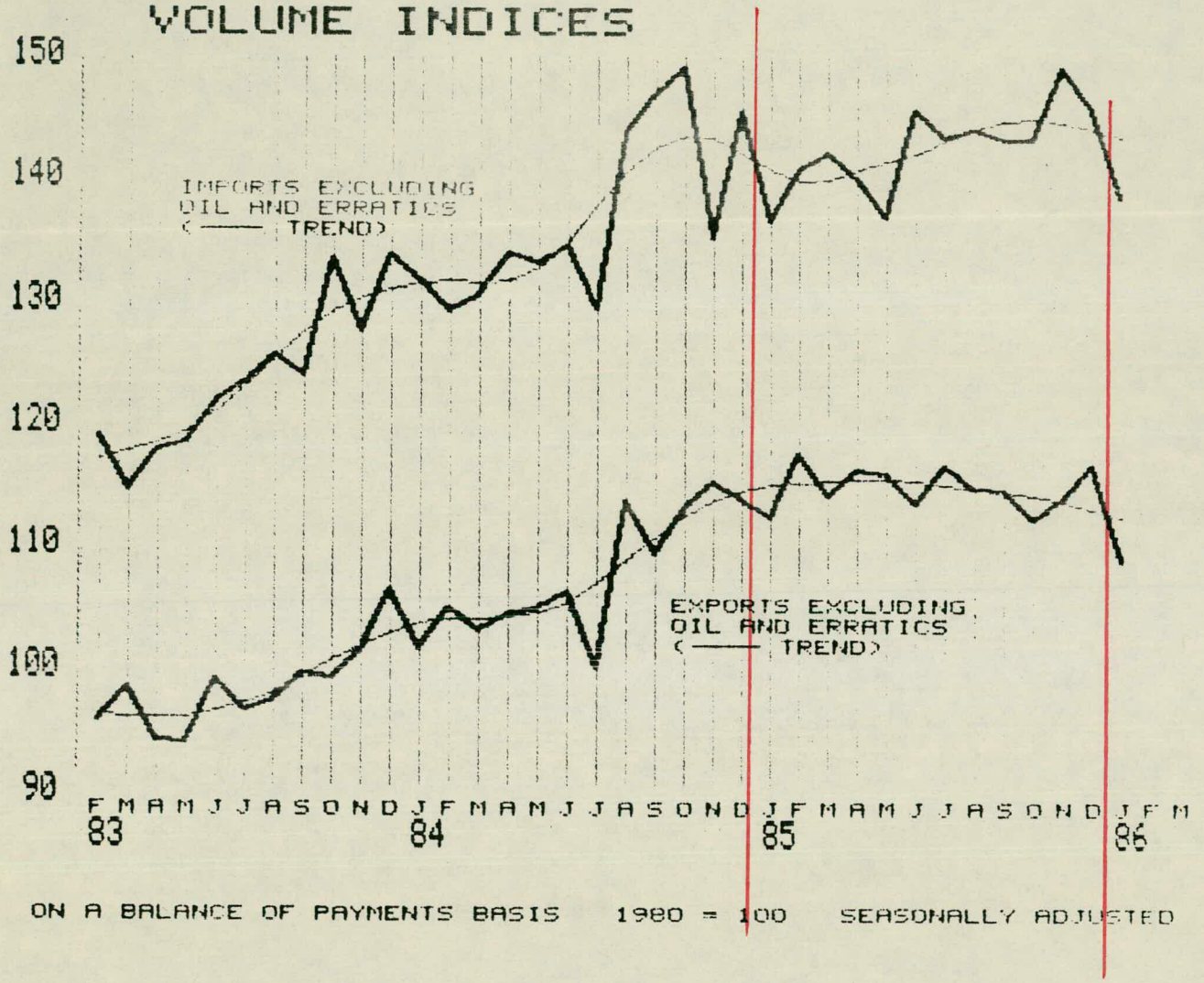
* projection

Note: figures may not sum correctly due to rounding

TABLE 2: EXPORTS AND IMPORTS (percentage change)

	Jan'86 on Dec'85	Nov'85 -Jan'86 on Aug-Oct 85	Nov'85-Jan 86 on Nov'84-Jan'85
i. Exports			
Total value	- 2	+ 1½	- 3
Total volume (BOP basis)	- 1	+ 2	- ½
Total volume excl oil and erratics (BOP basis)	- 7	- ½	- ½
Manufactures volume (excl erratics) OTS basis	- 8½	+ ½	0
Fuels (Volume)	+31	+ 4½	- 2½
ii. Imports			
Total value	- 4½	+ ½	- 6½
Total volume (BOP basis)	- 6	+ 1½	0
Total volume exc oil and erratics (BOP basis)	- 5	+ ½	+ 4
Manufactures volume (excl erratics) OTS basis	- 3½	+ 3½	+ 5½
Fuels (volume)	-16	+ 8	-25

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT 11.30AM 26.2.86



ON A BALANCE OF PAYMENTS BASIS 1980 = 100 SEASONALLY ADJUSTED

SECRET AND PERSONAL

TRADE FIGURES FOR JANUARY 1986

Advance Circulation

Chancellor of the Exchequer
Chief Secretary
Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Lavelle
Mr Cassell
Mr H P Evans
Mr Fitchew

Mr C Kelly
Miss O'Mara
Mr Culpin
Mr S Robson
Mr Mowl
Mr Segal
Mr Barrell

Mr Gill - Bank
Mr Norgrove - No 10
Miss Deuchers - DTI

Circulation after 11.30 am on WEDNESDAY 26 FEBRUARY 1986

Financial Secretary
Minister of State
Mr BUTLER
Mr Byatt
Mr Lankester (Washington)
Mr Sedgwick
Mr Odling-Smee
Mr Melliss
Mr Riley

Mr P Patterson
Mr Matthews (EF)
Mr Shaw
Mr C Pickering
Mr Lord
Mr Davies

RP2.40

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

24 February 1986

W E Boyd Esq
Departments of Industry and Trade - Common Services
1 Victoria Street
LONDON
SW1

Dear Mr Boyd,

The Chancellor has seen your letter of 21 February covering the draft Press Notice on the Current Account. He is content with it as drafted.

Yours sincerely
Rachel Lomax

RACHEL LOMAX
Principal Private Secretary

RP2.41

FROM: P WYNN OWEN
DATE: 25 February 1986

SIR T BURNS

cc Sir P Middleton

ESRC CONFERENCE 18-21 MAY

The Chancellor has seen your minute of 21 February. He is content for Mr Odling-Smee and yourself to accept the invitation.

P WYNN OWEN

CONFIDENTIAL

FROM: S J DAVIES
DATE: 25 FEBRUARY 1986

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Terence Burns
Sir G Littler
Mr F E R Butler
Mr Byatt
Mr F Cassell
Mr N Monck
Mr E P Kemp
Mr H P Evans
Mr G E Fitchew
Mr J Odling-Smee
Mr D Peretz
Mr M Scholar
Mr A Turnbull
Mr R Culpin
Mr J F Gilhooly
Mr C Melliss
Mr C Mowl
Miss M O'Mara
Miss M Peirson
Mr C Riley
Mr Pickford
Mr H J Davies
Mr Norgrove No 10

NATIONAL INSTITUTE ECONOMIC REVIEW: FEBRUARY 1986

The February National Institute Economic Review, which includes the National Institute's latest forecasts for the UK and world economy, is to be released at 9 o'clock this evening. The forecast is based on a North Sea oil price of $20 a barrel. The main features of the forecast are:

- GDP growth of 1.8 per cent in 1986, followed by 1.4 per cent in 1987.

- RPI increase of 4 per cent in the year to 1986 Q4, and 4½ per cent over the following year.

- Almost zero current account balance in 1986, and a £2 bn deficit in 1987.

- Adult unemployment falling by almost 300,000 over the next two years.

The World Background

2. The Institute note that the fall in oil prices should "provide a significant stimulus to domestic demand" in the OECD area. Largely for this reason, growth in the OECD area is expected to be faster in 1986 and 1987 than in 1985: OECD growth is put at 3 per cent in 1986 (of which Germany 3.7 per cent, Japan 4 per cent, and the US 2½ per cent), and 3-3½ per cent in 1987. Consumer prices in the OECD area are forecast to rise by 3½ per cent on average in both 1986 and 1987. World trade in manufactures is forecast to rise by 6 per cent in 1986, and 6½ per cent in 1987, after an estimated 4½ per cent increase in 1986.

Forecast for the UK

3. 12 months ago the Institute's forecast showed 0.9 per cent GDP growth in 1986, a 6½ per cent increase in retail prices over the year to 1986Q4, and adult unemployment increasing to 3.4 million by the end of the year. Although they have become more optimistic over the last year (0.9 percentage points more growth, 2½ points less inflation, a quarter of a million fewer unemployed), they remain more pessimistic than most other forecasters on prospects for growth, though close to the average of outside forecasts on prospects for inflation in 1986.

Demand and Output

4. Like other forecasters the National Institute expect a pick up in growth in real personal disposable income this year (they have 3.2 per cent growth in 1986 - with no Budget tax cuts - after 2.1 per cent in 1985). This faster growth in incomes does not, however, seem to affect consumers' spending, as they forecast no change in the growth rate in consumers' expenditure (2.6 per cent in both years). The personal saving ratio is forecast to rise by ¾ of a point in 1986 (and a further ¼ of a point in 1987).

5. Total fixed investment is forecast to show no change between 1985 and 1986. Manufacturing investment is expected to fall marginally, public investment to show little change, and investment by distribution and service industries to rise less than suggested by the intentions surveys. Stock building makes a small positive contribution to growth, the external balance a marginal negative contribution.

Inflation

6. Inflation is expected to fall up to the middle of 1986, and then pick up again during the second half of the year (with around 4 per cent growth in the RPI over the year to 1986 Q4). The rate of growth of average earnings is forecast to fall to 6 per cent during the current pay round, and a bit below this for a while during 1987.

Balance of Payments

7. The forecast fall of the current account surplus to near zero in 1986 reflects not a particularly adverse movement in trade volumes, but a very big deterioration in the terms of trade. The Institute expect the average price of imports of goods to be some 11 per cent higher in the second half of 1986 than at the end of 1985; and the price of imports of services to increase by about 10 per cent over the same period. Even with the 8¾ per cent fall in the sterling index that the National Institute forecast over this period, these import price increases seem much too large given the prospects for world prices, and the normal tendency for UK importers' margins to be squeezed when sterling depreciates in real terms.

Fiscal and Monetary Prospects

8. The Institute forecast a PSBR of £8.5 billion in the current financial year, and £9.3 billion in 1986-87. In this respect at least their forecast is very close to that published by the LBS over the weekend. No change in tax rates or allowances beyond indexation is allowed for in either the 1986 or 1987 Budgets.

9. The Institute have on this occasion confined themsleves to a very brief discussion (one paragraph plus a footnote) of monetary prospects and interest rates. No forecasts for monetary aggregates are provided, and it is only from a footnote that one discovers that they now expect short-term interest rates to fall to 10-10½ per cent by the end of 1986 (three months ago they had been forecasting interest rates at 6½ per cent by the end of 1986).

The Institute's Appraisal

10. The Institute's "Appraisal" section discusses the implications of the fall in oil prices for the appropriate level of the exchange rate and the PSBR, and the effect of lower oil prices on UK economic activity. The Institute think that the fall in oil prices has "improved slightly" the prospect for economic activity in the UK - they say nothing about the impact of the fall in oil prices on inflation. The Institute acknowledge that a fall in the real exchange rate was an appropriate response to the fall in oil prices, without specifying how large a change in exchange rates they think appropriate for a given change in oil prices. They are now somewhat more guarded in their approving references to the exchange rate mechanism of the EMS than they were in, for example, last August's Review.

11. On fiscal issues, the Institute argue that raising petrol taxes to make room for cuts in income tax would have "nothing to commend it on macroeconomic grounds". More generally, they argue that a larger PSBR than projected in last year's MTFS would now be appropriate. They believe that an increase in the PSBR due to lower oil revenues would not represent a significantly more expansionary fiscal stance: in the sense that it would not imply a higher level of domestic demand.

Other articles in the Review

12. There are several additional articles in this issue of the Review. A short descriptive article on "Productivity in Services" provides some figures for productivity and employment growth in various service industries over the ten years to 1984. Over this period output per full-time equivalent employee apparently fell slightly in distribution and catering, on the railways, and in sea transport. It rose most strongly in air transport and banking and finance.

13. Another article, by Levitt and Joyce, discusses "Government Output in the National Accounts" but comes to no firm conclusions about the relative merits of the alternative ways available for measuring output in health, education and public administration. The article is not written in a style which is likely to arouse a great deal of interest.

14. The Review also contains papers by members of the National Institute's research staff that were presented yesterday at a conference on the general subject of "Fiscal Expansion and Unemployment". Mr Melliss of MP2 attended the conference, and a note is available from him on request.

Line to Take on the Forecast

15. As often in recent years the National Institute are more pessimistic than most other forecasting teams. They have regularly been proved wrong and one can reasonably question some of the features of the latest forecast which lead to their gloomy result. For example, they do not appear to have allowed for any effect on company spending in 1986 from the boost to profits coming from low oil prices. And they allow for no acceleration in consumer spending despite the acceleration in personal incomes.

Comparison with Treasury Forecasts

16. As noted by Mrs Lomax in her minute to me of 24 February the comparison of forecasts table attached to my note on the LBS forecast had an incorrect figure for 1986 GDP growth in the two Treasury forecasts quoted. I attach a corrected comparison table which includes figures from the draft FSBR forecast being circulated by Mr Evans today, along with the main LBS ($20 a barrel) forecast, and the National Institute forecast.

S J DAVIES

NIER-F25

COMPARISON OF FORECASTS FOR 1986

	NIESR February 1986	LBS February 1986	Treasury Autumn Statement	Treasury Draft FSBR Forecast*
% Change on year earlier				
Gross Domestic Product	1.8**	2.4**	3	3
Consumers' expenditure	2.6	3.2	4	3½
Total fixed investment	-0.1	2.6	3½	4½
Exports of goods and services	2.9	4.4	2	5
Imports of goods and services	3.3	5.0	4	6
General government consumption	1.1	1.2	½	½
Stockbuilding (contribution to GDP)	0.4	0.1	½	0
Manufacturing output	1.2	3	2½	2½
Current Account (£ bn)	0.2	3.5	4	4
PSBR (£bn financial year)	9.3	9.1	7.7	-
£M3 (% change in financial year)	n.a	12.3	12*	12½
MO (% change in financial year)	n.a	7.3	4*	3
RPI Q4	4.0	3½	3¾	4

* Unpublished

** Output Measure

LBSFfsta

LR2.69

FROM: MRS R LOMAX
DATE: 26 February 1986

MR S J DAVIES

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Monck
Mr Evans
Mr Odling-Smee

NATIONAL INSTITUTE ECONOMIC REVIEW: FEBRUARY 1986

The Chancellor has seen your minute of 25 February. He wonders why NIESR expect 1½% growth a year to produce a steady decline in unemployment of about 12,000 a month - given that twice that growth rate in 1985 has produced no fall in unemployment at all.

RACHEL LOMAX

REVISED DRAFT.

COPY 3..
No. (15)

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THE CURRENT ACCOUNT OF THE UNITED KINGDOM

BALANCE OF PAYMENTS

JANUARY 1986

The current account for January is estimated to have been in surplus by £1140 million compared with a surplus of £548 million in December. In January, exports were valued at £6255 million and imports of £6116 million so that trade in goods was in surplus by £140 million.

The invisibles balance in January is projected to be in surplus by £1000 million. This includes the balance of £438 million of VAT abatement received from the European Community in respect of their 1984 budget. The surplus on other invisibles transactions comprises a large surplus on the transactions of the private sector and public corporations and a deficit on other Government transactions.

NOVEMBER 1985 TO JANUARY 1986

In the three months ended January, the current account showed a surplus of £1.9 billion compared with a surplus of £1.3 billion in the previous three months. There was a deficit on visible trade of £0.1 billion in the latest three months compared with a deficit of £0.2 billion in the previous three months. The surplus on invisibles is projected at £2.0 billion.

CURRENT ACCOUNT

TABLE 1 — £ million, Seasonally adjusted

		Current Balance	Visible Trade			Invisibles Balance [c]
			Balance	Exports fob	Imports fob	
1984		+ 832	- 4391	70367	74758	+ 5222
1985		+ 3535a	- 2068	78072	80140	+ 5603a
1984	Q4	+ 150	- 1623	19186	20808	+ 1772
1985	Q1	- 391	- 1266	20070	21336	+ 875
	Q2	+ 1533	- 124	20237	20361	+ 1657
	Q3	+ 1252	- 453	18748	19201	+ 1705
	Q4	+ 1141a	- 225	19018	19242	+ 1366a
1985	Aug	+ 402	- 167	6105	6272	+ 569b
	Sept	+ 481	- 87	6242	6328	+ 568b
	Oct	+ 407a	+ 7	6329	6323	+ 400a
	Nov	+ 186a	- 214	6301	6515	+ 400a
	Dec	+ 548a	- 18	6387	6405	+ 566a
1986	Jan	+ 1140a	+ 140	6255	6116	+ 1000a

a Invisibles for October to January are projections and subject to revision as information becomes available. VAT abatements received from the E.C in December and January have been included in the projections for those months.

b One-third of the appropriate calendar quarter's estimate.

c Information relating to credits and debits can be found in Table 3.

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Aug-Oct 1985 +1290 -247 18676 18923 +1537

Nov-Jan 1986 +1874a -92 18944 19035 +1966a

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VISIBLE TRADE IN JANUARY 1986

There was a surplus on visible trade in January of £140 million compared with a small deficit in December. The surplus on oil increased sharply by £507 million reflecting the exceptional market conditions in January. The deficit on non-oil trade increased by £349 million.

At £6255 million, exports in January were £132 million (2 per cent) lower than in December. Exports of oil increased by £265 million (24 per cent) while exports of the erratic items fell by £63 million. Excluding these, exports fell by 7 per cent between the two months.

Total imports were valued at £6116 million in January which was £289 million (4½ per cent) lower than in December. Imports of oil fell by £242 million (38 per cent) while imports of the erratic items rose by £80 million. Excluding oil and the erratic items, imports fell by 2½ per cent between December and January.

The terms of trade index was unchanged in January as were both the export unit value index and the import unit value index.

RECENT TRENDS

Visible balance

In the three months ended January, there was a deficit on visible trade of £0.1 billion - a surplus on trade in oil of £2.1 billion offset by a deficit of about £2.2 billion on non-oil trade. Between the three months ended October and the latest three months, the deficit on visible trade fell by about £0.2 billion - the

surplus on oil increased by £0.1 billion and the deficit on non-oil trade fell by £0.1 billion.

Exports

Exports amounted to £18.9 billion in the latest three months, £0.3 billion (1½ per cent) higher than in the previous three months. Exports of oil increased by £0.1 billion and exports of the erratic items increased by £0.2 billion. Excluding oil and the erratic items, exports fell marginally in the latest three months.

Between the three months ended October and the latest three months, total export volume increased by 2 per cent to a level slightly lower than that of a year ago. Excluding oil and the erratic items however, export volume fell marginally in the latest three months. Given the erratic movements in December and January it is hard to determine the trend in the underlying level.

Imports

Total imports were valued at £19.0 billion in the latest three months, £0.1 billion (½ per cent) higher than in the previous three months. Imports of oil increased by £0.1 billion while imports of the erratic items were virtually unchanged. Excluding oil and the erratic items imports were little changed compared with the three months ended October.

Between the three months ended October and the latest three months, total import volume increased by 1½ per cent to a level broadly

similar to that of a year ago. Excluding oil and the erratic items, import volume increased only marginally. As with exports, the underlying level of non-oil import volume is at present somewhat obscured by irregular movements in the index but there does not appear to have been any significant change in recent months.

TERMS OF TRADE AND UNIT VALUES

The terms of trade index increased by 1 per cent in the latest three months. The export unit value index fell by ½ per cent and the import unit value index fell by 1½ per cent. Compared with the same period a year ago, the export unit value index has fallen by 1½ per cent while the import unit value index has fallen by 6½ per cent. As a result, the terms of trade index is now about 5½ per cent higher than a year ago.

Export unit values for basic materials fell by four per cent in the latest three months and those for fuels by one and a half per cent. There was little change elsewhere although export unit values for finished manufactures increased marginally.

Among the import unit values, those for fuels fell by 3 per cent and basic materials fell by 4½ per cent. Import unit values for manufactures were only marginally lower in the latest three months than in the three months ended October while those for food, drink and tobacco fell by 1 per cent.

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Analysis by area

By value, exports to the developed countries fell marginally in the latest three months. Within the total for the developed countries, exports to the European Community countries fell by 5½ per cent while those to North America and to the rest of Western Europe grew by 10 per cent and 8½ per cent respectively. Exports to the developing countries increased by 3 per cent in the latest three months.

The value of imports from the developed countries increased by 1 per cent between the three months ended October and the latest three months with higher arrivals from the European Community countries offsetting lower imports from the rest of Western Europe and from North America. Imports from the developing countries rose by 5½ per cent - mainly reflecting higher oil imports from Saudi Arabia.

NOTES TO EDITORS

1 ANNUAL REVISIONS

Revisions have been made to data from 1983 onwards. These revisions mainly relate to the annual updating of seasonal factors. In particular the new seasonally adjusted figures show a smoother and flatter path in 1985.

2 SPAIN/PORTUGAL

Spain and Portugal are now members of the European Community. In this press notice all references to EC includes these two countries.

3 AREA DATA (tables 11 and 15)

Low value consignments ie items of an individual value less than £475, are not analysed by country. Area figures in tables 11 and 15 are therefore deficient to the extent of these consignments.

In addition the data by area are seasonally adjusted independently leading to further differences between the sum of areas and figures for total trade.

4 STANDARD NOTES

A revised version of these notes accompanies this Press Notice.

The standard notes describe the differences between the Balance of Payments (BOP) and the Overseas Trade Statistics (OTS) bases of compilation. Additional copies can be obtained from the address below.

5 MONTHLY REVIEW OF EXTERNAL TRADE STATISTICS

The Monthly Review of External Trade Statistics, a publication containing charts and tables on the current account of the UK balance of payments, UK exports and imports of goods by commodity and area, and certain international comparisions, is available, (price £3 per copy) from the Department of Trade and Industry at the address given below.

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

INDEX OF TABLES

CURRENT BALANCE, VISIBLE TRADE AND INVISIBLES

(Balance of Payments basis)

£ million seasonally adjusted

		Current Balance	Visible Trade					Invisible Balance
			Exports fob	Imports fob	Visible Balance	of which		
						Oil	Non-Oil	
1984		+ 832	70367	74758	- 4391	+ 6937	- 11328	+ 5222
1985		+ 3535a	78072	80140	- 2068	+ 8163	- 10231	+ 5603a
1984	Q4	+ 150	19186	20808	- 1623	+ 1354	- 2976	+ 1772
1985	Q1	- 391	20070	21336	- 1266	+ 1958	- 3225	+ 875
	Q2	+ 1533	20237	20361	- 124	+ 2411	- 2535	+ 1657
	Q3	+ 1252	18748	19201	- 453	+ 1900	- 2353	+ 1705
	Q4	+ 1141a	19018	19242	- 225	+ 1893	- 2117	+ 1366a
1985	May	+ 714	6811	6651	+ 161	+ 844	- 683	+ 553b
	June	+ 383	6496	6665	- 169	+ 799	- 968	+ 552b
	July	+ 369	6401	6600	- 199	+ 585	- 784	+ 568b
	August	+ 402	6105	6272	- 167	+ 653	- 820	+ 569b
	Sept	+ 481	6242	6328	- 87	+ 662	- 749	+ 568b
	Oct	+ 407a	6329	6323	+ 7	+ 754	- 747	+ 400a
	Nov	+ 186a	6301	6515	- 214	+ 649	- 862	+ 400a
	Dec	+ 548a	6387	6405	- 18	+ 491	- 508	+ 566a
1986	Jan	+ 1140a	6255	6116	+ 140	+ 997	- 858	+ 1000a
Nov-Jan 1985		+ 269	19526	20374	- 848	+ 1877	- 2725	+ 1117
Aug-Oct 1985		+ 1290	18676	18923	- 247	+ 2069	- 2316	+ 1537
Nov-Jan 1986		+ 1874a	18944	19035	- 92	+ 2136	- 2228	+ 1966a
% Change Latest 3 months on - previous 3 months			+ 1½	+ ½				
Same 3 months one year ago			- 3	- 6½				

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

b One third of the appropriate calendar quarter's estimate, except for budget refunds received from the European Community which are allocated to the month they are known to have been received.

Table 3

INVISIBLES

£ million seasonally adjuste

		All Sectors						Private Sector and Public Corporations[d]		
		Credits	Debits	Balance	of which			Credits	Debits	Balance
					Services	Interest Profits Dividends	Transfers			
1982		64676	62974	+ 1702	+ 2645	+ 1058	- 2001	60178	54382	+ 579
1983		65199	61237	+ 3962	+ 3671	+ 2431	- 2140	60588	52385	+ 820
1984		76499	71277	+ 5222	+ 4186	+ 3340	- 2304	71601	61671	+ 993
1983	Q4	16458	15675	+ 783	+ 900	+ 609	- 726	15398	13329	+ 206
1984	Q1	17576	16547	+ 1029	+ 1003	+ 558	- 532	16314	14176	+ 213
	Q2	17927	16820	+ 1107	+ 984	+ 871	- 748	16926	14465	+ 246
	Q3	19461	18147	+ 1314	+ 1129	+ 917	- 732	18470	15793	+ 267
	Q4	21535	19763	+ 1772	+ 1070	+ 994	- 292	19891	17237	+ 265
1985	Q1	21308	20433	+ 875	+ 1164	+ 749	- 1038	20122	17513	+ 260
	Q2	20104	18447	+ 1657	+ 1643	+ 719	- 705	19097	16036	+ 306
	Q3	19467	17762	+ 1705	+ 1763	+ 881	- 939	18305	14913	+ 339

d ie excluding general Government transactions and all transfers.

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EXPORT AND IMPORT UNIT VALUE AND VOLUME INDEX NUMBERS

Table 4

(Balance of Payments basis)

Indices 1980 = 100

		Unit Value (Not seasonally adjusted)			Volume (seasonally adjusted)	
		Exports	Imports	Terms of Trade[e]	Exports	Imports
1984		136·0	139·7	97·4	112·5	121·9
1985		143·5	145·2	98·8	118·6	125·7
1984	Q4	141·3	145·8	96·9	118·7	130·1
1985	Q1	146·4	152·3	96·1	118·6	126·6
	Q2	145·5	148·8	97·8	120·5	124·8
	Q3	141·7	141·4	100·2	116·3	124·1
	Q4	140·5	138·3	101·6	118·9	127·4
1985	May	145·3	148·3	98·0	121·8	122·2
	June	144·0	146·1	98·6	117·9	124·7
	July	142·2	143·5	99·1	117·9	126·1
	Aug	141·4	140·3	100·8	114·4	122·7
	Sept	141·4	140·5	100·6	116·7	123·6
	Oct	140·5	139·1	101·0	118·8	125·0
	Nov	140·4	137·6	102·1	118·5	129·6
	Dec	140·5	138·2	101·7	119·4	127·8
1986	Jan	140·8	138·4	101·7	118·1	119·9
Nov-Jan 1985		142·5	147·3	96·7	119·1	125·9
Aug-Oct 1985		141·1	140·0	100·8	116·6	123·8
Nov-Jan 1986		140·6	138·0	101·8	118·7	125·7
% Change						
Latest 3 months on						
- previous 3 months		-½	-1½	+1	+2	+1½
- same 3 months one year ago		-1½	-6½	+5½	-½	-

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

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

Table 5

(Balance of Payments basis)

seasonally adjusted

		Value £ million fob		Volume Index 1980 = 100	
		Exports	Imports	Exports	Imports
1984		65746	71197	115·4	128·8
1985		73765	76598	123·0	133·4
1984	Q4	17914	19811	121·7	137·3
1985	Q1	19171	20233	124·3	133·2
	Q2	18948	19326	124·1	131·4
	Q3	17835	18437	121·5	132·4
	Q4	17811	18599	122·2	136·5
1985	May	6415	6293	126·0	128·3
	June	6048	6418	120·7	133·0
	July	6007	6227	121·7	132·6
	Aug	5928	6132	121·5	132·8
	Sept	5899	6081	121·4	131·9
	Oct	5921	6073	122·1	133·2
	Nov	5898	6293	121·8	138·7
	Dec	5993	6234	122·9	137·6
1986	Jan	5924	5861	122·9	127·2
Nov-Jan 1985		18490	19445	123·8	133·1
Aug-Oct 1985		17748	18286	121·6	132·6
Nov-Jan 1986		17814	18390	122·5	134·5
% Change					
Latest 3 months on					
- previous 3 months		+1/2	+1/2	+½	+1½
- same 3 months one year ago		-3 1/2	-5 1/2	-1	+1

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

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TRADE IN OIL[9]

(Balance of Payments basis)

seasonally adjusted

		Balance of Trade in oil	Exports of Oil					Imports of Oil				
			Total	Crude Oil [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
1984		+ 6937	14852	12173	75.9	160.4	2679	7915	3751	25.0	150.1	4163
1985		+ 8163	16050	12921	79.0	163.5	3128	7887	4155	26.1	159.0	3732
1984	Q4	+ 1354	4066	3411	20.7	165.0	656	2713	1069	6.6	161.5	1644
1985	Q1	+ 1958	4721	3923	21.5	182.3	798	2763	1211	6.9	176.5	1552
	Q2	+ 2411	4336	3499	20.1	174.0	837	1925	1078	6.5	165.6	847
	Q3	+ 1900	3410	2599	17.5	148.4	810	1509	816	5.6	145.4	694
	Q4	+ 1893	3583	2900	19.9	145.9	683	1690	1050	7.2	146.9	640
1985	May	+ 844	1512	1234	7.2	172.4	278	668	382	2.3	163.2	286
	June	+ 799	1286	979	5.9	167.1	307	487	197	1.3	154.8	291
	July	+ 585	1124	808	5.3	152.1	316	539	270	1.8	150.8	269
	Aug	+ 653	1143	852	5.8	148.2	290	490	275	1.9	141.6	215
	Sept	+ 662	1143	939	6.5	145.6	204	481	271	1.9	144.1	210
	Oct	+ 754	1277	1050	7.2	145.8	227	523	291	2.0	143.9	233
	Nov	+ 649	1180	974	6.7	145.8	207	532	327	2.2	150.6	205
	Dec	+ 491	1126	876	6.0	146.1	249	635	433	3.0	146.2	202
1986	Jan	+997	1390	1146	8.3	138.4	244	393	249	1.8	137.4	144
Nov-Jan 1985		+1877	4538	3806	22.6	168.5	732	2661	1018	6.2	163.9	1643
Aug-Oct 1985		+2069	3563	2841	19.4	146.5	721	1494	836	5.8	143.2	658
Nov-Jan 1986		+2136	3696	2996	21.0	143.0	699	1559	1008	6.9	145.3	551
% Change												
Latest 3 months on												
- previous 3 months			+3½	+5½	+8	−2½	−3	+4½	+21	+19	+1½	−16
- same 3 months one year ago			−19	−21	−7	−15	−4½	−41	−1	+12	−11	−66

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

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

		Total								Excluding Erratics[f]			
		Value, £ million, fob (seasonally adjusted)			Unit value index 1980 = 100 (not seasonally adjusted)			Volume index 1980 = 100 (seasonally adjusted)		Value, £ million fob (seasonally adjusted)		Volume index 1980 = 100 (seasonally adjusted)	
		Balance of non oil trade	Exports	Imports	Exports	Imports	Terms of Trade[e]	Exports	Imports	Exports	Imports	Exports	Imports
1984		- 11328	55515	66843	133·5	136·2	98·0	105·1	128·2	50894	63282	107·6	137·0
1985		- 10231	62022	72253	141·8	141·9	99·9	110·6	132·9	57715	68711	115·0	142·6
1984	Q4	- 2796	15119	18095	138·1	141·6	97·6	111·5	134·4	13848	17098	114·2	143·3
1985	Q1	- 3225	15349	18573	142·2	147·1	96·7	109·2	131·6	14450	17470	114·8	139·8
	Q2	- 2535	15901	18436	142·8	144·7	98·7	112·1	132·4	14612	17401	115·3	140·9
	Q3	- 2353	15338	17691	141·6	139·3	101·7	110·0	132·9	14425	16928	115·4	143·6
	Q4	- 2117	15435	17552	140·6	136·5	103·0	111·3	134·7	14429	16909	114·4	146·1
1985	May	- 683	5300	5983	142·7	143·9	99·1	113·2	129·1	4904	5626	116·1	137·0
	June	- 968	5210	6178	142·4	143·0	99·6	111·0	134·9	4762	5931	113·6	145·7
	July	- 784	5277	6062	141·7	140·8	100·6	112·7	134·7	4884	5688	116·6	143·4
	Aug	- 820	4962	5783	141·6	138·5	102·2	107·3	131·4	4786	5642	114·9	144·1
	Sept	- 749	5099	5847	141·5	138·5	102·2	109·9	132·5	4756	5599	114·8	143·2
	Oct	- 747	5052	5799	140·7	137·3	102·4	109·4	132·7	4644	5550	112·3	143·2
	Nov	- 862	5121	5983	140·6	135·8	103·5	111·1	137·8	4717	5761	114·1	149·3
	Dec	- 508	5262	5770	140·6	136·3	103·2	113·5	133·6	4867	5599	116·9	145·7
1986	Jan	- 858	4865	5723	141·9	137·5	103·2	104·7	128·9	4534	5471	108·9	138·5
Nov-Jan 1985		- 2725	14988	17713	139·2	143·0	97·3	109·5	130·3	13952	16785	113·9	139·2
Aug-Oct 1985		- 2316	15113	17429	141·3	138·1	102·3	108·9	132·2	14186	16792	114·0	143·5
Nov-Jan 1986		- 2228	15248	17476	141·0	136·5	103·3	109·8	133·4	14118	16831	113·3	144·5
% Change													
Latest 3 months on													
- previous 3 months			+1	+½	—	-1	+1	+1	+1	-½	—	-½	+½
- same 3 months one year ago			+1½	-1½	+1½	-4½	+6	—	+2½	+1	+½	-½	+4

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

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

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EXPORTS BY COMMODITY
(Overseas Trade Statistics basis)

Table 8

£ million, fob, seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 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	j	j	j	j
1984	70488	4693	1989	15308	46703	42169	16333	8217	8116	25835	1050	4673	11199	8912
1985	78331	4970	2145	16712	52514	48482	18449	9411	9038	30033	1343	5257	13493	9940
1984 Q4	19292	1226	559	4180	12852	11618	4565	2292	2272	7054	289	1297	3084	2384
1985 Q1	20148	1192	579	4892	13035	12181	4692	2384	2307	7489	338	1292	3330	2529
Q2	20258	1284	529	4513	13436	12248	4704	2402	2303	7544	340	1304	3350	2550
Q3	18828	1300	531	3600	12879	12020	4532	2285	2246	7489	336	1342	3394	2416
Q4	19097	1193	506	3708	13164	12033	4522	2340	2182	7512	329	1319	3418	2445
1985 Nov	6325	386	162	1218	4350	3973	1496	781	715	2477	102	445	1140	789
Dec	6418	395	182	1169	4519	4151	1532	800	733	2618	117	456	1188	857
1986 Jan	6297	370	174	1453	4145	3817	1414	736	677	2404	101	415	1073	814
Aug-Oct	18763	1279	522	3734	12713	11835	4485	2260	2224	7351	313	1302	3377	2359
Nov-Jan	19040	1151	518	3839	13014	11941	4442	2317	2125	7499	321	1316	3401	2461
Percentage Change	+1½	-10	-1	+3	+2½	+1	-1	+2½	-4½	+2	+2½	+1	+½	+4½

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

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

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

Table 9

INDICES 1980 = 100, seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 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	j	j	j	j
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1984	112·8	117·2	106·3	160·2	104·4	107·0	112·1	124·3	102·3	103·8	82·4	107·8	105·4	102·6
1985	119·3	119·1	107·0	170·9	110·8	115·7	118·9	133·3	107·5	113·7	99·4	111·6	121·4	107·6
1984 Q4	119·6	121	112	164	112	115	122	135	111	111	85	117	114	108
1985 Q1	119·4	118	110	180	110	116	120	134	109	113	99	109	120	110
Q2	121·0	122	102	176	112	116	120	133	109	114	100	111	120	109
Q3	117·1	123	110	161	109	115	117	130	107	114	102	114	123	105
Q4	119·7	114	106	168	112	116	119	136	105	114	97	112	123	106
1985 Nov	119·2	110	102	166	112	115	119	137	104	113	92	115	124	103
Dec	120·3	113	116	158	115	119	120	138	106	119	101	116	128	112
1986 Jan	119·0	107	116	207	105	109	111	128	98	108	90	102	114	105
Aug-Oct	117·4	122	109	169	108	114	117	130	107	112	96	110	122	102
Nov-Jan	119·5	110	112	177	111	115	117	134	103	113	94	111	122	107
Percentage Change	+2	-10	+2	+4½	+2	+½	-	+3½	-4	+1½	-2	+1	-	+4

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

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

SECRET and personal until release of press notice on 26 FEB 86 at 11.30 a.m.

Table 10

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

INDICES 1980 = 100 not seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 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	j	j	j	j
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1984	136·0	128	131	152	135	133	127	130	125	137	157	135	140	132
1985	143·4	134	140	155	143	142	135	139	132	147	162	147	150	141
1984 Q4	141·2	129	139	162	139	138	132	135	129	141	158	141	144	136
1985 Q1	146·3	132	146	173	143	141	135	139	132	145	161	146	148	139
Q2	145·4	134	146	163	144	143	136	141	133	147	162	147	150	142
Q3	141·6	134	136	142	143	143	135	140	132	147	162	148	151	141
Q4	140·4	134	130	140	142	142	134	137	131	148	163	149	151	141
1985 Nov	140·3	135	130	140	142	142	133	137	131	148	160	149	152	141
Dec	140·4	135	129	141	142	143	134	139	131	148	167	149	151	142
1986 Jan	140·7	134	128	134	144	144	136	140	133	149	165	151	152	142
Aug-Oct	141·0	134	134	141	143	142	135	139	131	147	161	148	151	141
Nov-Jan	140·5	135	129	138	143	143	135	138	131	148	164	150	151	142
Percentage Change	-½	-	-4	-1½	-	+½	-	-	-	+½	+2	+1	+½	+½

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

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

EXPORTS BY AREA
(Overseas Trade Statistics basis)

Table 11

£ million, fob, seasonally adjusted

		Developed Countries						Developing Countries			Centrally planned economies
	Total K	Total	European Community	Rest of W Europe	North America Total	North America USA	Other	Total	Oil exporting countries	Other	
1984	70488	55364	33127	7132	11416	10159	3688	13356	5806	7550	1630
1985	78331	62722	38200	7420	13310	11499	3792	13880	5957	7924	1587
1984 Q4	19292	15076	9249	1817	3071	2760	939	3596	1587	2008	441
1985 Q1	20148	15940	9992	1779	3179	2817	990	3758	1682	2077	389
Q2	20258	16210	9537	2034	3667	3189	972	3606	1510	2096	420
Q3	18828	15203	9312	1790	3182	2715	919	3314	1408	1906	386
Q4	19097	15369	9359	1817	3282	2778	910	3202	1357	1845	392
1985 Nov	6325	5116	3048	624	1136	953	308	1044	440	604	127
Dec	6418	5062	3047	616	1084	929	315	1119	491	629	158
1986 Jan	6297	5015	2970	610	1173	985	272	1099	486	613	143
Aug-Oct	18763	15288	9602	1707	3081	2601	898	3169	1328	1841	350
Nov-Jan	19040	15202	9065	1850	3393	2867	894	3263	1418	1845	428
Percentage Change	+1½	-½	-5½	+8½	+10	+10	-½	+3	+6½	-	+22

K See paragraph 3 of Notes to Editors.

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

INDICES 1980 = 100 not seasonally adjust

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 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	j	j	j	j
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94
1984	138·6	132	133	168	134	133	126	134	123	137	144	135	145	129
1985	143·1	137	130	172	141	141	134	143	130	146	152	147	155	134
1984 Q4	144·1	136	138	180	140	139	131	139	127	144	149	145	150	133
1985 Q1	150·3	142	143	191	146	144	136	146	132	150	154	151	158	133
Q2	146·7	141	136	181	144	143	136	144	133	148	150	147	159	136
Q3	139·2	135	124	161	139	139	132	141	128	144	149	145	154	131
Q4	136·3	132	116	155	137	138	131	140	127	143	156	143	148	131
1985 Nov	135·8	132	117	153	137	138	131	140	127	142	155	142	148	131
Dec	136·2	132	115	156	137	138	130	140	126	143	159	142	147	132
1986 Jan	136·1	133	115	153	137	138	130	139	127	144	160	141	149	133
Aug-Oct	137·8	133	121	159	138	139	131	140	127	144	150	145	152	130
Nov-Jan	136·0	132	115	154	137	138	130	140	127	143	158	142	148	132
Percentage Change	-1½	-1	-4½	-3	-1	-½	-½	-½	-½	-½	+5	-2	-2½	+1½

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

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

IMPORTS BY AREA
(Overseas Trade Statistics basis)

Table 15

£ million cif seasonally adjuste

		Developed Countries						Developing Countries			Centrally planned economie
	Total K	Total	European Community	Rest of W Europe	North America Total	USA	Other	Total	Oil exporting countries	Other	
1984	78967	65279	37408	11184	11067	9368	5620	11514	2934	8579	2043
1985	84790	71520	41413	12025	11703	9920	6379	11233	2782	8451	1894
1984 Q4	21699	17721	9999	2943	3308	2829	1471	3406	821	2585	610
1985 Q1	22565	18709	10596	2940	3600	3074	1573	3296	812	2484	558
Q2	21548	17957	10271	3060	3044	2602	1582	2984	851	2133	441
Q3	20321	17293	10096	3083	2546	2166	1569	2499	499	2000	485
Q4	20356	17561	10451	2942	2512	2078	1655	2454	620	1834	410
1985 Nov	6878	6048	3554	979	888	744	627	847	239	607	124
Dec	6785	5728	3474	911	807	677	536	866	262	604	138
1986 Jan	6487	5535	3314	897	713	641	491	812	204	608	142
Aug-Oct	20032	17145	10118	3004	2515	2106	1509	2392	453	1939	478
Nov-Jan	20151	17311	10402	2787	2467	2063	1655	2525	705	1819	403
Percentage Change	+½	+1	+3	-7	-2	-2	+9½	+5½	+56	-6	-15

K See paragraph 3 Notes to Editors.

SECRET and personal until release of press notice on 26 FEB 86 at 11.30 a.m.

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
1984	4672	8196	-3524	2014	4864	-2850	15308	9917	+5391
1985	4936	8481	-3545	2161	4789	-2628	16712	10094	+6618
1984 Q1	1138	1961	-823	440	1150	-710	3769	1758	+2011
Q2	1175	2037	-862	493	1174	-681	3520	2355	+1165
Q3	1142	2073	-931	519	1192	-673	3840	2507	+1333
Q4	1218	2126	-908	563	1349	-786	4180	3297	+883
1985 Q1	1186	2155	-969	585	1315	-731	4892	3387	+1505
Q2	1276	2153	-877	533	1226	-693	4513	2548	+1965
Q3	1290	2122	-832	534	1162	-628	3600	2067	+1533
Q4	1185	2052	-867	509	1086	-577	3708	2092	+1616

	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
1984	18266	18410	-144	28324	32059	-3735	46590	50469	-3879
1985	20042	19978	+65	32254	35335	-3081	52296	55313	-3017
1984 Q1	4247	4396	-149	6684	7177	-493	10932	11573	-641
Q2	4502	4439	+63	6717	7775	-1058	11218	12214	-996
Q3	4558	4684	-126	7126	8336	-1210	11684	13021	-1337
Q4	4960	4890	+69	7797	8771	-974	12757	13662	-905
1985 Q1	5017	4836	+182	7946	9263	-1316	12963	14098	-1135
Q2	5201	5050	+151	8223	9025	-803	13423	14075	-652
Q3	4852	5126	-274	7960	8361	-402	12812	13487	-675
Q4	4973	4967	+5	8125	8686	-560	13098	13653	-555

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

.2846.05

FROM: H P EVANS
DATE: 4 March 1986

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Byatt
Mr Cassell
Mr Kemp
Mr Odling-Smee
Mr Peretz
Mr Scholar
Mr Culpin
Mr S Davies
Miss O'Mara
Dr Rowlatt
Mr Lord
Mr H Davies

RPI ADVISORY COMMITTEE - HOUSING COSTS

The RPI Advisory Committee is to return to the subject of owner-occupiers' housing costs on Thursday, 6 March. At a meeting held last summer it became clear that most members of the Committee were strongly opposed to a fundamental change in the present methodology which uses mortgage interest payments as the price indicator for this component of owner-occupiers' housing costs. A number of connected issues, including the weight in the RPI, were referred to the working party. The Committee is now invited to express its views on a proposal, recommended by the technical working party, for a revised method of deriving this weight.

2. The weight on this component of the RPI has been rising in recent years. The present methodology bases the weight on expenditure on mortgage interest payments as recorded in the Family Expenditure Survey and more people have been mortgaging an increasing proportion of their house. This has contributed to substantial withdrawal of equity from the housing market and the share of household expenditure spent on mortgage interest payments has accordingly risen.

3. Some time ago, we identified a Treasury interest in removing the mortgage rate from the RPI. But with most members of the Committee strongly opposed, and very much as a second best, we have been trying to reduce the current weight and prevent it increasing in the future. This would reduce the sensitivity of the RPI to mortgage rate changes, which would be a help in the longer term.

4. We have, therefore, worked out an alternative approach. This derives the weight from a formula which generates the expenditure that would have taken place if both the proportion of owner-occupiers with mortgages and the share of the purchase price mortgaged had remained constant. If accepted, this would go a long way to ensure that the further equity withdrawal expected to take place in the future, given financial innovations already in the pipeline, would not increase the weight of this component of the RPI. (The weight would, however, continue to reflect shifts between renting and owner-occupation). DE and the technical working party have found this proposal feasible and are now recommending it to the Committee.

5. The view at the Bank at this stage is that it is very unlikely that a problem will arise with the clause in the indexed gilts prospectus (or with index-linked National Savings certificates) if this change were made to the weights in the RPI. From January 1987 a smaller weight will mean that when (if) nominal interest rates fall from their present levels, the RPI will rise at a slightly faster rate than it would otherwise have done, so that indexed gilt holders are likely to be marginally <u>better</u> off.

6. A recommendation will be made by the Committee concerning the appropriate values to use in the formula for the share of mortgages among owner-occupiers and for the average proportion of the house price covered by a mortgage. In supporting the proposal for a lower weight, I shall press for these values to be kept as low as possible.

7. The Committee intend to finish its deliberations on this and other matters during the summer. This will allow plenty of time for recommendations to be made and considered by Government before January 1987, the expected date for implementation of these changes.

HPE

H P EVANS

38/3

FROM: W HOOD
DATE: 7 March 1986

MR CULPIN

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Evans
Mr Odling-Smee
Mr Peretz
Mr Scholar
Mr Mowl
Miss O'Mara
Mr Riley
Mr S J Davies
Mr Walsh
Mr Pickford
Mr H J Davies

C.
To be aware - comes out today. Nice to take in para 8.
Rus 10/3

LBS MARCH FINANCIAL OUTLOOK

The latest Financial Outlook from the London Business School is due to be released on Monday 10 March. It contains:

(i) a detailed exposition of the LBS financial and monetary forecast,

(ii) a brief article by Giles Keating which aims to explain the present simultaneous boom in personal borrowing and in liquid deposits, and

(iii) a longer article which shows that North Sea oil income has been used to accumulate both foreign assets and domestic fixed capital sufficient to convert the windfall gain from the North Sea into a "permanent income" stream. (The commentary below and line to take on this item was supplied by Mr Riley).

Financial Forecast

2. It is not necessary to comment in detail on the financial forecast. The LBS forecasts of the PSBR, the monetary aggregates

and interest rates are the same as appeared in the February Economic Outlook which was covered in Mr S J Davies' minute of 21 February to the Chancellor.

attached

Personal Sector Credit

3. The Summary article on the personal sector's financial position notes the very rapid growth in personal sector bank credit in 1985. However, it provides a new explanation for the simultaneous expansion of both sides of the personal sector's balance sheet relative to income or consumption which suggests that this may be only a temporary phenomenon which poses no threat to total spending.

4. The traditional explanations have been related to the falling relative cost of borrowing, both for mortgage loans or consumer credit, and the relaxation of restrictions on bank and building society lending. The LBS view is that the personal sector can effectively be divided into borrowers and lenders (depositors), and they hypothesise that there is a general expectation that real interest rates will fall. In this situation borrowers will maintain spending and increase their borrowing in order to finance the temporarily high real interest payments; while the lenders will put their extra income into bank or building society accounts rather than spend it, as this is the appropriate response to a transitory rise in income.

5. If real interest rates do in fact fall, this effect will disappear and the growth in loans and deposits will fall back to normal levels. If they do not fall, both borrowers and lenders will eventually adjust their expectations of normal interest rates upwards. Borrowers will then reduce their spending and their borrowing, while lenders will increase their spending (the appropriate response to an increase in permanent income) and reduce their deposits. Total spending is again unaffected, and as in the previous case the growth of both loans and deposits declines.

6. This is an ingenious hypothesis to explain the simultaneous expansion of personal sector borrowing and liquid assets, and there may be some truth in it in current circumstances. However,

it is unlikely to be a significant explanation of the persistent growth in the personal sector debt/income and broad liquid asset/income ratios which has been continuing since 1980, since this would require the continuous falsification of expectations (of lower real interest rates) over a long period, which does not seem very likely.

Permanent Benefits from the North Sea

7. The Viewpoint article analyses the use to which North Sea earnings have so far been put, and considers the implications for living standards and the balance of payments as the value of oil production diminishes. Using the analytical framework similar to that in Odling-Smee/Riley, the authors calculate that North Sea oil is capable of generating a permanent increase in consumption equivalent to around £4 billion per annum at 1986 prices, assuming 'transitory' earnings are invested. They argue that in practice this is what has occurred so far, with overseas investment (the current account surplus) and imports of capital goods higher than would have been the case in the absence of oil.

8. It is very difficult to judge in practice how the oil money has been used, and the LBS analysis inevitably rests on a number of simplifying assumptions. High overseas investment may reflect in part the effect of abolishing exchange controls, as the LBS admit. High domestic investment may be partly the result of rapid growth of real wages, and high capital goods imports may reflect a switch to overseas supplies following the loss of competitiveness in the early 1980s. But we fully agree with the general conclusion that a good deal of the oil money has probably been invested, and that this will cushion the fall in consumption and the deterioration in the current account as the oil runs down. We welcome the conclusion that no change is required in policy, though the authors do not spell out precisely what this means in practice.

Line to Take

Agree that the recent growth in personal sector credit does not presage an inflationary consumer spending boom.

Accept the LBS view that the decline in North Sea earnings is unlikely to cause balance of payments difficulties, and fully agree that there is no need to change policy.

Warwick Hood

W HOOD

PERSONAL AND CONFIDENTIAL UNTIL 1130 AM ON TUESDAY 18 MARCH AND THEREAFTER RESTRICTED

50755

2

C. To note.
X is sensible. Ro 17/3

MR D NORGROVE

Prime Minister's Office

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - JANUARY 1986

The provisional index of output of the production industries for January 1986 will be issued at 11.30 am on Tuesday 18 March. A copy of the Press Notice is attached.

Latest Figures

The January 1986 index of output of the production industries, that is energy and manufacturing, is provisionally estimated at 109.4 (1980=100, seasonally adjusted), up 1½ per cent on December as output of the energy industries recovered from a low level in December. For manufacturing the index was 104.4, little changed from December (see section on Bias Adjustments below).

In the three months to January output of the production industries was broadly unchanged compared with the previous three months but manufacturing output was ½ per cent higher. Some industry detail is given in the attached table.

Assessment

On an underlying basis manufacturing output in the three months to January was just under 2 per cent higher than a year ago. There seems to have been a slowdown in the rate of growth in the middle of 1985, but estimates for the latest three months point to some resumption of growth.

With the energy sector looking rather flat, the underlying increase for production industries between the three months to January and the same period a year ago has been about 1 per cent.

Bias adjustment for manufacturing output

In line with the revised procedure introduced in January, figures of manufacturing output for the last six months include adjustments to try to allow for under-estimation in the provisional estimates (see Note 11 of Notes to Editors of Press Notice).

Press Briefing

X As these figures are appearing on Budget Day, we are seeking advice from Treasury as to the tenor of our Press Briefing.

Figures for February

Figures for February are scheduled for publication on Thursday 17 April.

pp K MANSELL
17 March 1986

Central Statistical Office

Table A

Copy No.

++ PERSONAL AND CONFIDENTIAL until release of Press Notice at 11.30 am on March 18 1986 and thereafter unclassified ++

Index of output of the production industries 1980=100

SUMMARY	Total production industries	Energy and water supply	Total manufacturing industries	Metals	Other minerals and mineral products	Chemicals and man-made fibres	Engineering and allied industries	Food, drink and tobacco	Textiles, footwear, clothing and leather	Other manufacturing
1984	103.2	110.1	100.7	108.4	95.1	113.9	99.2	102.1	97.9	97.6
1985	108.1	120.1	103.8	113.0	94.3	118.1	104.2	102.0	101.7	98.8
1984 3	102.7	105.4	101.7	109.4	96.0	116.1	100.7	102.2	98.4	97.6
4	103.6	109.5	101.4	106.4	95.0	116.1	100.4	101.7	99.3	98.0
1985 1	106.5	115.9	103.1	110.2	92.5	119.0	103.7	102.0	99.9	97.4
2	108.5	121.0	104.0	115.9	94.1	119.5	104.9	101.2	100.4	97.6
3	108.6	121.5	104.0	114.9	93.7	118.1	103.5	101.9	103.5	100.6
4	108.9	122.1	104.2	111.1	96.8	115.9	104.8	102.8	103.0	99.4
1985 N	110.3	126.6	104.5	113	98	117	105	102	104	100
D	107.7	116.7	104.5	109	96	115	106	104	104	99
1986 J	109.4	123.3	104.4	110	97	119	105	103	101	99
Percentage change latest 3 months on: previous 3 months	+0.2	-0.2	+0.4	-2.9	+2.6	-0.3	+1.2	+0.2	+0.2	-1.0
a year earlier	+4.4	+9.7	+2.4	+3.0	+2.7	-0.7	+3.6	+1.1	+3.9	+1.4
1st quarter 1981(a)	+14.7	+19.8	+12.7	+11.4	+8.6	+21.1	+17.2	+3.4	+13.3	+6.2
1st half 1979(b)	+2.1	+23.8	-4.9	-15.2	-10.2	+7.6	-4.2	+2.9	-14.0	-10.7

DETAILED ANALYSIS	Coal and coke	Extraction of mineral oil and natural gas	Mineral oil processing	Other energy and water supply		Metals	Other minerals and mineral products	Chemicals	Man-made fibres	Metal goods not elsewhere specified
1984	33.8	147.1	98.5	95.8		108.4	95.1	114.9	78.8	100.9
1985	67.2	150.1	98.6	106.2		113.0	94.3	119.4	74.1	99.3
1984 3	23.7	144.3	98.4	89.9		109.4	96.0	117.2	79.3	102.6
4	27.6	151.8	99.3	90.1		106.4	95.0	117.2	76.8	99.2
1985 1	35.9	155.7	99.2	100.1		110.2	92.5	120.3	73.0	98.0
2	70.9	148.7	99.6	108.9		115.9	94.1	120.8	75.4	98.1
3	80.2	147.4	98.7	108.2		114.9	93.7	119.4	75.9	101.4
4	81.7	148.8	97.0	107.5		111.1	96.8	117.2	72.1	99.5
1985 N	82	154	98	114		113	98	118	76	100
D	81	138	97	107		109	96	117	68	99
1986 J	80	151	96	110		110	97	120	77	102
Percentage change latest 3 months on: previous 3 months	-	-2.2	-0.2	+3.8		-2.9	+2.6	-0.3	-0.4	-0.4
a year earlier	+176.2	-4.3	+0.3	+19.3		+3.0	+2.7	-0.7	+0.4	+1.6
1st quarter 1981(a)	-16.7	+36.7	+1.1	+13.8		+11.4	+8.6	+22.2	-18.2	+13.4
1st half 1979(b)	-15.0	+57.0	-14.0	+5.1		-15.2	-10.2	+9.7	-46.6	-18.3

DETAILED ANALYSIS continued	Mechanical engineering	Electrical and instrument engineering	Motor vehicles and parts	Other transport equipment	Food	Drink and tobacco	Textiles	Clothing, footwear and leather	Paper, printing and publishing	All other manufacturing
1984	87.4	122.8	81.3	91.5	104.7	96.7	93.7	101.6	96.2	99.3
1985	92.8	130.9	86.5	95.3	105.0	95.7	98.4	104.6	98.4	99.2
1984 3	87.7	126.4	81.8	91.7	104.9	96.7	93.9	102.4	95.9	99.5
4	87.6	128.6	77.6	92.6	104.8	95.5	94.2	103.8	97.6	98.4
1985 1	91.0	131.0	86.6	96.7	105.0	95.7	97.1	102.4	97.4	97.5
2	94.5	130.6	87.6	96.8	103.8	95.8	96.0	104.2	97.4	97.9
3	90.6	129.6	89.1	92.7	105.5	94.6	99.4	107.1	99.6	101.8
4	95.0	132.2	82.6	94.8	105.8	96.7	101.3	104.5	99.2	99.6
1985 N	96	132	80	95	105	96	103	105	100	101
D	97	132	87	95	107	96	101	107	99	98
1986 J	98	129	80	98	106	96	100	103	99	99
Percentage change latest 3 months on: previous 3 months	+5.5	-0.1	-5.5	+2.3	+0.3	-	+1.1	-0.6	-0.1	-2.1
a year earlier	+8.3	+0.9	+4.5	+1.8	+1.4	+0.3	+6.5	+1.8	+1.6	+1.2
1st quarter 1981(a)	+10.6	+41.3	+7.0	-9.3	+7.8	-5.3	+11.6	+14.7	+4.7	+8.1
1st half 1979(b)	-12.2	+26.8	-33.3	+2.0	+6.5	-4.4	-19.0	-9.2	-7.1	-14.4

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

Personal numbered copies of the minute and attachment to:

Treasury	(Principal Private Secretary (Sir Peter Middleton
Cabinet Office	(Mr Jack Hibbert
Department of Trade and Industry	(Private Secretary Secretary of State's Office
	(Private Secretary to Mr Geoffrey Pattie
	(Private Secretary to Mr Peter Morrison
	(Private Secretary to Mr John Butcher
	(Sir Brian Hayes (Mr H Liesner
	(Mr Whiting (Mr Harvey (Mr Wright
Bank of England	(Mr R Leigh-Pemberton

8:2

PERSONAL AND CONFIDENTIAL
until 11.30am Tuesday 18 March
then UNCLASSIFIED

FROM: K VERNON
DATE: 17 MARCH 1986

1. **MISS O'MARA** Mom 17/3

2. **CHANCELLOR OF THE EXCHEQUER**

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

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - JANUARY 1986

This will be published at 11.30am on Tuesday, 18 March.

2. The index of production was flat in the three months to January but was 4½ per cent higher than a year earlier. Within production, manufacturing output rose by ½ per cent.

3. Between December 1985 and January 1986 the index of production rose by 1½ per cent. Manufacturing output was unchanged - as it has been for the past three months - but output of the energy and water supply industries rose by 5½ per cent: this was mainly due to a rise of 9 per cent in oil and gas extraction from December's depressed level but other energy output also rose in January following a mild December.

4. **Recent movements**

percentage changes	1985 on 1984	3 Months to Jan 1986 on 3 months to Oct 1985	3 months to Jan 1986 on 3 months to Jan 1985	January 1986 on December 1985
Index of Production	+5	0	+ 4½	+ 1½
within which:				
Manufacturing	+3	+ ½	+ 2½	0
Energy and Water	+9	0	+ 9½	+ 5½
adjusted for coal strike:				
Index of Production	+3	0	+1	+ 1½
Manufacturing output	+3	+ ½	+2	0

5. Manufacturing output growth was sluggish around the middle of the year but has since grown steadily. CSO's best estimate after correcting for strikes and other temporary movements is that manufacturing output is growing by around 2 per cent in underlying terms. Manufacturing output is 12½ per cent above its 1981Q1 trough but is 7 per cent below 1979Q2 peak.

6. In the three months to January the index of production was 2 per cent above its average 1979 level.

Other Industrial detail

7. Good increases in output in the three months to January 1986 compared with a year earlier were recorded by Mechanical engineering [+8 per cent], Textiles [+7 per cent], Motor vehicles [+5 per cent.]

Assessment

8. Manufacturing output has risen strongly, over the past two years and has grown recently in underlying terms at around 2 per cent a year. Industrial production has grown, in the same terms, at just over 1 per cent a year because energy output is probably flat in underlying terms.

9. Press comment will probably be mixed but given that the figures appear on Budget Day they are unlikely to attract as much attention as the prospects for manufacturing given in the Industry Act Forecast. Headlines may point to the sluggish nature of manufacturing output but commentators may note that manufacturing output continues to grow in broad underlying terms.

10. Manufacturing output grew by 3 per cent in 1985, the fourth year of uninterrupted growth - the longest such period since 1971.

Lines to take

11. Possible lines for IDT to take are:

12. Positive:-

(i) Manufacturing prospects for the next year will be covered in the Industry Act Forecast to be published with the FSBR later today.

(ii) Industrial production increased by 5 per cent in 1985 - equivalent to 3 per cent growth after allowing for effects of coal strike.

(iii) Manufacturing output grew by 3 per cent in 1985 and best assessment is that it continues to grow at annual rate of around 2 per cent in underlying terms.

(iv) Manufacturing output has now grown for four successive years - longest period of uninterrupted growth since 1971.

(v) Manufacturing output up by 12½ per cent on 1981Q1 trough and up 12 per cent since June 1983 election.

Defensive:-

(v) Manufacturing output sluggish for 3 months. Manufacturing up ½ per cent in 3 months to January - best assessment is that it is currently growing at annual rate of 2 per cent.

K VERNON
EB

PERSONAL AND CONFIDENTIAL
until 11.30am, Tuesday 18 March

TABLE 1

OUTPUT OF PRODUCTION AND CONSTRUCTION INDUSTRIES

1980 = 100, seasonally adjusted

	Production * (Divisions 1-4) *	Energy and Water Supply (Division 1)	Manufacturing (Divisions 2-4)	Construction (Division 5)
1979	107.1	100.5	109.5	105.8
1980	100.0	100.0	100.0	100.0
1981	96.6	103.9	94.0	89.9
1982	98.4	110.0	94.2	91.6
1983	101.9	115.8	96.9	95.3
1984	103.2	110.1	100.7	98.6
1985	108.1 R	120.1 R	103.8 R	100.0
1983 Q4	104.1	118.3	98.9	97.8
1984 Q1	104.3	117.7	99.5	97.0
Q2	102.2	107.9	100.1	98.1
Q3	102.7 R	105.4	101.7	100.5
Q4	103.6	109.5	101.4 R	98.7
1985 Q1	106.5	115.9 R	103.1	99.3
Q2	108.5 R	121.0	104.0 R	100.2
Q3	108.6	121.5 R	104.0	99.3 R
Q4	18.9 R	122.1 R	104.2 R	101.3
1984 November	103.4	109.0	101.4	
December	104.0	109.4	102.1	
1985 January	106.1	115.9 R	102.6	
February	105.8 R	114.0 R	102.8	
March	107.6	117.8 R	104.0	
April	108.8 R	122.3	103.9 R	
May	109.0 R	123.1 R	103.9 R	
June	107.7 R	117.6 R	104.1 R	
July	107.8 R	120.2 R	103.4	
August	108.4	119.4	104.4	
September	109.6	125.0 R	104.1	
October	108.8 R	123.0	103.7 R	
November	110.3 R	126.6 R	104.5 R	
December	107.7 R	116.7 R	104.5 R	
1986 January	109.4	123.3	104.4	
% changes				
Latest 3 months on previous 3 months	0.2	-0.2	0.4	2.0
Latest 3 months on year earlier	4.4	9.7	2.4	2.6
Latest 3 months on 1981 Q1 (trough)	14.8	19.8	12.7	9.6
Latest 3 months on 1979 Q2 (peak) +	-0.1	17.3	-7.0	-5.5

Notes

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

'R' signifies revised figure

+ Energy & Water Supply peak is 1979 Q3

PERSONAL AND CONFIDENTIAL
until 11.30am, Tuesday 18 March

TABLE 2

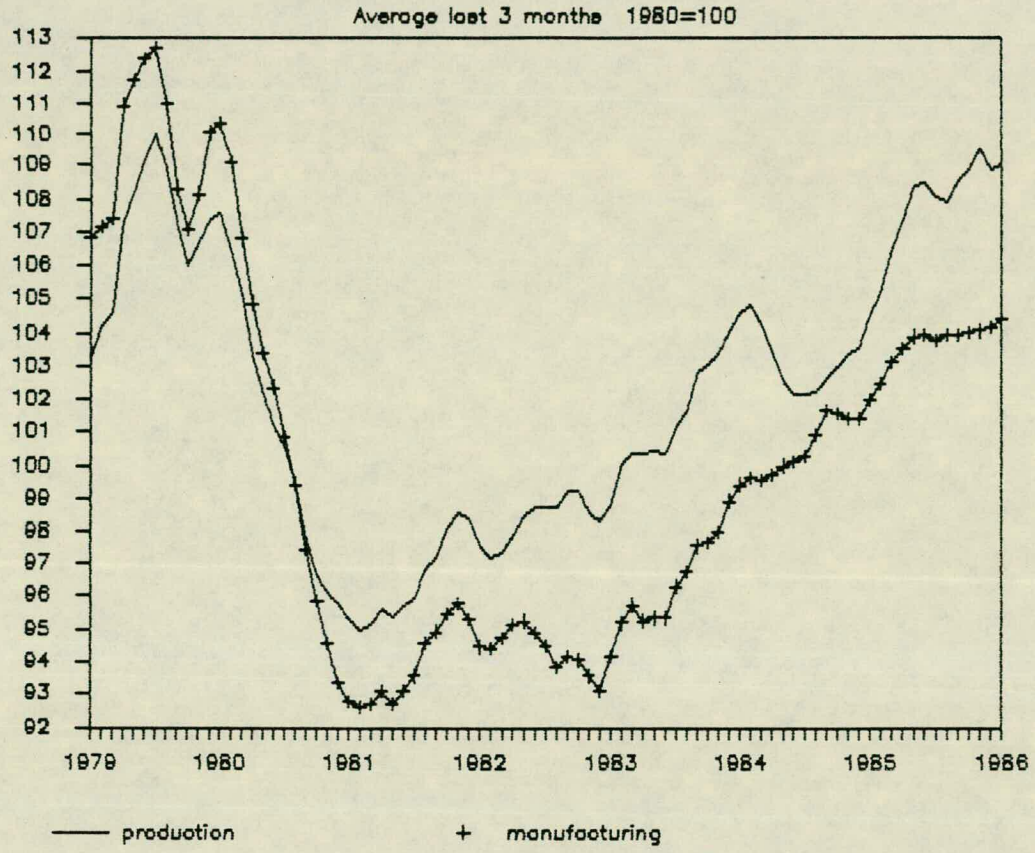
OUTPUT OF PRODUCTION INDUSTRIES CHANGES IN DETAIL

Percentage change, latest 3 months* on:

	Previous 3 months	Same 3 months last year	1981 Q1 (trough of output of production industries)
Total Production Industries	0.2	4.4	14.7
Energy & Water Supply	-0.2	9.7	19.8
o.w. extraction of oil & gas	-2.2	-4.3	36.7
coal and coke	0.0	176.2	-16.7
Total Manufacturing	0.4	2.4	12.7
o.w. Metals	-2.9	3.0	11.4
Other minerals +	2.6	2.7	8.6
Chemicals (and man-made fibres)	-0.3	-0.7	21.1
Engineering	1.2	3.6	17.2
Food, drink, tobacco	0.2	1.1	3.4
Textiles etc.	0.2	3.9	13.3
Other ++	-1.0	1.4	6.2

* October, November and December 1985
\+ Mainly building materials
++ Paper, printing, publishing, timber, furniture, rubber, plastics

INDEX NUMBERS OF OUTPUT



R/ I have told Terry OK
RO 20/3

CHANCELLOR OF THE EXCHEQUER

OK. no comments.

Ch.

This is Terry's major speech which he gives tomorrow. He was quite anxious for me to have it in front of you, but isn't looking for comments.

Both Pete and I have commented on earlier versions. It is interesting, but quite a solid read. If you do feel inclined to glance at it overnight, look at the summary on p2, and the

final section on the
use of Economic Predictions
(p18 onwards), which has
something about the
changing role of forecasting &
the use of predictions in
the MTFS.

On the whole, though,
I should save it for the
Recess.

Rh.

19/3

Mrs. Lomax

TB has mentioned this to you: it is his lecture for R.S. & he wants Chancellor's comments on it as early as possible. So it can be finalised in the morning.

V.H. 19/3.

THE INTERPRETATION AND USE OF ECONOMIC PREDICTIONS

Terence Burns

H M Treasury

March 1986

THE INTERPRETATION AND USE OF ECONOMIC PREDICTIONS

Summary

Treasury forecasts, both published and unpublished, of GDP and retail prices are analysed with reference to average absolute forecast errors and a benchmark index of variation. Forecasts of both GDP and the RPI looking two years ahead have become more accurate since the early 1970s, but there has been no marked improvement in one year ahead forecasts. The accuracy of annualised forecasts of GDP improves, and that of the RPI forecasts deteriorates, as the forecast time horizon is progressively extended from one to eight quarters ahead. Some evidence of forecast bias is presented: in the period up to 1979 GDP tended to be over-predicted, and inflation under-predicted. Since 1980 this pattern has been reversed. Analysis of Treasury forecasts and an average of US forecasts shows them to be about equally accurate.

2. The role of forecasts in the implementation of economic policy is discussed. Systematic model-based forecasts provide a consistent framework of analysis which can improve the operation of economic policy. But prediction errors, and the inertia of the economy, imply that there is only limited scope for discretionary, forecast-based, stabilisation policy. Under the MTFS the policy emphasis has shifted to the medium term. The forecasts have been used to articulate assumptions for output, inflation and money GDP, and to provide the tax and expenditure framework behind the illustrative path of the PSBR. Without the forecasts the conduct of monetary and fiscal policy would have been considerably more difficult. The paper concludes that while reductions in the forecast errors of short-term forecasts may be difficult to achieve there is hope that the accuracy of longer-term forecasts may continue to improve.

INTRODUCTION

It is difficult to imagine the conduct of economic policy without predictions. Either explicitly or implicitly the conduct of any policy implies a view about the future.

In 1919 Marshall was able to argue

> "A chief purpose of every study of human action should be to suggest the probable outcome of present tendencies; and thus to indicate, tacitly if not expressly, such modifications of those tendencies as might further the well-being of mankind." **(Marshall 1919, page 7).**

I have chosen to limit my attention to model-based macro-economic predictions; that is predictions about the behaviour of the economy as a whole. And I will concentrate on their use in helping Government to conduct stabilisation policy: that is the operation of policy - primarily fiscal and monetary - directed towards achieving stable economic growth and the control of inflation. For convenience I will be using the Treasury model and forecasts to illustrate my argument. But most of my comments would apply to other models and forecasts.

Macro-economists routinely produce two types of prediction; a forecast for the appropriate period ahead of the consequences of existing policies; and simulations of the effects of changes in policy instruments or states of the world. In this lecture I will be concentrating on the former. I will begin with some introductory observations about the methodology of macro-based economic predictions before examining some aspects of the Treasury forecasting record over recent years. After a discussion of the implications of those results, I will conclude by examining the role they can play in the implementation of policy.

THE METHODOLOGY OF ECONOMIC PREDICTIONS

Treasury forecasts and simulations are both produced by some combination of man and machine. The machine is the Treasury model - a set of 1000 statistical and accounting relationships. Man in the first instance is the collective group of economists who operate the model. The machine is, of course, man-made. It combines hardware in the shape of a computer and software in the shape of the economic model. The group of economists who operate the model will include those who helped to develop it.

The model plays a key role. It gives the analysts a consistent and comprehensive structure that captures the economic relationships that can be identified from historical data. A formal model ensures that the various inter-relationships are taken consistently into account both in forecasting and in policy advice. It makes possible many of the calculations that we do.

But we are still some way from a position where the model answers can be accepted without further human intervention. This is standard international practice. McNees surveyed the large US forecasting organisations in 1981; they attributed between 20 and 50 per cent of the final forecast to judgmental adjustments (**McNees (1981)**). Adjustments are made in the light of other information, commonsense judgements, past model error, and a knowledge of its deficiencies.

The useful exercise of this judgement is not limited to the specialists. Non-specialists may also make a valuable contribution providing that the issues are put to them clearly.

There are a number of characteristics of economic models that need to be taken into account when applying judgement to results.

First, models are necessarily simplifications of an extremely complex structure and the model builder's task is to devise a framework which captures the key inter-relationships. The process of simplification inherent in model building removes aspects of the real world. Faced with new circumstances a number of adjustments may be required to allow for factors that are not fully captured already. For example following the 1984 Corporation Tax changes, special allowance had to be made for their impact on the timing of expenditure, the cost of capital and methods of finance.

Second, the range of experience available is often insufficient to discriminate clearly between alternative views of the world. In particular it is often difficult, statistically, to distinguish between models which are internally coherent in terms of different theories. There is no experimental data available for estimating economic relationships: instead we are forced to rely upon often fragile historical data.

Third, a related point, economic models are inevitably dominated by the range of historical experience. This means they are more suitable for analysing relatively small changes from the current situation and can give misleading answers if confronted with extreme situations. If we are faced with a large shock - for example the recent halving of oil prices - it is necessary to examine the results in

much greater detail and question whether some of the effects may need exaggerating or attenuating.

Fourth, there are difficulties in measuring the scale of responses and the time lags involved. Estimated coefficients can be imposed whilst doing relatively little damage to the "fit" of the relationship. This is particularly important in relation to the longer-term properties of a model. Changes which have only a small impact on the short-term accuracy of predictions may greatly affect the longer-term properties of a relationship. Some progress has been made in recent years. More rigorous econometric tests and procedures are followed, some of which help in the incorporation of desirable theoretical properties. But data limitations are a serious constraint.

And fifth, it is very difficult to cope with significant changes to the way expectations are formed. Decisions of economic agents can be dominated by expectations about the future. Often these expectations will be dependent upon experiences of the past, but not in any mechanistic way. We have seen some advances in considering and modelling expectations formation but they only scratch the surface. It remains necessary to question whether the process of expectations formation built into the model is likely to change. This is particularly important with predictions that involve a sharp change of government policy or the environment.

This may sound a formidable list of difficulties but I hope to show that they are factors to be taken into account rather than insuperable obstacles.

FORECASTING PERFORMANCE

A sensible interpretation of predictions must begin with an analysis of the forecasting record.

The Treasury has a long tradition of carrying out, and more recently publishing, evaluations of economic forecast against outturn. Ever since the Industry Act Forecasts were first published in December 1976 they have included assessments of errors from past forecasts.

There is, of course, an inherent interest in the extent to which past forecasts were in error. Even more important though, errors in past forecasts provide the best, though still fallible, guide to the likely extent of errors in current forecasts. In this paper I use mainly unpublished, internal, forecasts, though some use is made of forecasts published at budget time.

Assessing the accuracy of past forecasts is not, however, easy although this claim risks being interpreted as evasion. The problems have been well documented by those who have attempted to compare and contrast forecasting

records; data revisions, changes to economic policy and unanticipated changes to the economic environment being the most prominent.

In this lecture I will try to give an outline of the accuracy of Treasury forecasting over the past 15 years in relation to GDP and inflation. I will examine the size of errors; the extent to which they deteriorate as the forecast horizon is extended; any tendency towards bias; and whether there are any signs of improvement as methods have become more sophisticated.

I am conscious that by concentrating on a few variables I may appear to understate the progress that has been made in producing comprehensive and detailed forecasts that help us to monitor a wide variety of information. Even so the ability to predict output and inflation remains a crucial test. And by limiting the analysis in this way I am able to look at the predictions in greater detail.

Comparing one forecaster with another, for the same period of history, and using the same data is fraught with problems. It is even more difficult to evaluate the relative accuracy of forecasts made in, say, the 1960s with those in the 1970s or 1980s. This is because the variability of the data changes - sometimes drastically. The relatively placid years of the 1960s, although not always perceived as such at the time, look in retrospect to be fairly easy to forecast by comparison with the 1970s which were subject to a number of major surprises from both the world economy and from policy.

To measure the accuracy of forecasts I have chosen to compute the average absolute error. I have also attempted to give an estimate of forecasting difficulty to help put some of the errors into perspective. For this purpose I have devised an index of variation. In a technical sense it measures the average absolute value of the next higher order of difference compared with the difference we are attempting to forecast. To give an example, we wish to evaluate our record in forecasting the one-year ahead growth of GDP. The index of variation measures the average absolute value of the difference between last year's growth and next year's growth. Thus if GDP always grew by 2 per cent, the index of variation would have a value of zero.

The index of variation provides a benchmark in the following way. If we always forecast that the change in the next period will be the same as the change in the previous period, the average absolute error will be the same as the index of variation. We should be able to produce average absolute forecasting errors that are smaller than the index of variation.

It is not suggested that this is an absolute standard but the index does provide a useful measure of changes in the difficulty of forecasting for different variables or for different periods.

I have not adjusted the results for subsequent policy changes. Such adjustments are difficult. The overall message is changed little if allowance is made using the forecasters' judgements at the time about the effect of the policy changes.

Next I will present some analysis of forecast errors; then I will suggest some implications.

GDP Forecasts

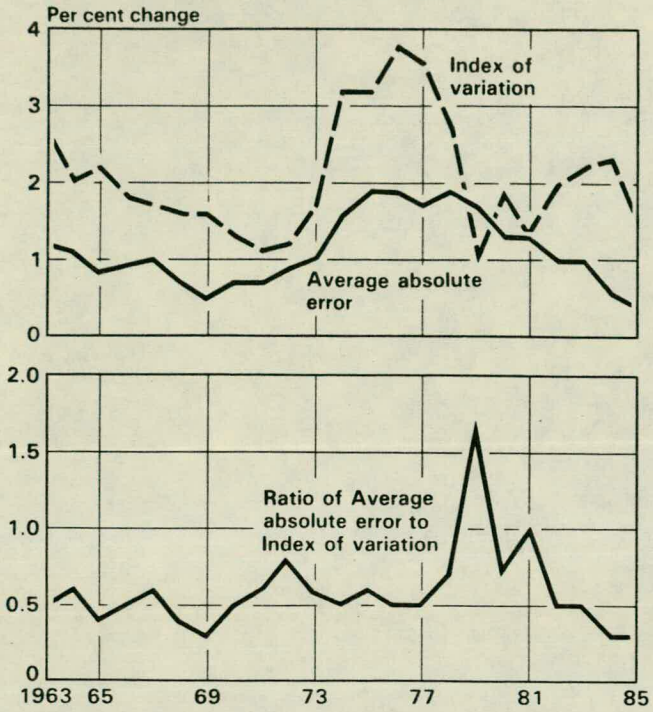
For GDP forecasts I will examine two sets of information. The first is a set of annual growth forecasts made early in each year. Each forecast measures the change in (real) GDP between the previous calendar year and the current calendar year. I should emphasise that this is not a strong test, even if data is only available to the end of the previous year. The movement of output during the previous year, an early estimate of which is already known, will have a significant weight in the outturn. But annual growth forecasts are the most readily accessible information for the 1960s. These are available since 1960 for the year in question, and since 1965 for two years ahead.

The second data set includes 46 quarterly forecasts made between 1970 and 1985. Most of them cover a forecasting horizon of eight quarters; some made around the time of the first oil shock are for less than eight quarters; and for the most recent forecasts we do not have outturn data for all quarters.

Figures 1 and 2 show uncentred 5-year moving averages of the absolute error from one and two-year predictions. The two-year errors have not been annualised and are therefore larger than the one-year errors. The diagrams also show the 5-year moving average of the index of variation for one and two-year growth rates. The lower part of the frame plots the ratio of the absolute error to the index of variation (both measured as 5-year moving averages).

Figure 1

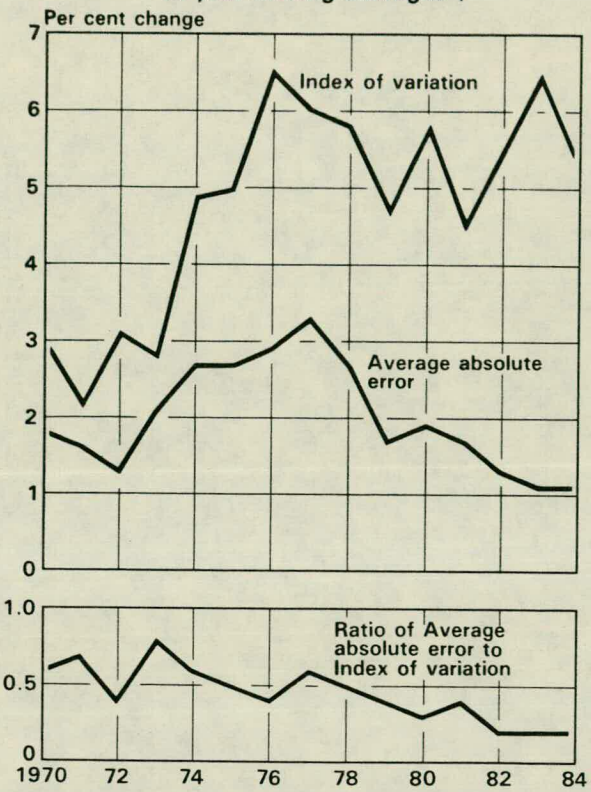
Forecast errors for GDP, 1 year ahead
(5 year moving averages[1])



1. Moving average is shown against last year of period

Figure 2

Forecast errors for GDP, 2 years ahead
(5 year moving averages[1])



1. Moving average is shown against last year of period

For both one and two year forecasts the errors are bigger in the 1970s than in the 1960s or 1980s. By the end of the period shown the errors are similar - if anything a little lower - than experienced in the 1960s. The index of data variation shows some similarity with the pattern of forecast errors. There is a sharp increase in variation in the mid-seventies. This included the final stages of the "Barber boom", the first major oil price increase, and some major industrial disputes. Then after a few years of steadier growth in the late seventies there is an increase in variation in the early eighties coinciding with the second oil price shock.

It is difficult to make any generalisations about the trend of accuracy of one year ahead forecasts because of the different circumstances although recent forecasts compare well. The ratio of the absolute error to the index of variation shows no trend for the one-year forecasts. This suggests there has been little, if any, progress in forecasting GDP one year ahead.

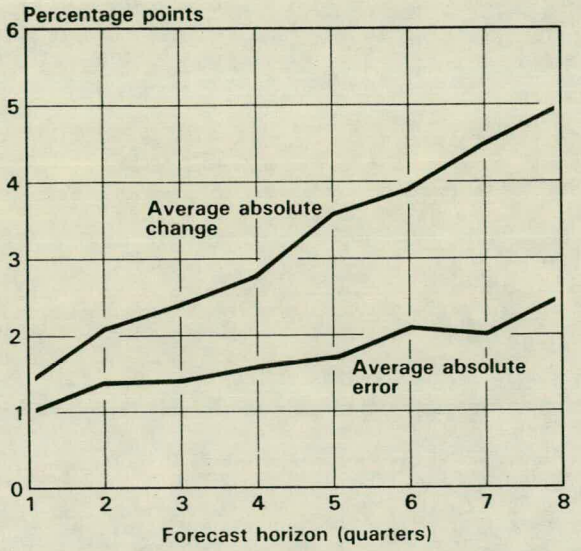
There are clearer signs of improvement accuracy of the two-year forecasts after allowing for changing degree of difficulty. The ratio of the absolute error to the index of variation has been declining. The errors are less than those from the late 1960s even though the degree of data variation has been much bigger.

The quarterly GDP calculations are complicated by substantial revisions to the historical data. We have tried to allow for this by focusing on the predicted changes relative to the last quarter for which information was available at the time. In computing the outturn we have followed a similar procedure using the latest estimate of the change.

Figure 3 shows the average errors by time horizon for the level of GDP for 46, mainly internal, quarterly forecasts made since 1970.

Figure 3

Forecast errors for GDP: 1970-1985



The results show the extent to which forecast errors increase as we extend the time horizon of the forecasts. The pattern for GDP is that the errors increase relatively slowly so that forecast errors from annualised data decline as the time horizon is extended.

I have also presented estimates of the index of variation over the eight quarter time horizon. In this context they are equivalent to the average absolute errors from a predictor based on the rule that growth over the next n quarters will be the same as over the past n quarters, where n is the time horizon of the forecast.

The pattern of forecast errors is broadly the same as the estimate of data variability. The ratio of the two series shown is relatively stable. If anything the ratio of the absolute error to the index of variation is higher in the early quarters.

A comparison of sub-periods is shown in **table 1.**

Table 1

Forecast Errors for GDP by Sub-Period: 1970-1985

(Index of variation in brackets)

Forecast Horizon (Quarters)

	2	4	6	8
1970-74	2.1 (3.2)	2.7 (4.0)	3.0 (4.8)	4.5 (5.6)
1975-79	1.4 (2.0)	1.3 (1.9)	1.7 (3.3)	1.9 (4.3)
1980-85	.9 (1.4)	.9 (2.7)	1.3 (3.6)	1.9 (5.1)

As with the annual data, the comparison is complicated by the changing degree of difficulty. They support the tentative conclusion I reached earlier. There has been some reduction in average errors but the index of variation is also lower after the first half of the 1970s. After allowing for that the signs of improvement are most noticeable for the longer forecast horizon.

Table 2 shows the average errors which are an estimate of bias. There is a tendency towards over-prediction between 1970 and 1979 although it is weaker after 1975. Since 1980 the tendency is reversed with evidence of under-prediction for the longer forecast horizon.

Table 2

Average Forecast Error (Bias) for GDP for Sub-Periods: 1970-1985

Forecast Horizon (Quarters)

	4	6	8
1970-74	2.4	2.6	3.0
1975-79	0.2	.7	1.7
1980-85	-.4	-.9	-1.7

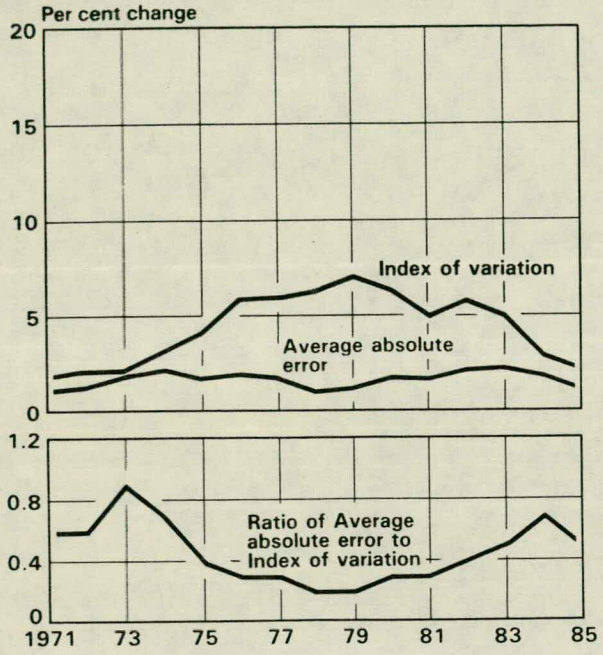
Inflation Forecasts

I have followed the same procedures in examining the inflation forecasts. The comparison is more straightforward, however, as the Retail Prices Index is not revised.

Figures 4 and 5 show for the RPI the same information I presented earlier for GDP. Forecasts are available since 1966 and hence the five-year moving averages since 1970.

Figure 4

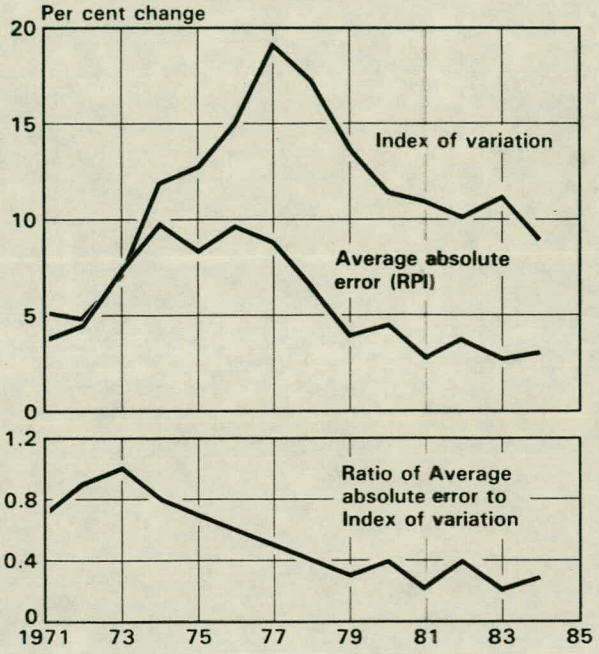
Forecast errors for RPI, 1 year ahead
(5 year moving averages[1])



1. Moving average is shown against last year of period

Figure 5

Forecast errors for RPI, 2 years ahead
(5 year moving averages[1])



1. Moving average is shown against last year of period

There are some similarities with the pattern of GDP errors but there are also some differences. In particular the 4 quarter errors behave in an unexpected way. There is little change in the size of the error over the period shown; and errors are small in the second half of the seventies.

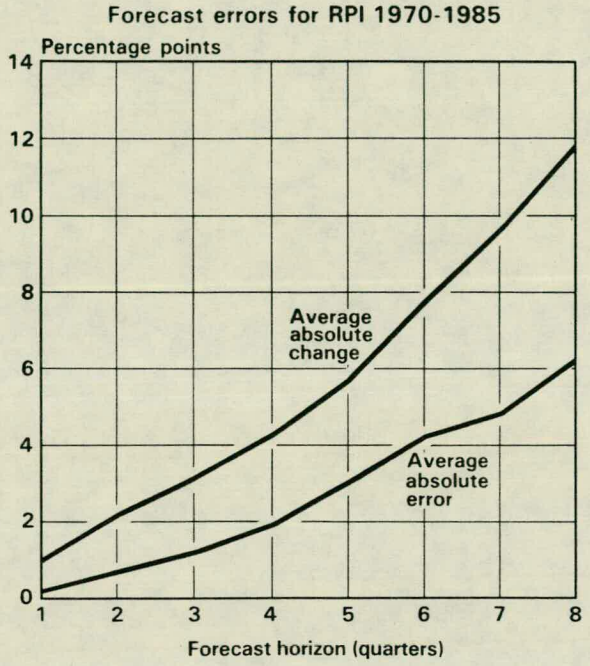
The index of variation follows a broadly similar pattern to the GDP variation. This suggests that inflation was rather more difficult to predict in the mid to late 1970s. However the profile of 4 quarter errors does not reflect the variations in the data.

As a result there is no convincing sign of steady improvement for the 4 quarter forecasts. There are large differences in the variation of inflation itself and no trend in the ratio of the absolute error to the index of variation.

The pattern of 8 quarter errors is more like the GDP error pattern and the index of variation. The 8 quarter inflation errors were rather bigger in the 1970s than in the late 1960s or so far in the 1980s. There is more evidence of improvement with the 8 quarter ahead predictions. The pattern of steady improvement is similar to the results for GDP.

The detailed figures by time horizon for the quarterly forecasts are shown in **figure 6.**

Figure 6



The annualised errors rise as we extend the forecast horizon. If anything the tendency is for the errors to rise relative to the estimate of variation.

Table 3

Forecast Errors for RPI by Sub-Periods: 1970-1985

(Index of variation in brackets)

	Forecast Horizon (Quarters)			
	2	4	6	8
1970-74	.7 (1.6)	2.2 (4.1)	5.9 (8.4)	10.5 (12.1)
1975-79	.7 (3.3)	1.5 (6.1)	3.4 (8.8)	5.2 (12.7)
1980-85	.7 (1.6)	1.9 (2.6)	3.4 (5.8)	4.4 (10.2)

Within the sub-periods the reduction of error in later years is concentrated in quarters 6 and 8; in the final period there is also a lower measure of variation of inflation.

Table 4

Average Forecast Errors (Bias) for RPI for Sub-Periods: 1970-1985

	Forecast Horizon (Quarters)		
	4	6	8
1970-74	-2.1	-5.9	-10.5
1975-79	-.9	1.7	-3.5
1980-85	1.4	2.5	3.7

The estimates of bias tend to be of opposite sign to those for output. Until 1974 there is a tendency for under-prediction; it is also evident in a weaker form until 1979. Since 1980 the pattern has been reversed with some over-prediction on average.

INTERPRETATION OF FORECASTING ERRORS

I interpret these results as suggesting that the forecasts of GDP and inflation do contain information. Forecast appraisal must be subjective. It is difficult to make firm statements and most of my remarks refer to tendencies. But for my own part I find the results encouraging.

Changing forecasting methods

In considering the progress of errors over the years it is important to remember that Treasury forecasting methods have changed. (For a history of macro-economic model building in the UK see **Ball (1984)**). Through most of the 1960s Treasury forecasting was very much a matter of hand crafting with different parts being done in separate compartments often in different Government Departments and not all at the same time. There were considerable doubts expressed in the 1950s and 1960s about the potential for using models for these purposes. A common conclusion was that this was impractical. It was feared that models inevitably would be rigid, over-precise and inflexible. It was argued they would not substitute for the careful examination and adjustment of recent data; reading the tea-leaves of recent indicators; and adding a twist of judgement that can only be acquired by many years of experience.

From 1966 onwards forecasts were produced at the London Business School using a quarterly econometric model (**Ball and Burns (1968)**). Initially the forecast errors were probably larger than those generated using conventional techniques but with experience performance improved.

One of the achievements of the past 15 years has been the successful integration of the two cultures. Writing in 1969

Sir Alec Cairncross (**Cairncross (1969)**) feared that the use of models would mean trying to crush the past into a Procrustean bed of econometric relationships when in reality the future is a series of discontinuous and unique events. But in practice within the framework of a model it has still been possible to adjust recent data, assess trends and highlight special factors. Indeed the model serves a valuable role in that process, and is part of the continuing exercise in monitoring the economy and its statistics as they appear. The comparison of the model's predictions and the outturn for recent quarters provides valuable information about the extent to which special factors seem to have been at work. It has become possible to monitor a huge amount of information and build it into a consistent picture of developments. Without the use of models only a limited amount of data can be monitored and integrated.

The appearance of the Treasury model, beginning in about 1969, had implications for the organisation of official forecasting and led to forecasting becoming much more centralised in the Treasury.

In the late sixties and early 1970s, there was growing confidence in forecasting. Extra resources were put in and there were hopes that the accumulation of data and more sophisticated techniques would lead to major improvements in accuracy of forecasts and understanding of the economy.

These hopes for forecasts were not realised. As we have seen the forecasting record in the 1970s was in many ways worse than in the 1960s. But this largely reflected the much greater turbulence of the post 1971 world.

Is forecast performance improving?

The results I have presented suggest it is not possible to reach any decisive view about the development of forecast accuracy for one year ahead forecasts although there is some sign of improvement in recent years. If anything we must conclude that as far as the short-term horizon is concerned there has not been much improvement in accuracy.

For two year ahead forecasts the picture is clearer with rather greater evidence of improvement. This probably reflects in part the extra resources devoted to modelling. The attention to longer-term properties of the model, better estimation techniques, and theoretical developments seem to have yielded returns. I also suggest it reflects an increase in value of the human capital. Many members of the forecasting teams were engaged in forecasting for many years.

Learning from oil price shocks

The problems in the mid 1970s are themselves instructive. The model at the time had been estimated using data from a

relatively quiet and trend-like period. As a result the coefficients were probably poorly determined.

The forecasters then had to cope with the oil price shock, which was not foreseen and whose effects were understated. However as a result of that experience the models improved. We learned more about the response of the economy to inflation shocks, for example via the saving ratio, and the potential impact of the exchange rate. As a result the forecasters handled the implications of the second oil price increase, and the disinflationary policy of the 1980s much better.

Tendency to bias

Another interesting feature of the errors has been some tendency for persistent bias to occur. During the late sixties and first half of the seventies the growth of money GDP was underestimated and the forecasts tended to be optimistic about the implications for output and inflation. In other words the division of money GDP between output and inflation was worse than expected.

Since 1980 money GDP has been over-predicted a little. And the forecasts have tended to be unduly pessimistic about the prospects for inflation and output. The output/inflation split has been rather better than expected.

These biases broadly coincide with changes in the overall stance of policy. In the earlier period, fiscal policy was generally expansionary; monetary policy tended to be accommodating and the exchange rate fell considerably. In the second period the budget deficit has been brought down, monetary policy has been actively directed towards disinflationary monetary conditions and the exchange rate has not shown any pronounced trend over the period even though it has been volatile.

These forecast errors are consistent with the view that there is too much inertia in the modelling of inflation and output and maybe too small an impact of inflation changes on output. They are also consistent with the view that forecasters may have paid too much attention to demand factors and not enough to supply factors.

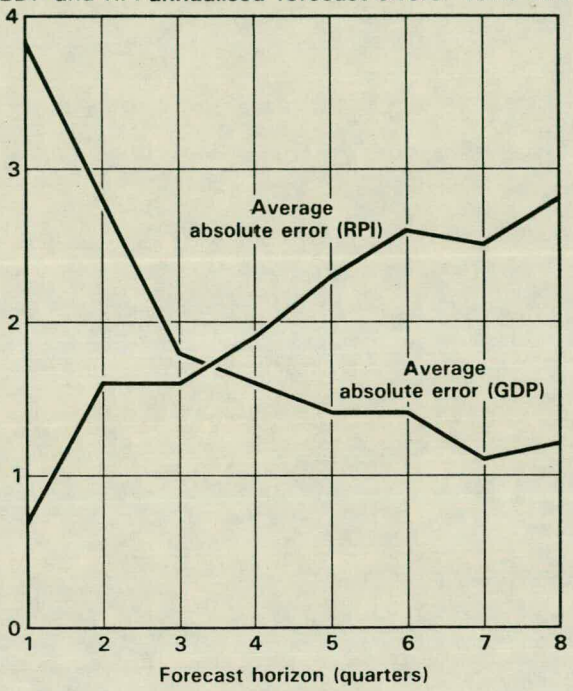
Errors and the forecast horizon

I would also draw attention to the differences in error profiles as we extend the forecast horizon.

Figure 7 shows the errors for GDP and RPI on an annualised basis as we extend the time horizon of the forecast. The actual and predicted values were annualised before computing the absolute error. For real GDP annualised errors decline as we extend the forecast horizon; for the RPI they increase.

Figure 7

GDP and RPI annualised forecast errors: 1970-1985



This result emphasises the inherent difficulty in predicting short-run movements of activity. They can be dominated by shocks like strikes or rapid changes in inventory levels. They can also be influenced by sudden changes in policy. However there appear to be built-in stabilisers which keep the average rate of growth of the economy fairly constant. The longer the period we cover, the more this tendency of the economy to converge on a fairly constant growth path becomes apparent. By contrast there is no tendency for longer-term inflation to be more predictable than short-term changes. We have a fairly good knowledge of short-term price movements but there is no inherent tendency for inflation to converge on any particular rate.

Comparison with univariate estimates

It is difficult to know how to judge forecast errors. We have tried to estimate univariate time series estimators for real GDP and inflation to serve as a benchmark. In each case we only used the information that was available at the time.

These time series estimators have been clearly outperformed by the actual forecasts since 1975. Between 1970 and 1975 there is less difference. However I am very conscious that we have not put many resources into this exercise. Even so it is worth noting that in the US where ex-ante time series predictions have been issued to serve as a benchmark the model based forecasts do better (see **McNees 1979 and 1983**).

Data revisions

One interesting comparison is with the revisions to the GDP data. One of the complications to be faced in making short-term GDP forecasts is that the national accounts data which the forecasters use is itself subject to considerable revision over a period of years. For example, my earlier results suggested forecasts of real GDP growth over the next four quarters have on average been subject to an absolute error of about 1.6 per cent since the 1970s. The estimate of growth over the most recent four quarters that was available at the time that these forecasts were being made was itself subject to an absolute error of 1.3 per cent on average.

It is almost inevitable that errors in the data will have materially affected the accuracy of the GDP forecasts. Forecasters' views about the near future are, in many respects, conditional on their perception of what has been happening in the recent past.

Comparison with other forecasts

In principle it is interesting to compare these error statistics with those of other forecasters but I do not have time to address that today. Other UK forecasters have published forecast post-mortems (**Robinson (1983), Savage (1983), NIESR (1984)**). Some of the characteristics of Treasury forecasts I have described are present in other forecasts but there are also some differences.

It is also interesting to compare the errors I have presented today with the typical US results. I appreciate that this runs into even more trouble than the comparison across time periods. Even so it is of some interest.

The US figures are from **McNees (1983, pp 14, 15)** and cover the period 1976 to 1983. They are an average of the early quarter forecasts produced by the major US forecasters. We have calculated average Treasury forecast errors for the same period. I also show our computed index of variation for both US and UK data.

In **table 5** I show the comparative figures for inflation. The annualised UK errors seem to be less than the equivalent US errors but the pattern is very similar. The estimate of variation is rather less for the US than the UK, particularly in the short-run, according to the measure I have been using.

Table 5

Comparison of UK RPI and US CPI Forecast Errors

Percentage Points; Annualised Rates of Growth: 1976-1983

(Index of variation in brackets)

Time Horizon (Quarters)

	2	4	6	8
H M Treasury	1.7 (4.8)	2.1 (4.4)	2.3 (5.0)	2.2 (5.4)
United States*	2.0 (2.4)	2.1 (2.6)	2.5 (3.3)	2.9 (4.0)

*Average of 5 US forecasts

The average GDP errors are shown in **table 6** on the same basis. Again the pattern seems to be that the UK average errors are less than the US errors. However our measure of variation also suggests that the UK GDP series also varied a little less. Allowing for that there seems to be very little difference in forecast performance.

Table 6

Comparison of UK Real GDP and US Real GNP Forecast Errors

Percentage Points; Annualised Rates of Growth: 1976-1983

(Index of variation in brackets)

Time Horizon (Quarters)

	2	4	6	8
H M Treasury	2.4 (3.6)	1.3 (2.4)	1.0 (2.5)	0.9 (2.4)
United States*	2.4 (4.1)	1.8 (3.3)	1.4 (2.7)	1.3 (2.9)

*Average of 6 US forecasts

My general, and provisional, conclusion from the comparison is that there is not a great deal of difference between the two forecasting records. There is no evidence in these figures that the UK performance is any worse.

THE USE OF ECONOMIC PREDICTIONS

So far I have concentrated on the interpretation of economic predictions. I would now like to turn to the second part of my title; the use that can be made of predictions

in the implementation of policy. I will discuss, in turn, the extent to which predictions are necessary to the conduct of policy; some limitations in their use; and their role in the implementation of the MTFS.

Are predictions necessary for the conduct of policy?

Some commentators have argued that we can do without these predictions altogether. Some of that scepticism derives from the feeling that anyone who involves themselves in predictions must be, at heart, an interventionist.

But the essence of prediction is an attempt to use the considerable array of information available systematically in the assessment of economic developments. Decisions have to be made against the background of an uncertain current position; they cannot be easily reversed and many policy changes have consequences stretching years ahead. Some kind of forward look is therefore essential and it is best to do this in a consistent way. Once they are produced forecasts have an important monitoring function as they provide a basis against which to judge subsequent developments.

Forecasting does not depend upon the objectives of short run demand management. Monetary policy, taxation and public expenditure decisions require forecasts of the whole economy because of the influence of the movement of output and inflation upon, for example, interest rates, tax collection and expenditure.

It is sometimes suggested that the alternative to prediction is the operation of policy rules. The idea of policy without predictions is an attractive prospect but I suggest impractical.

In practice the operation of policy rules themselves will involve the use of predictions. Even apparently straightforward policy rules such as balanced budgets or monetary targets require a considerable amount of technical expertise for their successful implementation.

If the necessary predictions are not made in a systematic manner they will simply be done in an ad hoc manner. The strength of model-based predictions is that they bring consistency and attention to detail.

It is likely that the operation of economic policy of any kind can be improved by the use of systematic model-based forecasts. The discipline of recording predictions along with the logic involved in their preparation is an essential part of the learning process along with regular post-mortems of the results. The model itself provides a description of how the economy works, and a benchmark against which to set our judgements.

The forecasting process in the Treasury serves a crucial

co-ordinating role. In part it is an attempt to bring together much of the forecasting work of the rest of the Treasury, the Inland Revenue, Customs & Excise and other Departments to provide a coherent, integrated picture of economic prospects and developments. It is important to stress the extent to which the forecasting and policy analysis work, based in part upon model simulations, is an integral part of the Treasury administrative process.

Some limitations in their use

In summary, I am persuaded of the contribution of model-based predictions to the technical competence with which a Government implements its policy. But there are limitations to their use. I will mention two.

First, it is my view that predictions from one type of model, on their own, are an unreliable basis to determine the operation of fiscal and monetary policy. The size of forecast errors means that it is dangerous to place excessive reliance on one approach. This suggests the need to monitor a range of forecasts and policy simulations based upon different views of the way economies function and respond.

And we need to consider the implication of the tendency for inflation forecast errors to increase rapidly without any pressure for inflation to converge on a particular rate, and for inflation forecasts to show a downward bias when the underlying inflation rate has been increasing.

My own interpretation is that it suggests the need for a clear financial framework to maintain control of inflation. Whether that policy should be a fixed exchange rate, monetary targets or a money GDP objective is a secondary issue for the purpose of this exposition. Forecasts have a role to play within such a framework, and I will return to this later.

Second, there are important limitations in the extent to which predictions can be used in fine tuning demand -whether in real or money terms. The short-term forecast errors are large in relation to the scale of the measures government can contemplate, particularly in the shorter term. Short-term fluctuations of demand due to inventory changes or world demand movements can be both surprising and to a degree self-correcting.

Even if we could correctly forecast short-term fluctuations, it is very difficult to devise control techniques whose effect is exhausted in a short period. Thus policies have to be reversed sharply to offset their longer-term effect. Such changes in policy are both disturbing and costly to administer. This does not mean that discretionary stabilisation policy is impossible; but its scope is limited **(see Committee on Policy Optimisation, H M Treasury 1978).**

Many of the problems became evident during the years of demand management. During this period short-term forecasts played an increasing role. Despite this growing influence a view also emerged that neither domestic nor balance of payments forecasts were good enough guides for the policy decisions which were based upon them. The ambitions to fine tune demand within a narrow path meant forecasting fluctuations with greater accuracy than forecasters could reasonably be expected to deliver. In hindsight it is striking how little tolerance could be permitted either with the unemployment or balance of payments objective.

It was inevitable that forecasts would be uncertain and liable to be wrong. It is clear from the various articles written by Chief Economic Advisers to the Treasury (see **Hall (1959), Cairncross (1969), MacDougall (1974)**) that no-one realised the uncertainty more than the Treasury forecasters themselves. The conclusion I draw from this is that the design of policy must pay full regard to the limitations of the predictions. If excessive demands are made for forecast accuracy this can only lead to growing frustration with the forecasters. And, in turn, the forecasters can become unnecessarily defensive about the status of their predictions.

The problem of fine tuning the level of real demand is also one of not having the appropriate policy instruments to stabilise the economy in response to major disturbances such as unexpected wage and price shocks. The Korean war price shock in 1951 and both oil price hikes fall into this category. The breakdowns of wages policies have had effects similar in nature, if more subdued. The forces at work can be so powerful that it is difficult to imagine any policy response that would stabilise them. There may be no time to take any action that will stabilise the initial situation.

It can be difficult to accept that situations can arise unexpectedly or with a force that makes stabilisation policy ineffective to deal with them. And yet the temptation to override this reality can lead to even greater instability in the future.

The important role of predictions may be to anticipate the way in which the economy will unwind from the shocks and to help in making a judgement about the action that will help that adjustment. It is not to attempt to foresee what policy changes would stabilise the situation in the short term.

The role of prediction in the MTFS

I would like to close with some brief comments about the economic predictions that have been used during the years of the MTFS.

They have played a different role to that of the 1960s and 1970s. During the years of Demand Management the purpose of the short-term forecasts and policy analysis was to help the Government to decide whether to run risks of unemployment on the one side, or of overheating and balance of payments deficits on the other. And to advise on the scale and type of measures that would bring the economy into line with the Government's objectives.

Until the early 1970s the striking feature was the extent to which the aim set out in the 1944 White Paper of maintaining "high and stable" employment was, by all past and subsequent standards, successfully achieved. Even so many commentators argue that frequently policy was destabilising; emphasising recovery when it was already under way, and restraining demand when activity was already slowing down.

I have already mentioned some of the growing doubts about economic predictions. From 1972 onwards the major difficulties with demand management emerged. By 1976 there was not only disillusion with demand management; there was also growing frustration with the forecasts.

A number of changes in balance have emerged. Within the framework of the MTFS, introduced in 1980, judgements about fiscal and monetary policy have not relied solely upon short-term forecasts of activity and inflation. Instead, the forecasts have taken on a slightly different role; one that I suspect is more comfortable.

The focus of the forecasts and policy simulations has shifted to a more medium-term horizon. There has been less emphasis on the short-term outlook and the evaluation of measures that would be involved in bringing output quickly back to its desired path.

The essence of the MTFS has been a series of monetary ranges with an illustrative path for the budget deficit which was judged to be consistent with the profile for monetary growth and the implied growth of money GDP; but which recognised the inevitable uncertainty surrounding the forecasts.

The forecasts and assumptions that have been presented were not detailed planning assumptions for the MTFS; they were primarily illustrative. They have not been the only basis for setting the monetary targets and the illustrative PSBR path but they played a part in attempting to ensure that the financial framework was consistent with the overall objectives. And in operational terms they were used to compute the appropriate tax and expenditure framework that was consistent with the illustrative PSBR.

There has been less emphasis on the detailed components of demand and more on the government's finances and monetary developments. Treasury resources have been increased in areas - such as the public sector and the financial system

- of direct concern to and the responsibility of Government. Other areas of modelling and forecasting, such as the balance of payments and the industrial forecasts, have been allocated fewer resources. Within the medium term horizon increased attention has been given to trying to identify balance sheet pressures upon the various sectors.

As we have seen the forecast errors have declined again; maybe partly because of improved techniques but also because the profile of inflation and output has become smoother and more predictable.

Space prohibits a detailed examination of their profiles but I have presented the data for two variables, money GDP and real GDP.

Table 7 shows the growth of nominal GDP over this period shown in successive versions of the MTFS. For the first two years the assumptions were not published but were prepared for internal purposes. This is one indicator of the extent to which the pressures from monetary and fiscal policy have been operating as anticipated. The table shows that in the early years we did not foresee fully the extent of the deceleration of nominal GDP that would be brought about by the MTFS framework. However, in general terms the outcome has been very much as expected.

Table 7

MTFS Assumptions for Nominal GDP

(percentage change)

Date of Publication

	1980(1)	1981(1)	1982	1983	1984	1986 Outturn
1979-80	17½					19.9
1980-81	17	13				13.8
1981-82	12	10½	10½			10.1
1982-83	9½	9½	10	8½		9.3
1983-84	10½	10	9½	8	8.0	7.8
1984-85			9½	8½	7.9	6.9
1985-86					6.8	9.6

(1) Assumptions for nominal GDP were not published in the 1980 and 1981 MTFS

A similar conclusion applies to the record on real output, which is shown in **table 8.** The output profile as presented in the 1980 MTFS involved a sharp reduction of output in 1980, a further small reduction in 1981 followed by some recovery in 1982 and 1983. The profile has been very much as expected although the fall in 1981 was a little greater than anticipated in the 1980 MTFS. By the time of the 1981 MTFS however we had revised the outlook and this revised profile has been almost spot on.

Table 8

GDP 1980 Prices(1)

Assumptions for MTFS

(percentage change)

	Date of Publication					
	1980(2)	**1981**(2)	**1982**	**1983**	**1984**	**1986 Outturn**
1980	-2.5	-2.5				-2.4
1981	-0.5	-2.0	-2.0			-1.4
1982	1	1	1½	0.7		1.9
1983	2½	2½	2½	2	2.8	3.3
1984				2½	3	2.6
1985					2½	3.3

(1) MTFS Assumptions published between 1980 and 1983 were based on 1975 prices.

(2) Average growth from 1980 to 1983 as published was 1 per cent a year in the 1981 MTFS.

Although our experience of this type of medium-term framework is relatively short so far the predictions are encouraging. And they have been useful. The operation of fiscal and monetary policy has been conducted against the background of the assumptions for output, inflation and money GDP. At times of unexpected velocity changes the profile of money GDP has provided ex-post reassurance of the appropriateness of monetary conditions. And the monitoring of the wage, price, productivity developments against expectations has helped in understanding some of the unexpected developments.

The conduct of monetary and fiscal policy would have been considerably more difficult if we had not set out for our own use an articulate, coherent set of projections for the main variables.

CONCLUSIONS

I will not attempt to summarise the material I have presented. Instead I will conclude with some general observations.

Economic forecasting has been a growth industry over the past 25 years. In the early 1960s only the Treasury and National Institute undertook detailed forecasts. In 1966, at the London Business School, James Ball and I began preparing the first regular model based forecasts of the UK economy. Since then there has been an explosion of forecasting activity. At the Treasury we monitor about 30 forecasts on a regular basis.

The evidence I have presented suggests that over this period there has not been any marked improvement in Treasury forecasts of output and inflation up to a forecasting horizon of about a year. But the results for longer horizons are more encouraging with some evidence of improvement.

In the years ahead I do not expect to see any major breakthrough in the accuracy of short-term forecasts. There is only limited scope for improved estimation techniques and theoretical developments to add to the accuracy of short-term forecasts.

Short-term forecasts of GDP are hampered because of difficulties with the quality and timeliness of data. I emphasise this is not a UK problem alone but applies to macro-economic data everywhere. Forecasts of the inflation rate are less troubled by measurement problems although there is a separate problem with the volatility of the housing costs element of the RPI which is heavily dependent upon interest rate changes.

I am more hopeful of further reducing errors in longer-term forecasts. Many of the developments in our understanding of the way economies work are likely to have their pay-off in a better appreciation of some of the medium-term pressures facing the economy - that is over a forecast horizon of between one and four years.

The two most likely developments that will bring that reduction of forecast error are in our understanding of the supply behaviour of the economy and the modelling of Government behaviour.

For many years supply behaviour was neglected. This was understandable when the main focus of the forecasters' attention was the short-term horizon as demand factors are probably the most important influences on output over that period apart from unpredictable supply side disturbances (such as the oil price fall). But the more we attempt to extend the forecast horizon the more we need to give attention to supply factors; for example the determination of productive capacity, the extent to which demand is met from home and abroad and the split of nominal demand growth between output or inflation.

For many years it was forecasting practice to assume unchanged government policies in a very narrow sense; that is planned expenditure levels, unchanged tax and benefit rates, and unchanged interest rates and exchange rates. Missing from this formalisation was any constraint on the sustainability of policy and the impact of that upon interest rates, the exchange rate and tax rates. In part this was because forecasts were being used to estimate the scope for discretionary Government action rather than to make unconditional predictions of how events might unfold.

But if we wish to provide a picture of the likely evolution of the economy on the basis of the Government's broad policy objectives, it is necessary to define "unchanged policies" in a more general sense, taking account of the likely policy response in the event of pressures of one kind or another. This modelling of policy responses is a relatively new activity but a necessary aspect of any medium-term prediction. In recent years we have been able to make some progress in this direction by forecasting within a framework of money supply targets and an illustrative path for the PSBR. Interest rate and tax changes have been built into the forecasts as necessary. There are clearly other formulations depending upon the particular way that Government chooses to conduct policy.

Finally we must remind ourselves that in this lecture I have been discussing a type of prediction that has been formalised for 15-20 years. Over that period progress has been made. And it has been an exciting adventure for those who have participated. We set out with considerable hope but also considerable ignorance of what might be achieved.

I have attempted to give a personal interpretation of the achievements and failures. I will be surprised and disappointed if further progress is not made in the years ahead.

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CONFIDENTIAL
until 11.30 a.m. on FRIDAY 21 MARCH then
UNCLASSIFIED

FROM: S J DAVIES
DATE: 20 MARCH 1986

CHANCELLOR OF THE EXCHEQUER

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

Mr R Clare (CSO)

GDP FIGURES FOR THE FOURTH QUARTER OF 1985

The CSO's provisional estimates of GDP in the fourth quarter of 1985 will be published tomorrow (Friday) at 11.30 a.m. The figures to be published are in line with the figures used in the FSBR forecast.

2. For 1985 as a whole the figures show a 3.3 per cent increase in the average measure of GDP (which was described in the FSBR in rounded terms as a $3\frac{1}{2}$ per cent increase). Between the third and fourth quarters of 1985 the average estimate of GDP shows an increase of $\frac{1}{2}$ per cent, and the output estimate - which is a more reliable measure of short-term movements in activity - shows an increase of $\frac{3}{4}$ per cent. Thus the figures are consistent with paragraph 3.42 of the FSBR, which noted that strike adjusted GDP had been broadly flat between the first and third quarters of the year but that "growth seems to have picked up again in the fourth quarter".

n21sd-GDP

3. Growth in 1984, which had been revised down to 2.3 per cent 3 months ago, has now been revised up to 2.6 per cent. The growth rates shown by the alternative estimates of GDP are now:

	Expenditure estimate of GDP	Income estimate of GDP	Output estimate of GDP	Average estimate of GDP	Strike Adjusted estimates: GDP(O)	GDP(A)
1982	1.2	2.5	1.8	1.8		
1983	3.7	3.3	3.0	3.3		
1984	1.6	3.0	3.2	2.6	4.2	3.7
1985	3.3	3.0	3.4	3.3	2.7	2.6

Components of expenditure

4. The pattern of expenditure growth in 1985 was as assumed in the construction of the FSBR forecast. Consumers' expenditure grew by about ½ per cent between the third and fourth quarters of 1985, and for 1985 as a whole increased by almost 3 per cent. Consumers' expenditure on durables was about 7 per cent higher in the second half of 1985 than in the second half of 1984. Fixed investment grew about 1 per cent in total between 1984 and 1985.

Line to Take

5. This is all as we expected when we finalised the FSBR forecast. (No changes are required to Budget Brief B2 (UK Economy: Recent Developments); IDT and others should use that brief as necessary.)

6. An advance copy of the press notice is attached to the top copy only.

S J DAVIES

n21asd-GDP

RESTRICTED UNTIL PUBLICATION AT 11.30 AM ON FRIDAY 21 MARCH
AND THEREAFTER UNCLASSIFIED

F0692 Ref: D4/26

MR NORGROVE (Prime Minister's Office) (2 copies)
MISS ROCHE (Prime Minister's Office)
MR HATFIELD (Cabinet Office)
SIR TERERENCE BURNS (Treasury)
MR DAVIES (Treasury)
MISS O'MARA (Treasury)
MR VERNON (Treasury)
MR DWORKIN (Department of Employment)
MR SIMMONS (Department of Energy)
MR RYDING (Bank of England)
MR TOWNEND (Bank of England)
MR EXETER (Bank of England)
MS FYFFE (Bank of England)

Mr Hibbert)
Mr Flaxen)
Mr Wells)
Mr Mansell) CSO
Mr Clare)
Mr Hackman)
Mr Lang)

GROSS DOMESTIC PRODUCT IN THE FOURTH QUARTER OF 1985

1. Provisional estimates of gross domestic product (GDP) for the fourth quarter of 1985 will be released at 11.30 am on Friday 21 March. A copy of the press notice is attached.

2. You might like to note:

(i) The average measure of GDP (at constant prices) showed a rise of ½ per cent between the third and fourth quarters of 1985; compared with the fourth quarter of 1984, GDP was 2¾ per cent higher - or 1½ per cent higher if allowance is made for the direct effects of the coal dispute in the earlier period.

(ii) Compared with 1984, the average mesure of GDP was nearly 3½ per cent higher in 1985 (or 2½ per cent on a strike-adjusted basis). Compared with the trough in the first half of 1981 the level of economic activity in the second half of 1985 was nearly 13 per cent higher - an average annual rate of growth of nearly 2¾ per cent over the 4½ year period.

(iii) Timing problems and distortions to the GDP profile in 1985 have contributed to the variations in the recent quarterly movements as between the three individual measures of GDP. The output-based measure, which is considered to be the best indicator of short-term movements, rose ¾ per cent between the third and fourth quarters of 1985 and by 3¼ per cent compared with a year earlier (or 2 per cent after allowing for the coal dispute).

(iv) There is much closer correspondence between the growth rates suggested by the three alternative measures of GDP in the year-on-year comparison of 1985 with 1984. All these measures indicate a growth in GDP of 3 to 3½ per cent between the two years, or 2¼ to 2¾ per cent after adjusting for the coal dispute.

(v) The current set of estimates are based on later data than that available for the compilation of the 1986-87 Financial Statement and Budget Report, but in practice the differences are negligible.

3. The press notice includes guidance on past experience of revisions to provisional estimates (see Note 5 to Editors). We recommend caution in anticipating that revisions to current data will be similar to those experienced on average in the past.

Shirley Carter

Shirley Carter

Central Statistical Office
20 March 1986
01-233-7349

PRESS
AND
INFORMATION SERVICE

CSO

CENTRAL STATISTICAL OFFICE

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CSO(86)32

21 March 1986

GROSS DOMESTIC PRODUCT IN THE FOURTH QUARTER 1985

Provisional estimates of gross domestic product (GDP) at constant factor cost for the fourth quarter of 1985 suggest that the level of economic activity was ½ per cent higher than in the third quarter.

The fourth quarter estimate for the average measure of GDP was 2½-3 per cent higher than in the corresponding quarter of 1984. If allowance is made for the direct effects of the coal dispute on the earlier period, the increase over the same period is estimated at nearly 1½ per cent. (First estimates of growth rates are liable to be revised in the light of further information. See Notes to Editors for guidance on the likely range of revisions.)

Over the year as a whole, GDP in 1985 was nearly 3½ per cent higher than in 1984; allowing for the coal dispute, the increase between the two years is estimated at around 2½ per cent. In the second half of 1985, the level of economic activity was nearly 13 per cent higher than at its trough in 1981.

Provisional estimates for the three alternative measures of GDP at constant factor cost (based on expenditure, income and output) show somewhat differing profiles during the year. The output-based measure is considered the best indicator of short term changes; this suggests growth of ½-1 per cent between the third and fourth quarters of 1985 and, after allowance for the coal dispute, a rise of 2 per cent over the year to the fourth quarter.

NATIONAL ACCOUNTS AGGREGATES

INDEX NUMBERS: SEASONALLY ADJUSTED[1]

1980 = 100

		Gross domestic product							National disposable income at 1980 market prices	Implied gross domestic product deflator	
		At current market prices	At current factor cost		At constant factor cost 1980 prices					At factor cost	At market prices
		Average estimate	Based on expenditure data	Based on income data	Average estimate	Based on expenditure data	Based on income data[2]	Based on output data	Average estimate	Based on expenditure data[3]	Based on expenditure data
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		110.0	109.2+	108.9	98.6+	98.9+	98.5+	98.3	99.3	110.5+	111.8
1982		120.3	118.1	119.2	100.4	100.1	101.0	100.1	101.0+	118.0	120.0
1983		130.6	129.5	130.2	103.7	103.8	104.3	103.1	104.7	124.8	126.1
1984		139.4+	137.6	140.0+	106.4	105.5	107.4	106.4+	107.2	130.4	131.1+
1985		152.7	150.8	153.0	109.9	109.0	110.6	110.0	110.4	138.3	139.1
1979	1	78.2	78.8	79.3	99.8	99.1	99.7	100.5	99.8	79.6	77.9
	2	83.9	84.9	84.6	103.6	103.3	103.0	104.4	103.1	82.1	80.4
	3	88.4	88.4	88.1	103.2	103.4	103.1	103.2	102.4	85.5	86.0
	4	91.9	91.5	91.7	103.2	102.8	103.0	103.7	102.0	89.0	89.2
1980	1	95.7+	94.7	96.0	101.9	101.0	102.3	102.5+	101.5	93.8	93.7
	2	98.8	97.5	99.8	100.6	99.5	101.8	100.7	99.9	98.0	98.3
	3	101.5	102.7	100.9	99.3	100.3	98.4	99.1	99.3	102.4	102.5
	4	104.0	105.1	103.3	98.2	99.3	97.5	97.7	99.3	105.8	105.6
1981	1	105.4	107.5+	104.0+	97.9	99.7+	96.5+	97.6	99.6	107.8	107.9
	2	109.0	107.6	106.7	97.8+	98.2	97.4	97.9	99.0	109.5+	111.1
	3	111.5	109.2	110.7	98.5	97.7	99.1	98.8	98.8+	111.8	113.1
	4	114.3	112.7	114.2	100.0	99.8	101.1	99.0	100.1	112.9	114.9
1982	1	116.3	114.0	114.2	99.8	100.0	100.2	99.1	100.5	114.0	116.7
	2	119.5	117.4	119.2	100.3	99.7	101.2	100.0	100.3	117.8	119.3
	3	121.6	118.2	120.8	100.3	99.2	101.3	100.5	100.8	119.2	121.3
	4	124.1	122.9	122.6	101.2	101.5	101.3	100.8	102.5	121.1	122.7
1983	1	127.8	127.1	126.6	102.9	103.6	103.2	101.7	104.4	122.7	124.4+
	2	128.0	126.4	128.5	102.8	102.3	104.0	102.1	102.6	123.5	124.7
	3	132.0	131.1	131.6	104.3	104.3	104.7	103.8	106.0	125.7	126.8
	4	134.7	133.5	134.0	105.0	104.8	105.2	104.9	106.0	127.3	128.4
1984	1	136.9	135.9	136.7	105.8	105.6	106.3	105.6	106.9	128.7	129.4
	2	137.1	135.8	137.4	105.4	104.6	105.9	105.6	106.3	129.8	130.1
	3	140.2	137.4	141.4	106.8	105.3	108.4	106.7	107.1	130.5	131.4
	4	143.6	141.2	144.4	107.7	106.5	109.0	107.6	108.9	132.5	133.3
1985	1	147.4	146.4	148.1	108.6	107.9	109.1	108.8	108.2	135.8	135.8
	2	151.2	149.2	152.5	110.3	109.1	111.6	110.0	110.5	136.7	137.5
	3	154.0	151.6	154.3	110.1	109.0	110.9	110.2	111.2	139.1	140.0
	4	158.4	155.8	157.1	110.7	110.0	110.9	111.1	112.1	141.6	143.0
		Percentage change, latest quarter on previous quarter[4]									
1985	4	+2.9	+2.8	+1.8	+0.5	+0.9	-	+0.8	+0.8	+1.8	+2.1
		Percentage change, latest quarter on corresponding quarter of previous year[4]									
1985	4	+10.3	+10.3	+8.8	+2.8	+3.3	+1.7	+3.3	+2.9	+6.9	+7.3

1 These estimates are given to one decimal place but this does not imply that they can be regarded as accurate to the last digit shown.
2 Income data deflated by the implied GDP deflator at factor cost.
3 Also known as the index of total home costs.
4 These estimates of change cannot be regarded as any more accurate than is implied by the general statements made in the text, where figures are given in rounded form. This is because of the provisional nature of the estimates from which the figures are derived.

The average measure of GDP at current market prices ("money GDP") rose 10-10½ per cent between the fourth quarters of 1984 and 1985. In 1985, money GDP increased by 9½ per cent over its 1984 level. If allowance is made for the coal dispute the corresponding increases were both in the region of 8½-9 per cent.

The real income of the United Kingdom, as shown by gross national disposable income at constant market prices, increased by 3 per cent between the fourth quarters of 1984 and 1985, and by the same percentage between 1984 and 1985.

The increase compared with a year earlier in the implied factor cost GDP deflator ("index of total home costs") was nearly 7 per cent in the fourth quarter of 1985. Over 1985 as a whole the factor cost deflator was 6 per cent higher than its level in 1984.

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

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

At current prices the expenditure measure of gross domestic product at factor cost, (GDP(E)), rose nearly 3 per cent in the fourth quarter of 1985 to a level nearly 10½ per cent higher than a year earlier. Compared with 1984, expenditure in 1985 was 9½ per cent higher.

At constant 1980 prices the provisional figures suggest a rise of 1 per cent between the third and fourth quarters of 1985, following little change in expenditure between the second and third quarters, and a growth of 3-3½ per cent compared with the fourth quarter of 1984. Comparisons have been affected by the coal dispute and the uneven profile of investment during 1985; comparing one year with another, and allowing for the coal dispute, the increase in GDP(E) between 1984 and 1985 is 2½ per cent.

At constant prices, consumers' expenditure increased by about ½ per cent in the fourth quarter of 1985 to reach a level nearly 3½ per cent above that of a year earlier. Further details are given on page 5. General government final expenditure in the fourth quarter was virtually unchanged compared with either the third quarter of 1985 or the fourth quarter of 1984. Fixed investment was the same in the fourth quarter of 1985 as in the third. For 1985 as a whole it was less than 1 per cent higher than in 1984, with the quarterly pattern reflecting the bringing forward of expenditure from later quarters into the first quarter of 1985 in anticipation of the reduction in capital allowances in April. Stocks increased by about £600 million in the fourth quarter to give an increase of about £900 million for 1985 as a whole. The balance of overseas trade in goods and services fell back somewhat in the fourth quarter from the high balances recorded in the second and third quarters. Between 1984 and 1985 exports rose by 6 per cent while imports rose by 3 per cent. The improvement in the balance reflects more favourable balances on services and on goods, the latter improvement arising particularly from trade in oil and oil products.

Income at current prices (Table C)

At current prices the income measure of gross domestic product at factor cost, (GDP(I)), shows a growth of some 9 per cent between the fourth quarters of 1984 and 1985, and a similar growth rate between the years. Income from employment in the fourth quarter increased by 8 per cent compared with the fourth quarter of 1984. The gross trading surpluses of public corporations in the fourth quarter fell back slightly following the recovery in the previous two quarters of 1985. (Comparisons with earlier periods are affected by the coal dispute and the exclusion of British Telecom since its privatisation in November 1984.) Company profits before deduction of stock appreciation rose 4 per cent between the third and fourth quarters of 1985 although they remained 5 per cent below their first quarter peak. In the fourth quarter, total company profits were 1 per cent higher than a year earlier (equivalent to 3 per cent lower if British Telecom is excluded from the comparison).

When deflated by the implied index of total home costs GDP(I) rose by 1½-2 per cent between the fourth quarters of 1984 and 1985, and by 3 per cent between the years. As before, these comparisons are affected by the coal dispute. Allowing for this the increase between 1984 and 1985 is estimated between 2 and 2½ per cent.

Output at constant 1980 prices (Table D)

The output measure of GDP, (GDP(O)), rose by about ¾ per cent between the third and fourth quarters of 1985. Growth was fairly uniform across the service industries, averaging about 1 per cent. Output of the production industries was little changed but construction output rose by 2 per cent. After adjusting for the effects of the miners' dispute, GDP(O) increased by 2 per cent between the fourth quarters of 1984 and 1985.

GDP(O) increased by 3 to 3½ per cent in both 1984 and 1985. After adjusting for the coal strike, the output measure grew by 2½ per cent between 1984 and 1985, compared with over 4 per cent between 1983 and 1984. Output of the transport and communication industry increased by 5 per cent between 1984 and 1985, while output of the rest of the service sector and of manufacturing industry were both about 3 per cent higher.

Consumers' expenditure (Table E and F)

At current prices consumers' expenditure grew by rather more than 2 per cent between the third and fourth quarters of 1985, and by more than 9 per cent over the year. Between 1984 and 1985 consumers' expenditure rose by some 8 per cent.

At just over ½ per cent, the rise in consumers' expenditure at constant prices between the third and fourth quarters took spending to a level nearly 3½ per cent higher than in the fourth quarter of 1984. Between 1984 and 1985 consumers' expenditure rose nearly 3 per cent.

Within the total, expenditure on durable goods showed a 4 per cent growth between the fourth quarters of 1984 and 1985 and a very similar rise between the years. The growth between the two years very largely occurred in expenditure on durable goods other than on vehicles, furniture and floor coverings. Spending on food rose by less than 2 per cent between the fourth quarters of 1984 and 1985 and by less than 1 per cent between the two years. Expenditure on tobacco continued to decline. Spending on beer also fell slightly but expenditure on other alcoholic drink rose 5 per cent between 1984 and 1985. Among other goods, spending increased in most areas between 1984 and 1985, including that on clothing, footwear and on energy products.

Average estimates of gross domestic product (Table G)

Table G, introduced in December 1985, is designed to supplement information about the average measure of GDP presented on page 2. It shows average estimates of GDP on four bases (at current market prices, current factor cost, constant market prices and at constant factor cost) expressed both in £billion and in index number form.

NOTES TO EDITORS

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

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

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

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

5. Technical note on revisions

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

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

	Percentage changes (at annual rate) (1)			
	Change between the fourth quarters of 1984 and 1985	Range based on past experience	Change between the fourth quarters of 1983 and 1985	Range based on past experience
Constant prices				
GDP - average measure at factor cost	2¾	2½-4½	2¾	2½-3¾
GDP - as above but after allowing for the coal dispute (2)	1¼	1-3	2¾	2½-3¾
Current prices				
GDP - average measure at market prices (3)	10¼	10¾-12¾	8½	8¾-10½
GDP - as above but after allowing for the coal dispute (2), (3)	8½	9-11	8½	8¾-10½

(1) Figures for growth rates based on individual quarters vary from quarter to quarter and do not represent the underlying rate of growth.

(2) Estimates of the effects of the coal dispute are tentative and consequently greater uncertainty attaches to the figures after allowing for the coal dispute.

(3) The range shown is based on the analysis of revisions applicable to GDP at current factor cost. It is unlikely that the revisions performance of GDP at current market prices differed significantly from that at factor cost.

EXPENDITURE ON THE GROSS DOMESTIC PRODUCT - AT CURRENT PRICES

Seasonally adjusted

TABLE A

£ MILLION

		GROSS DOMESTIC PRODUCT		Final expenditure on goods and services at market prices									
						General government consumption							
		At market prices	At factor cost	Total final expenditure	Consumers' expenditure	Total	Central government	Local authorities	Gross domestic fixed capital formation	Value of physical increase in stocks and work in progress	Exports of goods and services	Imports of goods and services	Adjustment to factor cost
1980		230 011	199 246	287 729	136 995	48 906	29 940	18 966	41 588	-2 875	63 115	57 718	30 765
1981		253 688†	217 654†	314 363†	152 245	55 357	33 859	21 498	41 671†	-2 815	67 905	60 675	36 034
1982		276 013	235 386	344 117	166 564†	60 382	37 054†	23 328†	45 396	-1 305	73 080	68 104	40 627
1983		300 488	258 052	378 042	182 049	65 642†	40 559	25 083	49 288	673	80 390	77 554	42 436†
1984		318 347	274 103	410 879	193 889	69 687	42 924	26 763	55 432	-495	92 366†	92 532†	44 244
1985		348 858	300 374	447 552	210 071	74 072	46 151	27 921	59 568	924†	102 917	98 694	48 484
1982	1	66 986†	56 777†	83 620†	40 082†	14 633	9 059	5 574	10 623†	430	17 852	16 634	10 209
	2	68 324	58 476	85 721	41 048	14 980	9 197	5 783	11 177	249	18 267	17 397	9 848
	3	69 196	58 900	86 158	42 070	15 220	9 303†	5 917†	11 631	-851	18 088	16 962	10 296
	4	71 507	61 233	88 618	43 364	15 549	9 495	6 054	11 965	-1 133	18 873	17 111	10 274
1983	1	73 958	63 327	92 447	44 140	16 358†	10 254	6 104	12 082	334	19 533†	18 489†	10 631†
	2	73 272	62 957	92 399	44 928	16 214	9 894	6 320	11 889	-213	19 581	19 127	10 315
	3	75 907	65 284	95 352	46 124	16 322	10 059	6 263	12 319	359	20 228	19 445	10 623
	4	77 351	66 484	97 844	46 857	16 748	10 352	6 396	12 998	193	21 048	20 493	10 867
1984	1	78 578	67 673	99 616	47 445	16 803	10 397	6 406	13 454	-100†	22 014	21 038	10 905
	2	78 366	67 653	100 851	48 371	17 095	10 400	6 695	13 648	-491	22 228	22 485	10 713
	3	79 609	68 443	103 097	48 363	17 728	10 989	6 739	13 958	-122	23 170	23 488	11 166
	4	81 794	70 334	107 315	49 710	18 061	11 138	6 923	14 372	218	24 954	25 521	11 460
1985	1	84 266	72 945	110 535	50 702	18 385	11 461	6 924	15 565	-340	26 223	26 269	11 321
	2	86 200	74 303	111 126	51 893	18 284	11 399	6 885	13 950	535	26 464	24 926	11 897
	3	87 787	75 511	111 370	53 092	18 533	11 560	6 973	14 840	46	24 859	23 583	12 276
	4	90 605	77 615	114 521	54 384	18 870	11 731	7 139	15 213	683	25 371	23 916	12 990

EXPENDITURE ON THE GROSS DOMESTIC PRODUCT - AT 1980 PRICES

Seasonally adjusted

TABLE B

£ MILLION

		GROSS DOMESTIC PRODUCT		Final expenditure on goods and services at market prices									
						General government consumption							
		At market prices	At factor cost	Total final expenditure	Consumers' expenditure	Total	Central government	Local authorities	Gross domestic fixed capital formation	Value of physical increase in stocks and work in progress	Exports of goods and services	Imports of goods and services	Adjustment to factor cost
1980		230 011	199 246	287 729	136 995	48 906	29 940	18 966	41 588	-2 875	63 115	57 718	30 765
1981		227 008†	196 987†	282 926†	136 511	48 943	30 144	18 799	37 914†	-2 484	62 042	55 918	30 021†
1982		229 976	199 414	288 720	137 592†	49 360	30 392†	18 968†	40 099	-1 121	62 790	58 744	30 562
1983		238 279	206 742	300 402	142 910	50 240†	30 910	19 330	42 178	673	64 401†	62 123	31 537
1984		242 910	210 210	310 925	145 556	50 919	31 215	19 704	45 530	-142	69 062	68 015†	32 700
1985		250 809	217 182	320 878	149 649	51 180	31 662	19 518	45 932	878†	73 239	70 069	33 627
1982	1	57 402†	49 815†	71 963†	33 967†	12 328	7 630	4 698	9 486†	501	15 681	14 561	7 587†
	2	57 247	49 648	72 357	34 063	12 231†	7 533†	4 698	9 909	237	15 917	15 110	7 599
	3	57 042	49 394	71 624	34 501	12 319	7 572	4 747†	10 278	-893	15 419	14 582	7 648
	4	58 285	50 557	72 776	35 061	12 482	7 657	4 825	10 426	-966	15 773	14 491	7 728
1983	1	59 429	51 617	74 390	35 176	12 528	7 712	4 816	10 507	296†	15 883†	14 961†	7 812
	2	58 771	50 964	74 097	35 434	12 521	7 673	4 848	10 289	12	15 841	15 326	7 807
	3	59 854	51 945	75 479	36 077	12 533	7 722	4 811	10 480	256	16 133	15 625	7 909
	4	60 225	52 216	76 436	36 223	12 658	7 803	4 855	10 902	109	16 544	16 211	8 009
1984	1	60 720	52 591	76 840	36 181	12 566	7 739	4 827	11 255	-24	16 862	16 120	8 129
	2	60 255	52 111	77 085	36 402	12 676	7 739	4 937	11 432	-265	16 840	16 830	8 144
	3	60 569	52 436	77 635	36 227	12 848	7 832	5 016	11 388	-142	17 314	17 066	8 133
	4	61 366	53 072	79 365	36 746	12 829	7 905	4 924	11 455	289	18 046	17 999	8 294
1985	1	62 054	53 727	79 687	36 637	12 804	7 978	4 826	12 275	-224	18 195	17 633	8 327
	2	62 672	54 368	80 026	37 326	12 705	7 829	4 876	10 949	441	18 605	17 354	8 304
	3	62 722	54 292	79 986	37 723	12 824	7 898	4 926	11 345	52	18 042	17 264	8 430
	4	63 361	54 795	81 179	37 963	12 847	7 957	4 890	11 363	609	18 397	17 818	8 566

FACTOR INCOMES IN THE GROSS NATIONAL PRODUCT AT CURRENT PRICES

Seasonally adjusted

TABLE C

£ MILLION

		GROSS NATIONAL PRODUCT (expenditure-based)		Net property income from abroad	Residual error	GROSS DOMESTIC PRODUCT (INCOME-BASED)	Total domestic income	Income from employment	Gross trading profits or surplus				LESS Stock appreciation	Memorandum items		
		At market prices	At factor cost						Companies(1),(5)	Public corporations(5)	General government enterprises	Other income(2)		Company profits net of stock appreciation	Industrial & commercial companies trading profits(3) gross	Industrial & commercial companies trading profits(3) net(4)
1980		229 792	199 027	-219	-138	199 384	206 116	137 353	29 024	6 161	132	33 446	6 732	23 502	31 567	26 045
1981		254 636†	218 602†	948†	559†	217 095†	223 157†	148 193†	29 760	7 752	155	37 297†	6 062	24 731	34 244	29 215
1982		277 071	236 444	1 058	-2 345	237 731	242 068	158 149	33 985	9 229	121†	40 584	4 337	30 525	37 315	33 855
1983		302 956	260 520	2 468	-1 528	259 580	264 611	170 018	40 646	9 881	-67	44 133	5 031	36 528	44 949	40 831
1984		321 689	277 445	3 342	-5 051	279 154	284 649	180 271	48 235†	8 479	-242	47 906	5 495	43 632†	55 079†	50 476†
1985		351 152	302 668	2 294	-4 702	305 076	308 108	195 411	53 383	7 344†	94	51 876	3 032†	50 813	61 658	59 088
1982	1	66 882†	56 673†	-104	-172†	56 949†	58 040†	38 777†	7 120	2 224	51	9 868†	1 091	6 323	8 085	7 288
	2	68 652	58 804	328†	-957	59 433	60 199	39 389	8 563	2 187	40†	10 020	766	7 857	9 403	8 697
	3	69 498	59 202	302	-1 313	60 213	61 276	39 696	8 884	2 450	5	10 241	1 063	7 968	9 649	8 733
	4	72 039	61 765	532	97	61 136	62 553	40 287	9 418	2 368	25	10 455	1 417	8 377	10 178	9 137
1983	1	74 600	63 969	642	201	63 126	64 068	41 419	9 541†	2 453	-24	10 679	942	8 780†	10 379†	9 618†
	2	73 539	63 224	267	-1 098	64 055	65 436	42 181	9 787	2 580	-19	10 907	1 381	8 705	10 764	9 682
	3	76 843	66 220	936	-329	65 613	67 006	42 836	10 679	2 349	-6	11 148	1 393	9 502	11 829	10 652
	4	77 974	67 107	623	-302	66 786	68 101	43 582	10 639	2 499	-18	11 399	1 315	9 541	11 977	10 879
1984	1	79 107	68 202	529	-479	68 152	69 302	44 082	11 260	2 365	-49	11 644	1 150†	10 315	12 776	11 831
	2	79 228	68 515	862	-860	68 513	69 959	44 517	11 467	2 202	-63	11 836	1 446	10 194	13 135	11 862
	3	80 500	69 334	891	-2 055	70 498	71 649	45 128	12 295	2 182	-40	12 084	1 151	11 314	14 082	13 101
	4	82 854	71 394	1 060	-1 657	71 991	73 739	46 544	13 213	1 730	-90	12 342	1 748	11 809	15 086	13 682
1985	1	84 978	73 657	712	-885	73 830	75 412	47 439	14 097	1 156†	120	12 600	1 582	12 825	16 047	14 775
	2	86 701	74 804	501	-1 714	76 017	76 220	48 391	13 090	1 971	-55	12 823	203	12 902	15 115	14 927
	3	88 502	76 226	715	-1 408	76 919	77 510	49 407	12 863	2 178	-1	13 063	591	12 361	14 963	14 461
	4	90 971	77 981	366	-695	78 310	78 966	50 174	13 333	2 039	30	13 390	656	12 725	15 533	14 925

(1) Including financial institutions.
(2) Income from rent, self employment and imputed charge for consumption of non-trading capital.
(3) Excluding financial companies and institutions. Their contribution to the gross national product is measured as the difference between bank charges, commissions, etc, on the one hand and the management expenses on the other, and is negative.
(4) Gross trading profits net of stock appreciation.
(5) The figures reflect the privatisation of British Telecom with effect from 28 November 1984.

INDEX NUMBERS OF OUTPUT AT CONSTANT FACTOR COST

Seasonally adjusted

TABLE D

1980 = 100

		GROSS DOMESTIC PRODUCT	Agriculture forestry and fishing	Total production and construction	Production			Construction	Distribution hotels and catering; repairs	Transport and communication	Other
					Total	Energy and water supply	Manufacturing (revised definition)				
1980 Weights		1000	22	424	361	95	266	63	128	72	354
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		98.3	102.4	95.6	96.6	103.9	94.0	89.9	98.1	99.3	101.1
1982		100.1	111.0	97.4†	98.4	110.0	94.2	91.6	100.0	98.9	103.0
1983		103.1	106.5	100.9	101.9	115.8†	96.9	95.3	103.2	102.4	105.7
1984		106.4†	121.3†	102.5	103.2†	110.1	100.7	98.6	106.8†	106.8†	109.8†
1985		110.0	117.3	106.9	108.1	120.1	103.8†	100.0†	110.2	112.1	112.8
1982	1	99.2	109	96.1	97.3†	104.4†	94.8	89.1	99	99	102
	2	100.0	112	97.6†	98.7	109.4	94.9	90.6	99	100	103
	3	100.5	112	98.1	99.2	113.2	94.2†	92.6	101	98	103
	4	100.8	111	97.7	98.3	112.9	93.1	94.3	101	99	104
1983	1	101.8	106	99.4	100.4	113.3	95.8	93.7	102	101	105
	2	102.1	104	99.2	100.4	114.3	95.4	92.1	102	102	105
	3	103.8	105	102.0	102.8	117.6	97.6	97.7	104	102	106
	4	104.9	110	103.1	104.1	118.3	98.9	97.8	105	104	107
1984	1	105.6†	117†	103.2	104.3	117.7	99.5	97.0	105	105	108
	2	105.6	123	101.6	102.2	107.9	100.1	98.1	106	105	109
	3	106.7	124	102.4	102.7	105.4	101.7	100.5	107	108	110
	4	107.6	121	102.8	103.6	109.5	101.4	98.7	110†	110	111
1985	1	108.8	118	105.4	106.5	115.9	103.1	99.3	109	111	112
	2	110.0	116	107.3	108.5	121.0	104.0	100.2	110	112	113†
	3	110.2	117	107.2	108.6	121.5	104.0	99.3†	111	112†	113
	4	111.1	119	107.9	108.9	122.1	104.2	101.3	112	114	114

CONSUMERS' EXPENDITURE AT CURRENT PRICES

Seasonally adjusted

TABLE E

£ MILLION

		Total consumers' expenditure	Durable goods				Other goods								Services	
			Total	Cars, motor cycles and other vehicles	Furniture and floor coverings	Other durable goods	Food (household expenditure)	Beer	Other alcoholic drink	Tobacco	Clothing other than footwear	Footwear	Energy products	Other goods	Rent, rates and water charges	Other services (1)
1980		136 995	13 673	6 661	3 429	3 583	22 873	5 320	4 634	4 822	8 103	1 760	10 957	14 370	16 044	34 439
1981		152 245	14 226	6 792	3 536	3 898	24 170	5 970	5 183	5 515	8 318	1 848	13 367	15 556	19 465	38 627
1982		166 564†	15 452	7 351	3 698	4 403	25 590	6 451	5 553	5 882	8 854	2 067	14 955	16 811	22 375†	42 574
1983		182 049	18 241	9 136	4 116	4 989	27 287	7 140	6 232	6 208	9 782	2 312	16 214	18 235†	23 601	46 797†
1984		193 889	19 259†	9 554†	4 392	5 313	28 448	7 733	6 683	6 622	10 619	2 539	16 929	19 799	24 358	50 900
1985		210 071	21 045	10 541	4 639†	5 865†	29 741†	8 347†	7 348†	7 010†	11 910†	2 753†	18 514†	21 812	26 598	54 993
1982	1	40 082†	3 572	1 668	880	1 024	6 272	1 567	1 337	1 468	2 168	513	3 484	4 090	5 361†	10 250
	2	41 048	3 667	1 716	896	1 055	6 512	1 625	1 375	1 431	2 172	501	3 645	4 129	5 530	10 461
	3	42 070	3 940	1 862	938	1 140	6 327	1 610	1 388	1 467	2 226	516	3 860	4 246	5 688	10 802
	4	43 364	4 273	2 105	984	1 184	6 479	1 649	1 453	1 516	2 288	537	3 966	4 346	5 796	11 061
1983	1	44 140	4 428	2 231	993	1 204	6 587	1 742	1 485	1 535	2 348	551	3 921	4 420†	5 870	11 253†
	2	44 928	4 388	2 115	1 038	1 235	6 671	1 704	1 536	1 538	2 423	577	4 146	4 507	5 845	11 593
	3	46 124	4 674	2 415	1 023	1 236	6 920	1 864	1 569	1 545	2 472	586	4 085	4 596	5 920	11 893
	4	46 857	4 751	2 375	1 062	1 314	7 109	1 830	1 642	1 590	2 539	598	4 062	4 712	5 966	12 058
1984	1	47 445	4 689†	2 362†	1 067	1 260	7 067	1 884	1 636	1 622	2 524	595	4 287	4 713	6 034	12 394
	2	48 371	4 891	2 522	1 074	1 295	7 180	1 885	1 669	1 629	2 625	633	4 211	4 934	6 016	12 698
	3	48 363	4 646	2 215	1 115	1 316	7 044	1 934	1 692	1 668	2 706	649	4 190	4 999	6 098	12 737
	4	49 710	5 033	2 455	1 136	1 442	7 157	2 030	1 686	1 703	2 764	662	4 241	5 153	6 210	13 071
1985	1	50 702	4 821	2 310	1 129†	1 382†	7 278†	2 057	1 727†	1 735	2 858†	675†	4 592†	5 223	6 386	13 350
	2	51 893	5 176	2 616	1 151	1 409	7 319	2 026	1 858	1 734	2 984	687	4 624	5 431	6 584	13 470
	3	53 092	5 472	2 812	1 187	1 473	7 518	2 088†	1 833	1 754†	3 009	691	4 713	5 499	6 722	13 793
	4	54 384	5 576	2 803	1 172	1 601	7 626	2 176	1 930	1 787	3 059	700	4 585	5 659	6 906	14 380

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

CONSUMERS' EXPENDITURE AT 1980 PRICES

Seasonally adjusted

TABLE F

£ MILLION

		Total consumers' expenditure	Durable goods				Other goods								Services	
			Total	Cars, motor cycles and other vehicles	Furniture and floor coverings	Other durable goods	Food (household expenditure)	Beer	Other alcoholic drink	Tobacco	Clothing other than footwear	Footwear	Energy products	Other goods	Rent, rates and water charges	Other services (1)
1980		136 995	13 673	6 661	3 429	3 583	22 873	5 320	4 634	4 822	8 103	1 760	10 957	14 370	16 044	34 439
1981		136 511	13 789	6 610	3 376	3 803	22 676	5 000	4 612	4 470	8 105	1 692	10 992	14 438	16 279	34 458
1982		137 592†	14 475	6 792	3 424	4 259	22 587	4 825	4 545	4 128	8 330	1 811	11 038	14 623	16 510†	34 720
1983		142 910	16 623	8 131	3 694	4 798	23 019	4 914	4 816	4 083	8 872	1 951	11 129	14 915	16 737	35 851†
1984		145 556	16 805†	7 896†	3 749	5 160	22 739	4 943	5 040	3 944	9 359	2 057	11 239	15 479†	16 968	36 983
1985		149 649	17 413	7 877	3 830†	5 706†	22 919†	4 896†	5 289†	3 836†	10 070†	2 117†	11 703†	15 975	17 198	38 233
1982	1	33 967†	3 346	1 525	826	995	5 597	1 206	1 129	1 056	2 072	453	2 731	3 653	4 102†	8 622
	2	34 063	3 427	1 577	831	1 019	5 694	1 228	1 128	1 025	2 055	441	2 727	3 620	4 122	8 596
	3	34 501	3 702	1 733	867	1 102	5 618	1 193	1 119	1 020	2 084	451	2 788	3 670	4 136	8 720
	4	35 061	4 000	1 957	900	1 143	5 678	1 198	1 169	1 027	2 119	466	2 792	3 680	4 150	8 782
1983	1	35 176	4 092	2 029	904	1 159	5 696	1 223	1 173	1 018	2 159	468	2 734	3 699†	4 163	8 751†
	2	35 434	3 998	1 882	933	1 183	5 699	1 187	1 187	1 029	2 209	489	2 847	3 697	4 179	8 913
	3	36 077	4 272	2 169	917	1 186	5 796	1 277	1 201	1 013	2 233	495	2 783	3 723	4 192	9 092
	4	36 223	4 261	2 051	940	1 270	5 828	1 227	1 255	1 023	2 271	499	2 765	3 796	4 203	9 095
1984	1	36 181	4 180†	2 033†	928	1 219	5 743	1 239	1 233	1 020	2 259	489	2 863	3 750	4 213	9 192
	2	36 402	4 235	2 063	922	1 250	5 731	1 224	1 260	974	2 315	517	2 800	3 871	4 235	9 240
	3	36 227	4 088	1 866	941	1 281	5 603	1 228	1 278	974	2 376	523	2 783	3 887	4 253	9 234
	4	36 746	4 302	1 934	958	1 410	5 662	1 252	1 269	976	2 409	528	2 793	3 971	4 267	9 317
1985	1	36 637	4 128	1 825	949	1 354†	5 665†	1 238†	1 273†	971	2 479†	524	2 922†	3 907	4 281	9 249
	2	37 326	4 287	1 961	952	1 374	5 680	1 203	1 341	960	2 545	535	2 892	3 990	4 293	9 600
	3	37 723	4 535	2 127	978	1 430	5 820	1 218	1 314	952†	2 531	533	2 962	3 995	4 308	9 555
	4	37 963	4 463	1 964	951†	1 548	5 754	1 237	1 361	953	2 515	525†	2 927	4 083	4 316	9 829

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

TABLE G

Gross domestic product (average estimates)

	£ billion				Index numbers : 1980=100			
			1980 prices				1980 prices	
	At current market prices	At current factor cost	At constant market prices	At constant factor cost	At current market prices	At current factor cost	At constant market prices	At constant factor cost
1980	230.1	199.3	230.1	199.3	100.0	100.0	100.0	100.0
1981	253.1	217.1	226.5	196.5†	110.0	108.9	98.5	98.6†
1982	276.8†	236.2	230.7	200.1	120.3	118.5	100.3	100.4
1983	300.5	258.0†	238.2†	206.7	130.6	129.5†	103.5†	103.7
1984	320.8	276.6	244.8	212.1	139.4†	138.8	106.4	106.4
1985	351.4	302.9	252.7	219.0	152.7	152.0	109.8	109.9
Seasonally adjusted								
1982 1	66.9	56.7	57.3	49.7	116.3	113.8	99.6	99.8†
2	68.7	58.9	57.6	50.0	119.5	118.2	100.1	100.3
3	69.9†	59.6	57.6	50.0	121.6	119.7	100.2	100.3
4	71.3	61.1	58.2	50.4	124.1†	122.6†	101.1	101.2
1983 1	73.5	62.9	59.1†	51.3†	127.8	126.2	102.7†	102.9
2	73.6	63.3†	59.0	51.2	128.0	127.0	102.6	102.8
3	75.9	65.3	59.9	52.0	132.0	131.1	104.1	104.3
4	77.5	66.6	60.3	52.3	134.7	133.7	104.9	105.0
1984 1	78.7	67.8	60.8	52.7	136.9	136.2	105.8	105.8
2	78.9	68.2	60.7	52.5	137.1	136.8	105.5	105.4
3	80.6	69.4	61.3	53.2	140.2	139.4	106.7	106.8
4	82.6	71.1	62.0	53.7	143.6	142.8	107.7	107.7
1985 1	84.8	73.5	62.4	54.1	147.4	147.5	108.6	108.6
2	87.0	75.1	63.3	55.0	151.2	150.7	110.0	110.3
3	88.5	76.3	63.3	54.9	154.0	153.1	110.0	110.1
4	91.1	78.1	63.7	55.2	158.4	156.8	110.8	110.7

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

BR/56

FROM: MRS R LOMAX
DATE: 20 MARCH 1986

SIR T BURNS

cc Sir P Middleton

THE INTERPRETATION AND USE OF ECONOMIC PREDICTIONS

The Chancellor was grateful for an advance copy of your speech. He has no comments.

RL

RACHEL LOMAX

CONFIDENTIAL

FROM: S BROOKS
DATE: 20 March 1986

1. MR S J DAVIES
2. CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr F E R Butler
Mr F Cassell
Mr N Monck
Mr Kemp
Mr H P Evans
Mr Odling-Smee
Mr M Scholar
Mr Culpin
Miss O'Mara
Mr Gilhooly
Mr Page
Mr Vernon
Mr Halligan
Mr P Davis
Mr Westwater
Mr H Davies
Mr Cropper

THE FEBRUARY RPI (to be published at 11 30 am on Friday 21 March)

The RPI was 0.4 per cent higher in February than in January. The twelve month rate of inflation fell from 5.5 per cent in January to 5.1 per cent in February. This is much as we expected.

2. Petrol prices fell about 5p per gallon between January and February. As anticipated there were rises in the prices of milk (1p per pint) bread (0.8 per cent) and coffee (2.1 per cent). Otherwise, a large number of small price increases were recorded, although there were some price reductions within clothing and footwear and miscellaneous goods.

3. The prospects are for a further fall in the twelve month rate to $4\frac{1}{4}$-$4\frac{1}{2}$ per cent in March. We think that petrol prices probably fell by more than 5p between February and March. (Last year petrol prices increased 8p between these months.)

4. City expectations have proved fairly accurate. Both Phillips and Drew and Wood MacKenzie are expecting an increase of 0.3 per cent between January and February (implying a twelve month rate in February of 5.0 per cent).

S BROOKS

EA1 Division

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OK

Mrs R Lomax ✓
Principal Private Secretary
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON
SW1P 3AG

C/ Content with draft?

21 March 1986

Roz 21/3

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

Publication is set for Wednesday 26 March at 11.30 am and I should be grateful if you would arrange for the Notice to be cleared by 12.00 noon Tuesday 25 March 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 on 26/3/86 at 11.30 am

COPY ...3...
No. (15)

REVISED DRAFT.

THE CURRENT ACCOUNT OF THE UNITED KINGDOM BALANCE OF PAYMENTS

FEBRUARY 1986

The current account for February is estimated to have been in surplus by £262 million compared with a surplus of £1140 million in January. In February, exports were valued at £6186 million and imports at £6524 million so that trade in goods was in deficit by £338 million.

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

DECEMBER TO FEBRUARY 1986

In the three months ended February, the current account showed a surplus of £1.9 billion compared with a surplus of £0.9 billion in the previous three months. There was a deficit on visible trade of £0.2 billion in the latest three months compared with a deficit of £0.3 billion in the previous three months. The surplus on invisibles is projected at £2.1 billion.

CURRENT ACCOUNT

TABLE 1 **£ million, Seasonally adjusted**

	Current Balance	Visible Trade			Invisibles
		Balance	Exports fob	Imports fob	Balance c
1984	+ 880	- 4391	70367	74758	+ 5270
1985	+ 2952	- 2068	78072	80140	+ 5020
1984 Q4	+ 201	- 1623	19186	20808	+ 1823
1985 Q1	- 374	- 1266	20070	21336	+ 892
Q2	+ 1333	- 124	20237	20361	+ 1457
Q3	+ 1072	- 453	18748	19201	+ 1525
Q4	+ 921	- 225	19018	19242	+ 1146
1985 Sept	+ 421	- 87	6242	6328	+ 508 b
Oct	+ 334	+ 7	6329	6323	+ 327 b
Nov	+ 112	- 214	6301	6515	+ 326 b
Dec	+ 475	- 18	6387	6405	+ 493 b
1986 Jan	+ 1140 a	+ 140	6255	6116	+ 1000 a
Feb	+ 262 a	- 338	6186	6524	+ 600 a
Sept-Nov 1985	+ 868	- 293	18872	19166	+ 1161
Dec-Feb 1986	+ 1877 a	- 216	18829	19045	+ 2093 a

a Invisibles for January and February are projections and subject to revision as information becomes available. VAT abatements received from the E.C in ~~December and~~ January have been included in the projections for that months.

b One-third of the appropriate calendar quarter's estimate, except for VAT abatements received from the European Community which are allocated to the month they are known to have been received

c Information relating to credits and debits can be found in Table 3.

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VISIBLE TRADE IN FEBRUARY 1986

There was a deficit on visible trade in February of £338 million compared with a surplus of £140 million in January. The surplus on oil fell by £312 million and the deficit on non-oil trade increased by £166 million.

At £6186 million, exports in February were £69 million (1 per cent) lower than in January. Exports of oil fell by £333 million reflecting the recent sharp fall in prices. In tonnage terms deliveries of crude oil remained at the high levels achieved in January, mitigating the effect of the change in price. Excluding oil and the erratic items, exports increased by £245 million (5½ per cent) between January and February.

Total imports were valued at £6524 million in February which was £408 million (6½ per cent) higher than in January. Imports of oil fell by £21 million while imports of the erratic items increased by £42 million. Excluding oil and the erratic items, imports increased by 7 per cent between the two months.

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RECENT TRENDS

Visible balance

In the three months ended February, there was a deficit on visible trade of £0.2 billion - a surplus on trade in oil of £2.2 billion offset by a deficit on non-oil trade of £2.4 billion. Between the three months ended November and the latest three months the deficit on visible trade was reduced by about £0.1 billion - the surplus on oil increased by £0.1 billion while the deficit on non-oil trade was little changed.

Exports

Exports amounted to £18.8 billion in the latest three months, about the same as in the previous three months. Exports of oil were broadly unchanged while exports of the erratic items fell by £0.1 billion. Excluding oil and the erratic items, exports increased by ½ per cent in the latest three months.

Between the three months ended November and the latest three months, total export volume increased by 1 per cent (to a level similar to that of a year earlier). Excluding oil and the erratic items however, export volume fell marginally in the latest three months and there are now stronger signs that the underlying level of non-oil export volume has fallen a little in recent months.

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Imports

Total imports were valued at £19.0 billion in the latest three months, £0.1 billion less than in the previous three months. Imports of oil fell by £0.1 billion while imports of the erratic items were unchanged. Excluding oil and the erratic items, imports were virtually unchanged between the three months ended November and the latest three months.

Between the three months ended November and the latest three months, total import volume fell by 1½ per cent to a level 1½ per cent lower than a year earlier. Excluding oil and the erratic items, import volume was 1½ per cent lower than in the three months ended November and 1½ per cent higher than a year ago. The underlying level on non-oil import volume has shown little change in recent months.

Terms of trade and unit values

The terms of trade index was unchanged in the latest three months compared with the previous three months as both the export unit value index and the import unit value index fell by ½ per cent. Compared with the same period a year ago the export unit value index has fallen by 3 per cent and the import unit value index by 7½ per cent. As a result, the terms of trade index is now about 5 per cent higher than a year ago.

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Export unit values for fuels fell by 8½ per cent and those for basic materials fell by 3 per cent between the three months ended November and the latest three months. All of the other broad sectors showed an increase in export unit values in the latest three months - motor cars (up 3 per cent) and chemicals (up 2 per cent) recorded the largest increases.

Among the import unit values, those for fuels fell by 6½ per cent in the latest three months and those for basic materials by 3 per cent. Import unit values for chemicals and 'other' consumer goods also fell a little but most other sectors recorded an increase over the latest three months.

Analysis by area

By value, exports to the developed countries fell by 2 per cent between the three months ended November and the latest three months - lower deliveries to the EC countries offsetting a rise elsewhere. Exports to the developing countries rose by 4½ per cent.

The value of imports from the developed countries fell by 2 per cent in the latest three months - imports from North America fell by 8 per cent while arrivals from the European Community countries were virtually unchanged. Imports from the developing countries increased by 3 per cent in the latest three months reflecting a sharp increase in arrivals from the oil exporting countries.

NOTES TO EDITORS

1 ANNUAL REVISIONS up to the end of 1985

The figures for invisibles incorporate the revisions announced in the CSO quarterly Balance of Payments press notice published on 6 March.

2 SPAIN/PORTUGAL

Spain and Portugal are now members of the European Community. In this press notice all references to EC includes these two countries.

the

3 AREA DATA (tables 11 and 15)

Low value consignments ie items of an individual value less than £475, are not analysed by country. Area figures in tables 11 and 15 are therefore deficient to the extent of these consignments.

In addition the data by area are seasonally adjusted independently leading to further differences between the sum of areas and figures for total trade.

4 STANDARD NOTES

A revised version of these notes accompanies this Press Notice.

The standard notes describe the differences between the Balance of Payments (BOP) and the Overseas Trade Statistics (OTS) bases of compilation. Additional copies can be obtained from the address below.

5 MONTHLY REVIEW OF EXTERNAL TRADE STATISTICS

The Monthly Review of External Trade Statistics, a publication containing charts and tables on the current account of the UK balance of payments, UK exports and imports of goods by commodity and area, and certain international comparisions, is available, (price £3 per copy) from the Department of Trade and Industry at the address given below.

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

INDEX OF TABLES

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

£ million seasonally adjusted

	Current Balance	Visible Trade					Invisible Balance
		Exports fob	Imports fob	Visible Balance	of which Oil	of which Non-Oil	
1984	+ 880	70367	74758	- 4391	+ 6937	- 11328	+ 5270
1985	+ 2952	78072	80140	- 2068	+ 8163	- 10231	+ 5020
1984 Q4	+ 201	19186	20808	- 1623	+ 1354	- 2976	+ 1823
1985 Q1	- 374	20070	21336	- 1266	+ 1958	- 3225	+ 892
Q2	+ 1333	20237	20361	- 124	+ 2411	- 2535	+ 1457
Q3	+ 1072	18748	19201	- 453	+ 1900	- 2353	+ 1525
Q4	+ 921	19018	19242	- 225	+ 1893	- 2117	+ 1146
1985 June	+ 317	6496	6665	- 169	+ 799	- 968	+ 486 b
July	+ 309	6401	6600	- 199	+ 585	- 784	+ 508 b
August	+ 342	6105	6272	- 167	+ 653	- 820	+ 509 b
Sept	+ 421	6242	6328	- 87	+ 662	- 749	+ 508 b
Oct	+ 334	6329	6323	+ 7	+ 754	- 747	+ 327 b
Nov	+ 112	6301	6515	- 214	+ 649	- 862	+ 326 b
Dec	+ 475	6387	6405	- 18	+ 491	- 508	+ 493 b
1986 Jan	+ 1140 a	6255	6116	+ 140	+ 997	- 858	+ 1000 a
Feb	+ 262 a	6186	6524	- 338	+ 685	- 1023	+ 600 a
Dec-Feb 1985	+ 58	19845	20790	- 945	+ 2191	- 3136	+ 1003
Sep-Nov 1985	+ 868	18872	19166	- 293	+ 2064	- 2358	+ 1161
Dec-Feb 1986	+ 1877 a	18829	19045	- 216	+ 2173	- 2389	+ 2093 a
% Change							
Latest 3 months							
on - previous							
3 months		-	- ½				
Same 3 months							
one year		- 5	- 8½				
ago							

a Invisibles for January and February are projections and subject to revision as more information becomes available. VAT abatements received from the EC in ~~December and~~ January have been included in the projections for that months.

b One third of the appropriate calendar quarter's estimate, except for VAT abatements received from the European Community which are allocated to the month they are known to have been received.

Table 3

INVISIBLES

£ million seasonally adjusted

	All Sectors						Private Sector and Public Corporations[d]		
	Credits	Debits	Balance	of which Services	of which Interest Profits Dividends	of which Transfers	Credits	Debits	Balance
1983	65225	61226	+ 3999	+ 3671	+ 2468	- 2140	60614	52374	+ 8240
1984	76491	71221	+ 5270	+ 4225	+ 3342	- 2297	71603	61623	+ 9980
1985	80027	75007	+ 5020	+ 6291	+ 2294	- 3565	75512	64138	+ 11374
1984 Q1	17533	16488	+ 1045	+ 1041	+ 529	- 525	16286	14134	+ 2152
Q2	17921	16824	+ 1097	+ 983	+ 862	- 748	16904	14448	+ 2456
Q3	19483	18178	+ 1305	+ 1145	+ 891	- 731	18497	15832	+ 2665
Q4	21554	19731	+ 1823	+ 1056	+ 1060	- 293	19916	17209	+ 2707
1985 Q1	21394	20502	+ 892	+ 1220	+ 712	- 1040	20214	17591	+ 2623
Q2	20163	18706	+ 1457	+ 1662	+ 501	- 706	19152	16306	+ 2846
Q3	19356	17831	+ 1525	+ 1729	+ 715	- 919	18175	14976	+ 3199
Q4	19114	17968	+ 1146	+ 1680	+ 366	- 900	17971	15265	+ 2706

d ie excluding general Government transactions and all transfers.

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EXPORT AND IMPORT UNIT VALUE AND VOLUME INDEX NUMBERS

Table 4

(Balance of Payments basis)

Indices 1980 = 100

	Unit Value (Not seasonally adjusted)			Volume (seasonally adjusted)	
	Exports	Imports	Terms of Trade[e]	Exports	Imports
1984	136.0	139.7	97.4	112.5	121.9
1985	143.5	145.2	98.8	118.6	125.7
1984 Q4	141.3	145.8	96.9	118.7	130.1
1985 Q1	146.4	152.3	96.1	118.6	126.6
Q2	145.5	148.8	97.8	120.5	124.8
Q3	141.7	141.4	100.2	116.3	124.1
Q4	140.5	138.3	101.6	118.9	127.4
1985 June	144.0	146.1	98.6	117.9	124.7
July	142.2	143.5	99.1	117.9	126.1
Aug	141.4	140.3	100.8	114.4	122.7
Sept	141.4	140.5	100.6	116.7	123.6
Oct	140.5	139.1	101.0	118.8	125.0
Nov	140.4	137.6	102.1	118.5	129.6
Dec	140.5	138.2	101.7	119.4	127.8
1985 Jan	140.8	138.4	101.7	118.1	119.9
Feb	138.8	137.9	100.7	120.7	125.5
Dec-Feb 1985	144.2	149.6	96.4	119.3	126.2
Sep-Nov 1985	140.8	139.1	101.2	118.0	126.1
Dec-Feb 1986	140.0	138.2	101.4	119.4	124.4
% Change					
Latest 3 months on					
- previous 3 months	-½	-½	-	+1	-1½
- same 3 months one year ago	-3	-7½	+5	-	-1½

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

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

Table 5

(Balance of Payments basis)

seasonally adjusted

	Value £ million fob		Volume Index 1980 = 100	
	Exports	Imports	Exports	Imports
1984	65746	71197	115.4	128.8
1985	73765	76598	123.0	133.4
1984 Q4	17914	19811	121.7	137.3
1985 Q1	19171	20233	124.3	133.2
Q2	18948	19326	124.1	131.4
Q3	17835	18439	121.5	132.4
Q4	17811	18599	122.2	136.5
1985 June	6048	6418	120.7	133.0
July	6007	6227	121.7	132.6
Aug	5928	6132	121.5	132.8
Sept	5899	6081	121.4	131.9
Oct	5921	6073	122.1	133.2
Nov	5898	6293	121.8	138.7
Dec	5993	6234	122.9	137.6
1986 Jan	5924	5864	122.9	127.2
Feb	5836	6230	125.2	133.2
Dec-Feb 1985	18903	19816	124.7	133.5
Sep-Nov 1985	17718	18446	121.7	134.6
Dec-Feb 1986	17752	18328	123.6	132.7
% Change				
Latest 3 months on				
- previous 3 months	-	-½	+1½	-1½
- same 3 months one year ago	-6	-7½	-1	- ½

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

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TRADE IN OIL[9]
(Balance of Payments basis)

seasonally adjusted

	Balance of Trade in oil	Exports of Oil					Imports of Oil					
		Total	Crude Oil [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
1984	+ 6937	14852	12173	75.9	160.4	2679	7915	3751	25.0	150.1	4163
1985	+ 8163	16050	12921	79.0	163.5	3128	7887	4155	26.1	159.0	3732
1984 Q4	+ 1354	4066	3411	20.7	165.0	656	2713	1069	6.6	161.5	1644
1985 Q1	+ 1958	4721	3923	21.5	182.3	798	2763	1211	6.9	176.5	1552
Q2	+ 2411	4336	3499	20.1	174.0	837	1925	1078	6.5	165.6	847
Q3	+ 1900	3410	2599	17.5	148.4	810	1509	816	5.6	145.4	694
Q4	+ 1893	3583	2900	19.9	145.9	683	1690	1050	7.2	146.9	640
1986 June	+ 799	1286	979	5.9	167.1	307	487	197	1.3	154.8	291
July	+ 585	1124	808	5.3	152.1	316	539	270	1.8	150.8	269
Aug	+ 653	1143	852	5.8	148.2	290	490	275	1.9	141.6	215
Sept	+ 662	1143	939	6.5	145.6	204	481	271	1.9	144.1	210
Oct	+ 754	1277	1050	7.2	145.8	227	523	291	2.0	143.9	233
Nov	+ 649	1180	974	6.7	145.8	207	532	327	2.2	150.6	205
Dec	+ 491	1126	876	6.0	146.1	249	635	433	3.0	146.2	202
1986 Jan	+ 997	1390	1146	8.3	138.4	244	393	249	1.8	137.4	144
Feb	+ 685	1057	869	8.3	104.3	188	372	229	2.2	102.3	143
Dec-Feb 1985	+ 2191	4694	3930	22.6	173.8	764	2503	1067	6.3	169.7	1436
Sep-Nov 1985	+ 2064	3600	2963	20.3	145.7	638	1536	888	6.1	146.4	648
Dec-Feb 1986	+ 2173	3573	2892	22.6	127.9	681	1400	911	7.0	129.9	489
% Change											
Latest 3 months on											
- previous 3 months	- 1	- 2½	+ 11		- 12	+ 7	- 9	+ 2½	+ 15	- 11	- 24
- same 3 months one year ago	- 24	- 26	-		- 26	- 11	- 44	- 15	+ 11	- 23	- 66

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

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

		Total								Excluding Erratics[f]			
		Value, £ million, fob (seasonally adjusted)			Unit value index 1980 = 100 (not seasonally adjusted)			Volume index 1980 = 100 (seasonally adjusted)		Value, £ million fob (seasonally adjusted)		Volume index 1980 = 100 (seasonally adjusted)	
		Balance of non oil trade	Exports	Imports	Exports	Imports	Terms of Trade[e]	Exports	Imports	Exports	Imports	Exports	Imports
1984		- 11328	55515	66843	133.5	136.2	98.0	105.1	128.2	50894	63282	107.6	137.0
1985		- 10231	62022	72253	141.8	141.9	99.9	110.6	132.9	57715	68711	115.0	142.6
1984	Q4	- 2976	15119	18095	138.1	141.6	97.6	111.5	134.4	13848	17098	114.2	143.3
1985	Q1	- 3225	15349	18573	142.2	147.1	96.7	109.2	131.6	14450	17470	114.8	139.8
	Q2	- 2535	15901	18436	142.8	144.7	98.7	112.1	132.4	14612	17401	115.3	140.9
	Q3	- 2353	15338	17691	141.6	139.3	101.7	110.0	132.9	14425	16930	115.4	143.6
	Q4	- 2117	15435	17552	140.6	136.5	103.0	111.3	134.7	14229	16909	114.4	146.1
'986	June	- 968	5210	6178	142.4	143.0	99.6	111.0	134.9	4762	5931	113.6	145.7
	July	- 784	5277	6062	141.7	140.8	100.6	112.7	134.7	4884	5688	116.6	143.4
	Aug	- 820	4962	5783	141.6	138.5	102.2	107.3	131.4	4786	5642	114.9	144.1
	Sept	- 749	5099	5847	141.5	138.5	102.2	109.9	132.5	4756	5599	114.8	143.2
	Oct	- 747	5052	5799	140.7	137.3	102.4	109.4	132.7	4644	5550	112.3	143.2
	Nov	- 862	5121	5983	140.6	135.8	103.5	111.1	137.8	4717	5761	114.1	149.3
	Dec	- 508	5262	5770	140.6	136.3	103.2	113.5	133.6	4867	5599	116.9	145.7
1986	Jan	- 858	4865	5723	141.9	137.5	103.2	104.7	128.9	4534	5471	108.9	138.5
	Feb	- 1023	5129	6152	143.0	140.7	101.6	109.8	134.4	4778	5858	113.9	144.4
Dec-Feb 1985		- 3136	15151	18287	140.6	145.1	96.9	109.4	131.7	14210	17313	114.7	140.9
Sep-Nov 1985		- 2358	15272	17630	140.9	137.2	102.7	110.1	134.3	14117	16910	113.7	145.2
Dec-Feb 1986		- 2389	15256	17645	141.8	138.1	102.7	109.3	132.3	14179	16928	113.2	142.9
% Change Latest 3 months on													
- previous 3 months		-	-		+½	+½	-	-½	-1½	+½	-	-½	-1½
- same 3 months one ear ago			+½	-3½	+1	-5	+6	-	+ ½	-	-2	-1	+1½

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

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

EXPORTS BY COMMODITY
(Overseas Trade Statistics basis)

Table 8

£ million, fob, seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 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	j	j	j	j
1984	70488	4693	1989	15308	46703	42169	16333	8217	8116	25835	1050	4673	11199	8912
1985	78331	4970	2145	16712	52514	48482	18449	9411	9038	30033	1343	5257	13493	9940
1984 Q4	19292	1226	559	4180	12852	11618	4565	2292	2272	7054	289	1297	3084	2384
1985 Q1	20148	1192	579	4892	13035	12181	4692	2384	2307	7489	338	1292	3330	2529
Q2	20258	1284	529	4513	13436	12248	4704	2402	2303	7544	340	1304	3350	2550
Q3	18828	1300	531	3600	12879	12020	4532	2285	2246	7489	336	1342	3394	2416
Q4	19097	1193	506	3708	13164	12033	4522	2340	2182	7512	329	1319	3418	2445
1985 Dec	6418	395	182	1169	4519	4151	1532	800	733	2618	117	456	1188	857
1986 Jan	6297	370	174	1453	4145	3817	1414	736	677	2404	101	415	1073	814
Feb	6205	436	173	1106	4340	4021	1547	817	730	2474	104	445	1124	802
Sep-Nov	18942	1231	519	3744	12901	11814	4474	2275	2199	7341	328	1305	3349	2359
Dec-Feb	18920	1201	529	3727	13004	11989	4493	2353	2141	7496	323	1315	3384	2473
Percentage Change	-	-2½	+2	-½	+1	+1½	+½	+3½	-2½	+2	-1½	+1	+1	+5

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

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

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

Table 9

INDICES 1980 = 100, seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 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	j	j	j	j
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1984	112.8	117.2	106.3	160.2	104.4	107.0	112.1	124.3	102.3	103.8	82.4	107.8	105.4	102.6
1985	119.3	119.1	107.0	170.9	110.8	115.7	118.9	133.3	107.5	113.7	99.4	111.6	121.4	107.6
1984 Q4	119.6	121	112	164	112	115	122	135	111	111	85	117	114	108
1985 Q1	119.4	118	110	180	110	116	120	134	109	113	99	109	120	110
Q2	121.0	122	102	176	112	116	120	133	109	114	100	111	120	109
Q3	117.1	123	110	161	109	115	117	130	107	114	102	114	123	105
Q4	119.7	114	106	168	112	116	119	136	105	114	97	112	123	106
1985 Dec	120.3	113	116	158	115	119	120	138	106	119	101	116	128	112
1986 Jan	119.0	107	116	207	105	109	111	128	98	108	90	102	114	105
Feb	121.2	129	112	192	109	114	121	140	105	110	93	112	118	101
Sep-Nov	118.7	117	109	170	110	114	118	132	106	112	100	111	122	102
Dec-Feb	120.2	117	115	186	110	114	117	136	103	112	95	110	120	106
Percentage Change	+1½	-½	+5	+9½	-½	-	—	+2½	-3	-	-5	-1	-1½	+3½

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

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

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

INDICES 1980 = 100 not seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)				Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 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	j	j	j	j
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1984	136.0	128	131	152	135	133	127	130	125	137	157	135	140	132
1985	143.4	134	140	155	143	142	135	139	132	147	162	147	150	141
1984 Q4	141.2	129	139	162	139	138	132	135	129	141	158	141	144	136
1985 Q1	146.3	132	146	173	143	141	135	139	132	145	161	146	148	139
Q2	145.4	134	146	163	144	143	136	141	133	147	162	147	150	142
Q3	141.6	134	136	142	143	143	135	140	132	147	162	148	151	141
Q4	140.4	134	130	140	142	142	134	137	131	148	163	149	151	141
1985 Dec	140.4	135	129	141	142	143	134	139	131	148	167	149	151	142
1986 Jan	140.6	134	128	134	144	144	136	140	133	149	164	151	152	142
Feb	138.6	136	128	112	145	145	137	141	133	150	164	153	152	144
Sep-Nov	140.7	134	132	141	142	142	134	137	131	147	160	149	151	141
Dec-Feb	139.9	135	128	129	143	144	136	140	132	149	165	151	152	143
Percentage Change	-½	+½	-3	-8½	+1	+1	+1½	+2	+1	+1	+3	+1½	+½	+1

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

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

EXPORTS BY AREA
(Overseas Trade Statistics basis)

Table 11

£ million, fob, seasonally adjusted

		Developed Countries						Developing Countries			Centrally planned economies
	Total K	Total	European Community	Rest of W Europe	North America Total	North America USA	Other	Total	Oil exporting countries	Other	
1984	70488	55364	33127	7132	11416	10159	3688	13356	5806	7550	1630
1985	78331	62722	38200	7420	13310	11499	3792	13880	5957	7924	1587
1984 Q4	19292	15076	9249	1817	3071	2760	939	3596	1587	2008	441
1985 Q1	20148	15940	9992	1779	3179	2817	990	3758	1682	2077	389
Q2	20258	16210	9537	2034	3667	3189	972	3606	1510	2096	420
Q3	18828	15203	9312	1790	3182	2715	919	3314	1408	1906	386
Q4	19097	15369	9359	1817	3282	2778	910	3202	1357	1845	392
1985 Dec	6418	5062	3047	616	1084	929	315	1119	491	629	158
1986 Jan	6297	5025	2970	610	1173	985	272	1099	486	613	143
Feb	6205	5053	2971	608	1120	968	354	1036	432	604	174
Sep-Nov	18942	15419	9529	1757	3225	2757	908	3121	1303	1818	349
Dec-Feb	18920	15139	8988	1834	3377	2882	940	3254	1409	1845	475
Percentage Change	-	-2	-5½	+4½	+4½	+4½	+3½	+4½	+8	+1½	+36

K See paragraph 3 of Notes to Editors.

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IMPORTS BY COMMODITY
(Overseas Trade Statistics basis)

Table 12

£ million cif seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)				Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 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	j	j	j	j
1984	78967	8933	5418	10334	53011	49708	17930	6322	11608	31778	3670	8346	10218	9543
1985	84790	9274	5389	10517	58288	54953	19619	6903	12716	35334	4165	8887	11623	10659
1984 Q4	21699	2308	1518	3466	14054	13269	4784	1652	3132	8485	971	2220	2787	2507
1985 Q1	22565	2354	1468	3546	14844	13806	4817	1674	3143	8989	1014	2243	2975	2757
Q2	21548	2352	1366	2656	14848	13842	4920	1792	3128	8922	1116	2219	2928	2659
Q3	20321	2311	1312	2138	14250	13508	4913	1729	3184	8595	988	2189	2838	2581
Q4	20356	2256	1243	2178	14346	13798	4970	1708	3262	8829	1047	2237	2882	2662
1985 Dec	6785	730	415	782	4737	4587	1679	590	1090	2908	325	746	942	895
1986 Jan	6487	791	374	586	4621	4376	1579	583	996	2797	349	714	903	831
Feb	6912	809	437	576	4964	4683	1671	599	1073	3011	368	772	967	905
Sep-Nov	20269	2302	1273	2075	14296	13660	4877	1650	3227	8782	1042	2232	2874	2633
Dec-Feb	20185	2330	1226	1945	14322	13646	4930	1772	3159	8716	1041	2232	2811	2631
Percentage Change	-½	+1	-3½	-6½	-	-	+1	+7½	-2	-1	-	-	-2	-

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (7°2) precious stones (667), and silver (681.1).

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

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

Table 13

INDICES 1980 = 100 seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)				Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 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	j	j	j	j
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94
1984	120.2	112.3	101.7	86.5	134.1	146.7	137.2	164.5	125.9	153.0	119.9	139.6	161.4	172.9
1985	124.3	113.6	102.2	85.0	140.7	154.5	143.9	176.2	130.6	161.5	127.9	139.6	172.8	187.2
1984 Q4	126.5	113	110	108	138	152	142	167	132	158	121	142	172	176
1985 Q1	125.1	111	102	102	139	151	139	168	126	159	123	135	171	189
Q2	123.3	112	98	82	141	153	142	180	126	160	139	137	170	184
Q3	122.8	116	103	75	140	154	147	180	133	159	125	139	171	184
Q4	126.0	115	106	81	143	160	149	177	137	167	124	147	180	192
1985 Dec	126.3	112	110	86	143	160	151	183	138	166	112	150	179	193
1986 Jan	119.2	120	96	66	136	149	141	177	126	155	122	140	165	174
Feb	124.6	123	114	71	141	154	148	183	133	159	125	147	171	175
Sep-Nov	124.6	117	105	77	142	157	146	171	135	165	126	145	176	191
Dec-Feb	123.4	118	107	75	140	155	146	181	132	160	120	146	172	181
Percentage Change	-1	+1	+1½	-3½	-1½	-2	+½	+6	-2½	-3	-5	+½	-2½	-5

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

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

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

INDICES 1980 = 100 not seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 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	j	j	j	j
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94
1984	138.0	132	133	168	134	133	126	134	123	137	144	135	145	129
1985	143.1	137	130	172	141	141	134	143	130	146	152	147	155	134
1984 Q4	144.1	136	138	180	140	139	131	139	127	144	149	145	150	133
1985 Q1	150.3	142	143	191	146	144	136	146	132	150	154	151	158	138
Q2	146.7	141	136	181	144	143	136	144	133	148	150	147	159	136
Q3	139.2	135	124	161	139	139	132	141	128	144	149	145	154	131
Q4	136.3	132	116	155	137	138	131	140	127	143	156	143	148	131
1985 Dec	136.2	132	115	156	137	138	130	140	126	143	159	142	147	132
1986 Jan	136.1	133	115	153	137	138	130	139	127	144	160	141	149	133
Feb	135.9	135	116	131	141	142	133	141	129	149	166	145	153	140
Sep-Nov	137.0	132	119	157	138	138	131	141	127	143	154	144	150	130
Dec-Feb	136.1	133	115	147	139	139	131	140	127	145	162	143	150	135
Percentage Change	-½	+½	-3	-6½	+½	+1	-	-½	+½	+1½	+5	-1	-	+3½

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

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

IMPORTS BY AREA
(Overseas Trade Statistics basis)

Table 15

£ million cif seasonally adjusted

		Developed Countries						Developing Countries			Centrally planned economies
	Total K	Total	European Community	Rest of W Europe	North America Total	USA	Other	Total	Oil exporting countries	Other	
1984	78967	65279	37408	11184	11067	9368	5620	11514	2934	8579	2043
1985	84790	71520	41413	12025	11703	9920	6379	11233	2782	8451	1894
1984 Q4	21699	17721	9999	2943	3308	2829	1471	3406	821	2585	610
1985 Q1	22565	18709	10596	2940	3600	3074	1573	3296	812	2484	558
Q2	21548	17957	10271	3060	3044	2602	1582	2984	851	2133	441
Q3	20321	17293	10096	3083	2546	2166	1569	2499	499	2000	485
Q4	20356	17561	10451	2942	2512	2078	1655	2454	620	1834	410
1985 Dec	6785	5728	3474	911	807	677	536	866	262	604	138
1986 Jan	6487	5535	3374	897	773	641	491	812	204	608	142
Feb	6912	5968	3512	1078	774	650	604	770	155	615	134
Sep-Nov	20269	17569	10356	3002	2563	2134	1648	2381	508	1873	445
Dec-Feb	20185	17232	10360	2886	2354	1969	1632	2448	621	1827	415
Percentage Change	-½	-2	-	-4	-8	-7½	-1	+3	+22	-2½	-6½

K See paragraph 3 Notes to Editors.

SECRET and personal until release of press notice on 26 MAR 86 at 11.30 a.m.

Table 16

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
1984	4672	8196	- 3524	2014	4864	- 2850	15308	9917	+ 5391
1985	4936	8481	- 3545	2161	4789	- 2628	16712	10094	+ 6618
1984 Q1	1138	1961	- 823	440	1150	- 710	3769	1758	+ 2011
Q2	1175	2037	- 862	493	1174	- 681	3520	2355	+ 1165
Q3	1142	2073	- 932	519	1192	- 673	3840	2507	+ 1333
Q4	1218	2126	- 908	563	1349	- 786	4180	3297	+ 883
1985 Q1	1186	2155	- 969	585	1315	- 731	4892	3387	+ 1505
Q2	1276	2153	- 877	533	1226	- 693	4513	2548	+ 1965
Q3	1290	2122	- 832	534	1162	- 628	3600	2067	+ 1533
Q4	1185	2052	- 867	509	1086	- 577	3708	2092	+ 1616

	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
1984	18266	18410	- 144	28324	32059	- 3735	46590	50469	- 3879
1985	20042	19978	+ 65	32254	35335	- 3081	52296	55313	- 3017
1984 Q1	4247	4396	- 148	6684	7177	- 493	10932	11573	- 641
Q2	4502	4439	+ 62	6717	7775	- 1058	11218	12214	- 996
Q3	4558	4684	- 127	7126	8336	- 1210	11684	13021	- 1337
Q4	4960	4890	+ 69	7797	8771	- 974	12757	13662	- 905
1985 Q1	5017	4836	+ 182	7946	9263	- 1316	12963	14098	- 1135
Q2	5201	5050	+ 151	8223	9025	- 803	13423	14075	- 652
Q3	4852	5126	- 274	7960	8361	- 402	12812	13487	- 675
Q4	4973	4967	+ 5	8125	8686	- 560	13098	13653	- 555

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

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SECRET AND PERSONAL
until 11.30 am on Wednesday 26 March 1986
then CONFIDENTIAL

FROM: J E FLITTON
DATE: 24 MARCH 1986

1. MR KELLY
2. CHANCELLOR

cc attached list

FEBRUARY TRADE FIGURES

The February trade figures will be released on 26 March. The current account was in surplus by £262 million (cf £1,140 million in January).

Summary

2. Visibles were in large deficit by £338 million offset by an estimated invisibles surplus of £600 million. Export volumes have fallen a little in recent months; import volumes are flat.

Main points

3. (i) It now appears that the underlying level of non-oil export volumes has fallen in recent months (see chart). Volume (excluding erratics) fell by ½ per cent in the latest three months and was 1 per cent below the same period a year ago;

(ii) after rising steadily through most of 1985, the underlying level of non-oil import volumes has shown little change in recent months. Volumes fell 1½ per cent in the latest three months to stand 1½ per cent above the same period a year ago;

(iii) the February oil trade surplus of £685 million shows the expected fall on the high January figure but

is still around the 1985 monthly average. Oil export volume was unchanged but value fell 25 per cent reflecting lower oil prices;

(iv) manufacturing trade was in deficit by £649 million in the latest three months compared with £757 million in the previous three months;

(v) the invisibles estimate of £600 million is in line with the FSBR forecast surplus of £8 billion for 1986 as a whole.

Comparison with forecast

4. It is difficult to evaluate the FSBR forecast of a current account surplus of £3½ billion for 1986 on the basis of only two months' figures, but the cumulative surplus of £1.4 billion so far is promising. Prices of manufactures, both imports and exports, rose by more than was anticipated in the FSBR. The fall in the exchange rate between November and February appears to have fed swiftly through to prices.

Trade prices

5. Both the import and export unit value indices, excluding oil, rose between January and February. Import prices rose more quickly than export prices and as a result the non-oil terms of trade fell by 1.6 per cent to a level 5 per cent better than a year ago. Prices of imports of manufactures grew more quickly than the other import categories. Export price rises were more evenly spread.

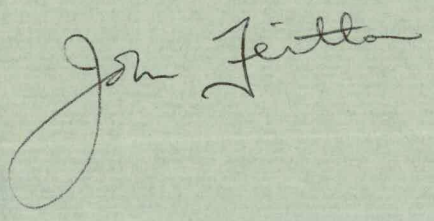
Effect on markets

6. The markets are expecting a current account surplus of £320 million (and a trade deficit of £250 million). The fact that the figures are slightly worse is, however, unlikely to have any significant market impact.

SECRET AND PERSONAL
until 11.30 am on Wednesday 26 March 1986
then CONFIDENTIAL

Press briefing

7. I should be grateful for clearance of the attached press briefing.



J E FLITTON

157/29

SECRET AND PERSONAL
until 11.30 am on Wednesday 26 March 1986
then UNCLASSIFIED

DRAFT BRIEFING FOR IDT

Positive

1. Continued healthy current account surplus of £260 million, despite fall in oil prices. Reflects underlying strength.

2. 1985 current account surplus of £3 billion was sixth in succession. 1986 forecast surplus of £3½ billion would be seventh in row.

~~3. Manufactured deficit in last 3 months as a whole £100 million less than in previous three months.~~ (Surely dangerous to make anything of this)

Defensive

1. Export volumes falling

[Export volume excluding oil and erratics down 3 per cent since February 1985 peak.]

Some fall from the peak recorded in early 1985 was to be expected. Export volumes in latest three months only slightly down on same period a year ago. UK exporters increased volume share of world trade in 1985.

2. Import volumes up

Excluding oil and erratics, volumes up 1½ per cent in latest three months on same period a year ago, significantly less than growth in GDP over same period. Underlying trend shows little change in recent months.

3. Manufacturing trade deficit

[1985 deficit of £3 billion improvement of over £0.9 billion on 1984. FSBR forecasts unchanged deficit for 1986.]

Deficit more than wholly offset by substantial surplus

on oil and invisibles. ~~Growing~~ oil surplus bound to mean some adjustment to structure of balance of payments; has permitted both higher investment overseas and increase in non-oil imports. UK exporters increased share of world trade 1981-85 in volume terms. UK manufacturing output (up 4 per cent in 1984 and 3 per cent in 1985) more important indicator of industrial performance than trade balance.

4. Lower oil prices

Will reduce oil surplus from £8 billion in 1985 to forecast £5 billion in 1986. Reduction offset in current account by increased invisibles surplus.

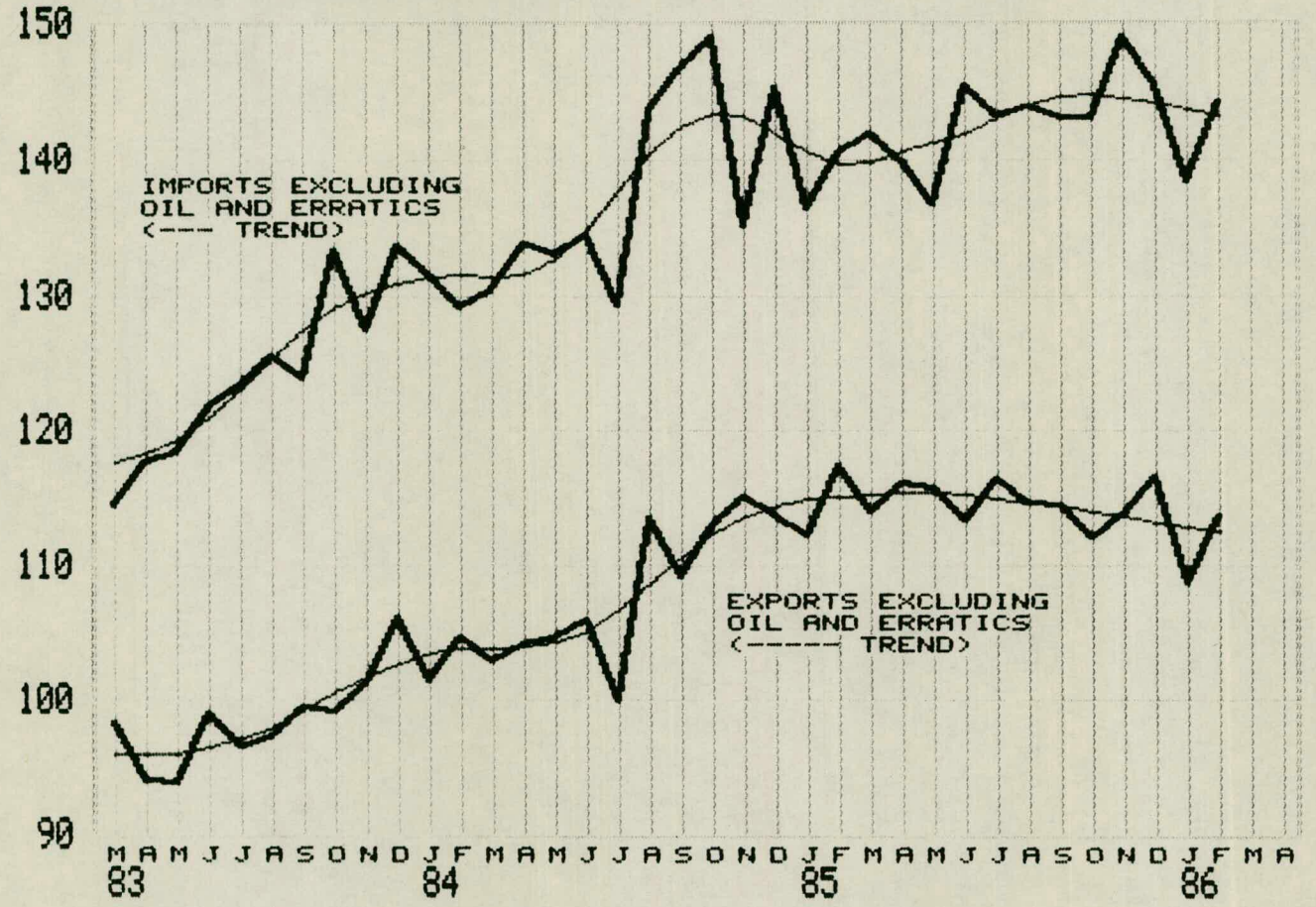
5. Fall in current account from January

[January surplus £1,140 million; February surplus £262 million.]

January surplus included £500 million EC abatement, and exceptionally large oil surplus. ~~as a one-off response to falling oil prices also swelled January figure.~~

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT 11.30AM 26.3.86

VOLUME INDICES



ON A BALANCE OF PAYMENTS BASIS 1980 = 100 SEASONALLY ADJUSTED

MLR

SECRET AND PERSONAL

until 11.30 am on Wednesday 26 March 1986

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TABLE 1: CURRENT ACCOUNT

£ billion

	1985	Sept-Nov	Dec-Feb'86	1985 Dec	Jan	Feb	1986 year to date
Oil	+8.2	+2.1	+2.2	+0.5	+1.0	+0.7	+1.7
Non-oil	-10.2	-2.4	-2.4	-0.5	-0.9	-1.0	-1.9
Total visible trade	-2.1	-0.3	-0.2	0	+0.1	-0.3	-0.2
o/w trade in manufactures (BOP basis)	-3.0	-0.8	-0.6	0	-0.3	-0.4	-0.6
Invisibles	+5.0	+1.2	+2.1	+0.5	+1.0*	+0.6*	+1.6*
Current Account	+3.0	+0.9	+1.9	+0.5	+1.1	+0.2	+1.4

* projection

TABLE 2: EXPORTS AND IMPORTS (percentage change)

	1986 Feb on Jan	Dec'85-Feb'86 on Sept-Nov'85	Dec'85-Feb'86 on Dec'84-Feb'85
i. Exports			
Total value	-1	0	-5
Total volume (BOP basis)	+2	+1	0
Total volume excl oil and erratics (BOP basis)	+4½	-½	-1
Manufactures volume (excl erratics) OTS basis	+4	0	-1
Fuels (Volume)	-7	+9½	+1½
ii Imports			
Total value	+6½	-½	-8½
Total volume (BOP basis)	+4½	-1½	-1½
Total volume exc oil and erratics (BOP basis)	+4½	-1½	+1½
Manufactures volume (excl erratics) OTS basis	+3½	-2	+1½
Fuels (Volume)	+7½	-3½	-24

SECRET AND PERSONAL

SECRET - PERSONAL

TRADE FIGURES FOR february 1986

Advance Circulation

Chancellor of the Exchequer
Chief Secretary
Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Lavelle
Mr Cassell
Mr H P Evans
Mr Fitchew

Mr C Kelly
Miss O'Mara
Mr Culpin
Mr S Robson
Mr Mowl
Mr Segal
Mr Barrell

Mr Gill - Bank
Mr Norgrove - No 10
Miss Deuchers - DTI

Circulation after 11.30 am on wednesday 26 march 1986

Financial Secretary
Minister of State
Mr Butler
Mr Byatt
Mr Lankester (Washington)
Mr Sedgwick
Mr Odling-Smee
Mr Melliss
Mr Riley

Mr P Patterson
Mr Matthews (EF)
Mr Shaw
Mr C Pickering
Mr Lord
Mr Davies
Miss Roche - No 10

CONFIDENTIAL

FROM: S J DAVIES
DATE: 24 MARCH 1986

CHANCELLOR OF THE EXCHEQUER

cc: Sir Peter Middleton
Sir Terence Burns
Mr F E R Butler
Mr Anson
Mr F Cassell
Mr Kemp
Mr Monck
Mr Evans
Mr Fitchew
Mr Odling-Smee
Mr Scholar
Mr Turnbull
Mrs Case
Mrs R G Butler
Mr Gilhooly
Mr Mowl
Miss Noble
Miss Peirson
Mr Riley
Mr P Allum
Mr Grice
Mr Stock
Mr Cropper
Mr Lord

Ch/ Content with proposed assumptions (not for publication)? Only U/E & average earnings raise any problems.

ECONOMIC ASSUMPTIONS

This submission seeks your approval for a revised set of economic assumptions to be sent to Departments. These are for use in the Public Expenditure Survey.

2. Assumptions are required on unemployment, prices, average earnings, and interest rates, covering years up to 1989-90. None of these assumptions will be published at this stage: there will be a submission towards the end of September about the assumptions, revised as necessary, to be used in the final stages of the Survey negotiations and for publication (except in the case of the average earnings figures) in the 1986 Autumn Statement and 1987 PEWP.

3. The assumptions to be issued now will be reconsidered in July; and, if this seems appropriate in the light of the June economic forecast and other developments, we will then seek your approval for sending out to Departments revised economic assumptions (for use in the bilaterals).

n5EA-Ch

4. The proposed assumptions are consistent with projections (short-term forecasts and medium term assumptions) in the FSBR.

Proposed Assumptions

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

Unemployment

6. The 1986 PEWP assumption for unemployment (GB narrow, ie excluding school leavers etc) is for a flat path of 3 million from 1986-87 onwards after 3.05 million in 1985-86. In previous years it had been the practice to publish a path for unemployment which started off from a realistic figure for the financial year that was drawing to its close at the time the PEWP was published; unemployment was then assumed to stay at the same level over the PEWP period.

7. This traditional procedure raised certain problems last year because of the selective employment measures announced in the 1985 Budget. As the Budget expenditure projections had taken credit for the estimated effect of these measures on unemployment, the Budget expenditure figures were implicitly consistent with an unemployment path that was lower than the flat path of the 1985 PEWP. To allow for this we showed a fall in unemployment in the first two rounds of assumptions issued after the 1985 Budget; although for presentational reasons we returned to a more traditional path in the assumptions published in the 1986 PEWP.

Unemployment Assumptions

	1985-86	1986-87	1987-88	1988-89
1985 PEWP	**3.0**	**3.0**	**3.0**	
April 1985	**3.0**	2.9	2.85	2.85
July 1985	3.10	3.05	3.0	2.95
1986 PEWP	**3.05**	**3.0**	**3.0**	**3.0**

(Published figures are shown in bold)

8. The employment measures in the 1986 Budget are expected to take about 60,000 people off the unemployment count on average in 1986-87, and 100,000 people off the count in 1987-88 and 1988-89: the net call on the reserve used in the Budget arithmetic took credit for the savings resulting from this reduction in unemployment.

9. The (unpublished) 1986 MTFS/FSBR projections for GB narrow unemployment are (in millions):

1985-86	1986-87	1987-88	1988-89	1989-90
3.06	3.02	2.94	2.90	2.87

In February, GB narrow unemployment stood at just over 3.08 millions; but with about half of the effect of the 1985 SEMS still to be felt, and with the effect of the NIC restructuring and the 1986 Budget employment measures also working through during 1986, the unemployment average for 1986-87 is forecast to be consistent (rounded to nearest 50,000) with the 1986 PEWP assumption for 1986-87 of 3.0 million. Thereafter the unemployment rate shown in the FSBR/MTFS projections continues to fall below the path in the 1986 PEWP.

10. The decision on the unemployment assumption can be considered in two stages:

(i) the choice of starting point, ie the unemployment average for 1986-87;

(ii) the choice of profile thereafter: whether the unemployment path should be flat or should fall.

11. On (i), it seems best to stick to the PEWP figure of 3.0, as this is consistent with the forecast, even though the current unemployment level is nearer 3.1. If the unemployment figures do not improve over the next few months, this figure will obviously have to be reconsidered before the 1987 PEWP assumptions are finalised.

12. On the second issue, there is some case for going for a declining path, as suggested by the MTFS/FSBR projections. However, we have always made clear that the unemployment assumption is not a forecast, and that the figures provided in the PEWP are just a "stylised assumption". Moreover, a flat 3 million would easily be within the margin of error of the MTFS/FSBR projections.

13. By the time the PEWP is published, however, the monthly unemployment figures could - if the forecast is correct - be close to 3.0 and heading downwards. In these circumstances you might well consider publishing a path which showed a fall in the year immediately ahead, but was then flat for the final two years of the PEWP period. The 1986 PEWP would provide a precedent. To summarise, the range of unemployment assumptions which you may now want to consider, together with the 1986 PEWP assumption is:

	1985-86	1986-87	1987-88	1988-89	1989-90
1986 PEWP	3.05	3.0	3.0	3.0	
Possible April Assumption (i)		3.0	3.0	3.0	3.0
Possible April Assumption (ii)		3.0	2.95	2.95	2.95
Possible April Assumption (iii)		3.0	2.9	2.9	2.9
MTFS/FSBR		3.02	2.94	2.9	2.87

14. All the "possible assumption" paths are fairly close to the forecast. Although (iii) is on average nearest to the forecast, it may be more difficult to present than either (i) or (ii) if, as we expect, unemployment is in the 2.95 - 3 range at the end of this year. There is something to be said for the simplicity of (i), which would mean no change from the PEWP assumptions. It would be undesirable to include a reduced requirement at the beginning of the Survey discussions (under either option (ii) or (iii)) and then have to increase the figures later in the Survey if at that stage the lower figures no longer looked credible. Whereas, if sticking to 3 million now subsequently looks too cautious, then a reduced requirement later in the Survey could well prove helpful in squaring the books. Our proposal is to adopt (i).

Average Earnings

15. The average earnings assumptions published by the GA last November and to be published again shortly after Easter show a 7 per cent increase in 1986-87 after an estimate of 8 per cent in 1985-86. The FSBR forecast has about 8¼ per cent earnings growth in both years.

16. The underlying growth in average earnings, as calculated by DEm, is currently put at 7½ per cent, as it has been for some time. But the actual increase in 1985-86 was higher than this, mainly because of the recovery of earnings in the coal industry. The forecast of 8¼ per cent for 1986-87 partly reflects the forecast increase in the level of public sector settlements which we expect will soon become apparent in the figures published by DEm. Also the slippage of teachers' back pay from 1985-86 will raise the actual growth of earnings relative to the underlying rate in 1986-87.

17. The average earnings assumptions are in fact of little importance for demand led expenditure. Normally, the earnings assumptions agreed now are sensitive because they appear in a GAD report in June or July; but the Government Actuary will not be publishing a report this summer, because of the transitional uprating arrangements. You may feel therefore that it is not worth changing the existing assumption for 1986-87 at this stage. But it is below our forecast (and that of most outside forecasters) and we would prefer to move now to a higher figure for 1986-87. For later years our proposed assumption is in line with the MTFS projections. Pay division have emphasized the sensitivity of these assumptions; when the figures are sent to DHSS we will at the same time remind DHSS that access to the figures should be strictly limited.

only on 'general' principle

X

	March 1986 GA Assumption	FSBR Forecast (to 86-87) and MTFS assumption (after 86-87)	Proposed Average Earnings Assumption
1985-86	8	8¼	(8)
1986-87	7	8¼	8
1987-88		5¾	6
1988-89		5	5
1989-90		4	4

If this is true, then better to stick with 7%, which is what the GAD is programmed to publish. The figures will no doubt have to be revised up later, but the effect of ±1% change in PEX is less than £10m

Retail Prices

18. The FSBR showed retail price inflation at 3½ per cent in 1986Q4 and 1987Q2. In future, social security upratings will be based on September RPI figures: the January 1986 to September 1986 RPI is relevant to the April 1987 uprating, and thereafter September to September RPI increases will determine subsequent April upratings.

19. We now expect the increase in the RPI in the year to September 1986 to be around 3½ per cent - in line with the published inflation forecast for the fourth quarter. This would mean the next uprating being based on a 2½ per cent rise between January 1986 and September 1986: this is marginally higher than the 1986 PEWP assumption of a 2¼ per cent increase. (It may appear surprising that this assumption should have been raised when the latest published forecast shows a lower Q4 inflation forecast than did the Autumn Statement. But the PEWP assumptions, which were decided before the Autumn Statement forecast was finalised, were on the basis of a slightly lower inflation forecast than that published in the Autumn Statement.) The table below summarises our proposals, the 1986 PEWP assumptions, and the latest forecast.

Per cent changes in RPI

	1986 PEWP	FSBR Projections	Proposals
Jan 86 - Sept 86	2¼	2½	2½
Sept 86 - Sept 87	3¼	3.7	3½ — just rounding
Sept 87 - Sept 88	-	3.2	3¼

GDP Deflator

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

Interest Rates

21. The table below summarises the latest interest rate figures and the FSBR forecast:

	Latest (close 24 March)	1986-87	1987-88	1988-89	1989-90
3 month interbank	11.4	11.2	9.7	8.5	8.0
20 year gilt rate	9.0*	10.0	9.7	8.8	8.4
6 month Dollar LIBOR	7.5	7¾	8¼	8¼	8¾

(* 21 March).

22. Interest rates have declined in recent weeks and may well have some way to go. In consequence, rates at the start of 1986-87 may be lower than the averages for the full financial year shown in the table, particularly at the long end. But experience suggests caution in extrapolating such falls without allowing for the possibility of some reversal of sentiment later in the year.

23. Interest rate assumptions are not published at any stage. It has normally been the practice to issue realistic assumptions and our proposals are to issue as assumptions the rounded forecast figures with one minor amendment. Sentiment in the gilt market has improved so much in recent days that we would now suggest a lower figure than is in the forecast for 20 year gilt rates in 1986-87 and 1987-88: 9½ in both years instead of 10 and 9.7. The table below summarises our proposals, along with the PEWP assumptions. An alternative to our proposals would be to retain the PEWP figures, repeating the 1988-89 figures in 1989-90.

	1986-87	1987-88	1988-89	1989-90
3-month interbank				
1986 PEWP	10¾	10¼	9½	
Proposed for April	11¼	9¾	8½	8
20-year gilt rate				
1986 PEWP	10	9½	8	
Proposed for April	9½	9½	9	8½
6-month dollar LIBOR				
1986 PEWP	9½	9	9	
Proposed for April	7¾	8¼	8¼	8¾

Implications for Expenditure

24. Table 3 in the Annex sets out a ready reckoner indicating the approximate effect on forecast expenditure of changes to the economic assumptions. The table below shows the changes in expenditure implied by the proposals made in this submission, as compared with those in the assumptions used in the PEWP.

Assumptions on:	**1986-87**	**1987-88**	**1988-89**
Unemployment	0	0	0
RPI		+ 80	+ 160
Interest rates	- 40	- 85	- 145
Total	- 40	- 5	+ 15

Although the proposals imply little net change in expenditure compared with the PEWP assumptions, returning to the PEWP unemployment assumption does mean adding back, as a further claim on the reserve, the unemployment offset to the SEMS package announced in last week's Budget.

Decisions

25. We would like to send out assumptions to Departments immediately after Easter. Could you please let me know by 26 March whether you are content with the proposals we have made.

S J DAVIES

n5aEA-Ch

ANNEX Table 1

ASSUMPTIONS ON UNEMPLOYMENT, EARNINGS AND INFLATION

Unemployment GB narrow (millions)	1985-86	1986-87	1987-88	1988-89	1989-80
Published PEWP/GA assumption	3.05	3.0	3.0	3.0	
Unpublished 1986 FSBR figures	3.06	3.02	2.94	2.9	2.87
Proposed Assumptions*		**3.0**	**3.0**	**3.0**	**3.0**

(* see paragraph 13-14 of text)

Average earnings per head (per cent change)	1985-86	1986-87	1987-88	1988-89	1989-80
Published PEWP/GA assumption	8	7			
Unpublished PEWP/GA assumption			6	5½	
Unpublished figures in 1986 FSBR	8¼	8¼	5¾	5	4
Proposed Assumptions		**8**	**6**	**5**	**4**

RPI (per cent changes)	January 1986 to September 1986	Year to September 1987	Year to September 1988
Published PEWP assumption	2¼	3¼	
Unpublished figures in FSBR forecast	2½	3.7	3.2
Proposed Assumptions	**2½**	**3½**	**3¼**

GDP deflator (per cent changes)	1985-86	1986-87	1987-88	1988-89	1989-90
Published PEWP assumption	4¾	4½	4	3¼	
Published in FSBR/MTFS	6	3¾	3¾	3½	3
Proposed Assumptions		**3¾**	**3¾**	**3½**	**3**

ANNEX Table 2

ASSUMPTIONS ON INTEREST RATES

3-month interbank rate	1985-86	1986-87	1987-88	1988-89	1989-90
Unpublished PEWP assumption	11¾	10¾	10¼	9½	
Unpublished figures in FSBR	12.1	11.2	9.7	8.5	8.0
Proposed Assumptions		**11¼**	**9¾**	**8½**	**8**

20-year gilt rate	1985-86	1986-87	1987-88	1988-89	1989-90
Unpublished PEWP assumption	10¾	10	9½	8	
Unpublished figures in FSBR	10.5	10.0	9.7	8.8	8.4
Proposed Assumptions		**9½**	**9½**	**9**	**8½**

6-month Dollar LIBOR	1985-86	1986-87	1987-88	1988-89	1989-90
Unpublished PEWP assumption	8½	9½	9	9	
Unpublished figures in FSBR	8¼	7¾	8¼	8¼	8¾
Proposed Assumptions		**7¾**	**8¼**	**8¼**	**8¾**

ANNEX Table 3

EFFECT OF CHANGES IN ASSUMPTIONS ON THE PUBLIC EXPENDITURE PLANNING TOTAL

	£ million		
	1986-87	1987-88	1988-89
100,000 rise in unemployment			
DHSS	210	210	210
One point rise in sterling interest rates			
ECGD (short rates)	60	64	67
Housing subsidies (pool rate*)	100	100	100
DTI credit to shipbuilders (short rates)	13	13	13
One point rise in dollar interest rates			
ECGD	48	43	38
One per cent higher September RPI relevant to April uprating			
DHSS		330	330

* Housing subsidy pool rate responds with a lag to changes in short and long rates.

n5aEA-Ch

RR7.53

CONFIDENTIAL

Pl copy
to PS/CST

FROM: MRS R LOMAX
DATE: 25 March 1986

MR S J DAVIES

cc Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Anson
Mr Cassell
Mr Kemp
Mr Monck
Mr Evans
Mr Odling-Smee
Mr Scholar
Mr Turnbull

ECONOMIC ASSUMPTIONS FOR THE PUBLIC EXPENDITURE SURVEY

The Chancellor has seen your minute of 24 March. He is content with the proposals summarised in the annex, with one exception. He would prefer to leave average earnings for 1986-87 at 7 per cent rather than 8 per cent at least at this stage - given the sensitivity pointed out by Pay Division. He has noted that we can think again in July.

RACHEL LOMAX

024/2768

CONFIDENTIAL

FROM: JILL RUTTER
DATE: 26 March 1986

PS/CHANCELLOR

cc:
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Anson
Mr F Cassell
Mr Kemp
Mr Monck
Mr Evans
Mr Fitchew
Mr Odling-Smee
Mr Scholar
Mr Turnbull
Mrs Case
Mrs R G Butler
Mr Gilhooly
Mr Mowl
Miss Noble
Miss Peirson
Mr Riley
Mr S J Davies
Mr P Allum
Mr Grice
Mr Stock
Mr Cropper
Mr Lord

ECONOMIC ASSUMPTIONS

The Chief Secretary has seen Mr Davies' minute of 24 March outlining the economic assumptions to be used in the Public Expenditure Survey.

2 He has no comments on the proposals, save that it is imperative that DHSS be reminded of the sensitivity surrounding the pay assumptions.

Jill Rutter

JILL RUTTER
Private Secretary

CONFIDENTIAL

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

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

GDP (average measure) in the fourth quarter of 1985 was 3 per cent higher than in the same period a year ago or $1\frac{1}{2}$ per cent after discounting the effects of the coal strike. This figure does not take account of past experience which shows that revisions to growth rates for the initial published estimates of GDP were on average upwards though not uniformly so. The assessment of current underlying trend for the first quarter of 1986 is that the rate of increase lies in the range 1-3 per cent per annum.

Industrial production in the three months to January was $4\frac{1}{2}$ per cent higher than in the same period a year ago, or 1 per cent after allowing for the effects of the coal strike and other disputes, notably in the motor vehicles industry. On the same basis, respective figures for manufacturing were $2\frac{1}{2}$ and 2 per cent. The assessment of underlying trend for industrial production is that the rate of increase currently lies in the range 1-2 per cent per annum. The trend in manufacturing output is in the range 2-3 per cent per annum whereas that for the energy sector is seen to be almost flat.

Retail prices rose by just over 5 per cent in the twelve months to February 1986. It is only possible to provide a useful indicator of trend for about 70 per cent of the RPI, mainly covering private sector prices and excluding mortgage rates, local authority rates, seasonal food, nationalised industry prices and petrol. The current trend for this series is a little over 4 per cent per annum. In the twelve months to February 1986 this series rose by just under 5 per cent (not published).

Producer input prices declined in seasonally adjusted terms in each of the months from March last year to February. A further fall is expected in March, bringing the index almost 11 per cent below its peak in February last year.

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

Unit wage costs in manufacturing in the three months to January rose by 5 per cent compared with the same period a year ago. The current underlying trend is estimated to be in the range 5-6 per cent per annum.

Unemployment (excluding school leavers) in the twelve months to February has been rising on average by 6 thousand per month and by 5 thousand per month in the latest six months. Discounting the effects of employment and training measures as far as possible, the current underlying trend appears to be an increase in the region of 10 thousand per month.

Movements over the latest published 12 months include any revisions that may have occurred since last publication (in general any such differences only occur in the GDP series).

A23/1

COPY NO 86

MONTHLY ECONOMIC BRIEF

Prepared by the CSO on 2nd April 1986

Financial markets reacted favourably to the Budget. Base rates were cut by 1 per cent on 19 March and both share prices and sterling rose strongly. By the end of the month, despite a renewed weakening of oil prices, sterling closed at its highest level for over two months. Share prices suffered a temporary sharp fall but by the end of the month had nearly regained their post-Budget all-time high.

Published information about developments in the economy for the fourth quarter of last year have confirmed the earlier indications, with the level of overall activity estimated to have been $\frac{1}{2}$ per cent higher than in the third quarter. For 1985 as a whole, GDP(A) was nearly $3\frac{1}{2}$ per cent higher than in 1984 ($2\frac{1}{2}$ per cent on a coal strike adjusted basis). The underlying rate of growth in activity slowed slightly during 1985.

Visible trade is estimated to have been in deficit by £338 million, following a surplus of £1140 million in January. There has been little change in the underlying level of both non-oil export and non-oil import volume in recent months.

The rate of inflation fell again in February from 5.5 to 5.1 per cent per annum and is likely to fall further in March as current price movements seem to be considerably smaller than those experienced a year ago. The effects of tax changes in this year's Budget are similar in size to those of last year and consequently will have little effect on the annual rate of inflation. The recently announced reductions in mortgage rates will affect the figures from April.

A further net repayment in February brought the cumulative total for the PSBR in the first eleven months of the financial year 1985/86 to £2.8 billion compared with £7.7 billion in the same period last year. The latest forecast for 1985/86, given in the Budget on 18 March, is £6.8 billion though the final outturn remains uncertain.

CHART 1

Changes in output and expenditure

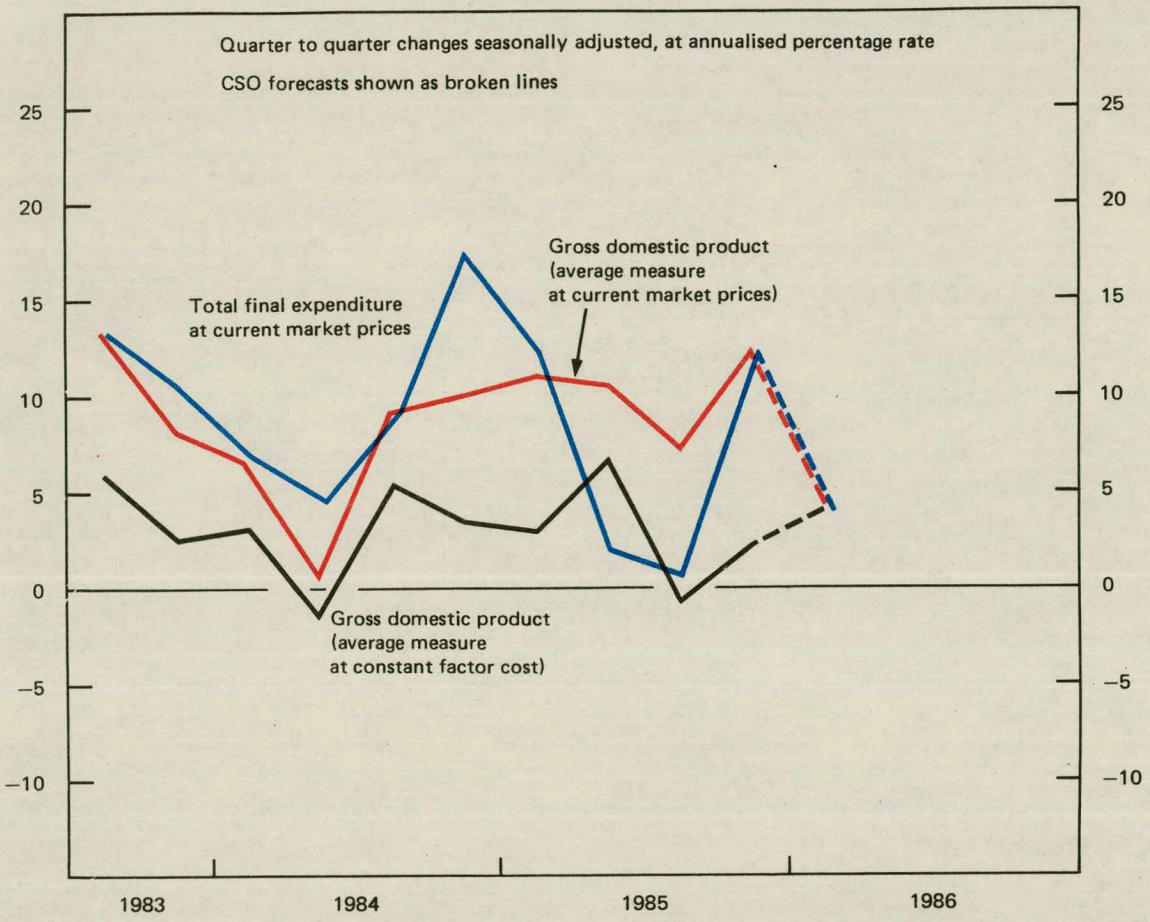
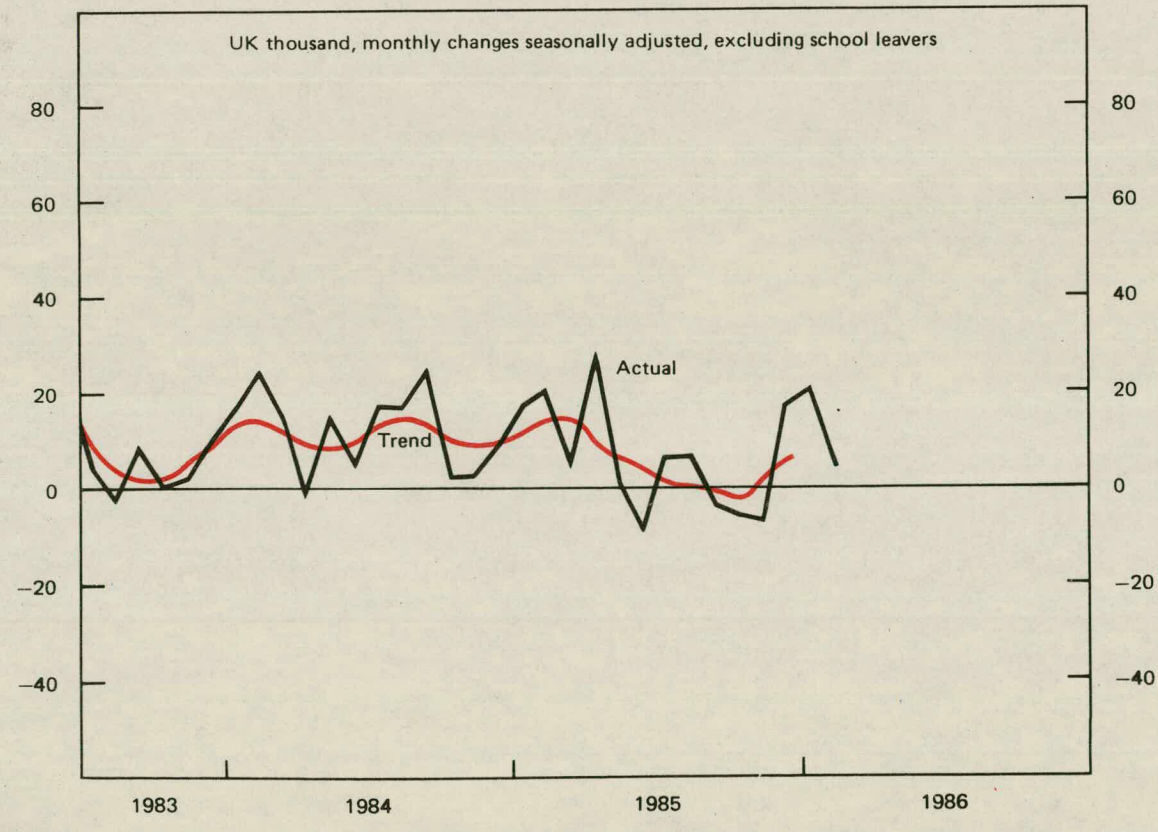


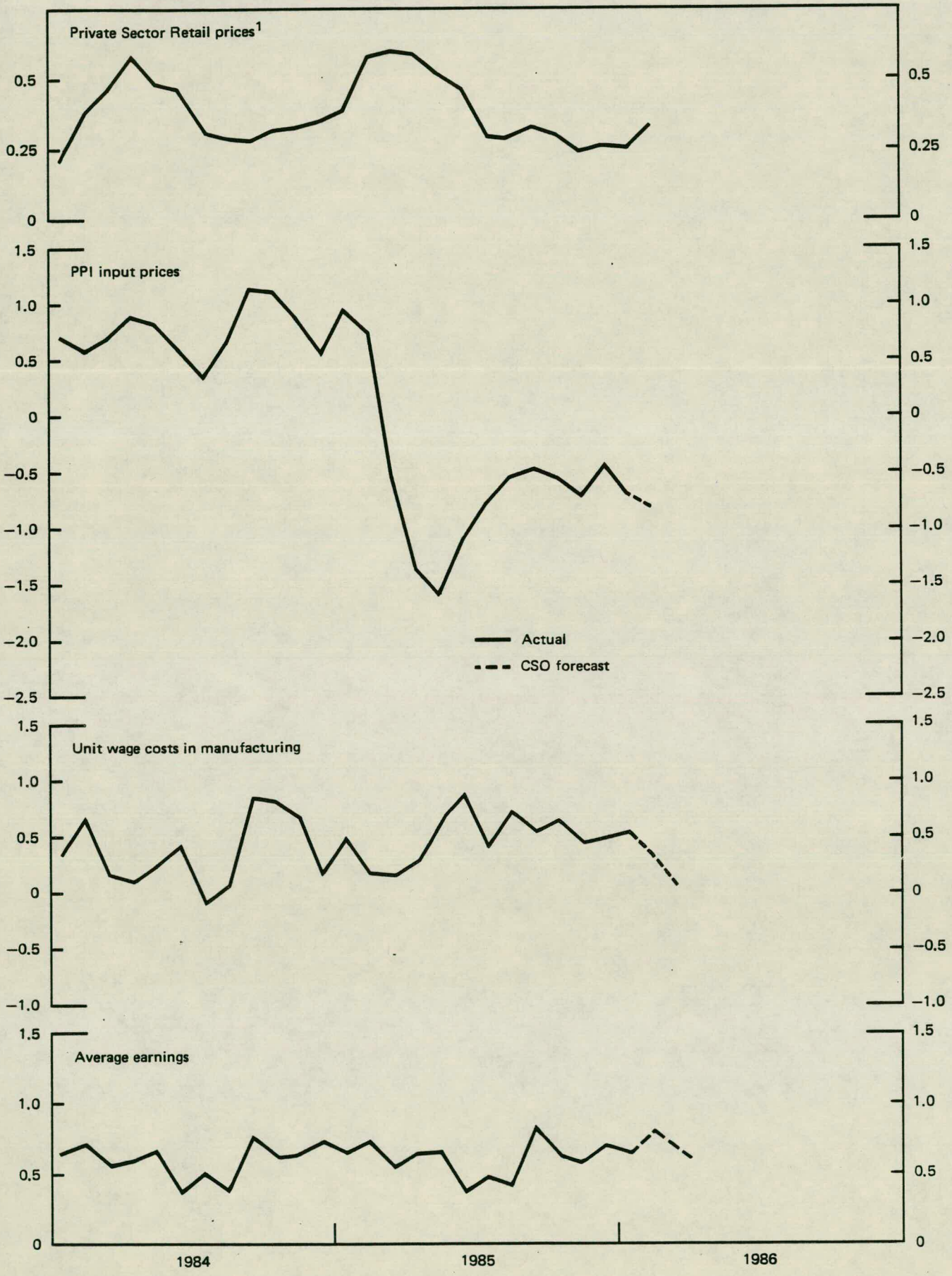
CHART 2

Changes in unemployment



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

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



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

CHART 4

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

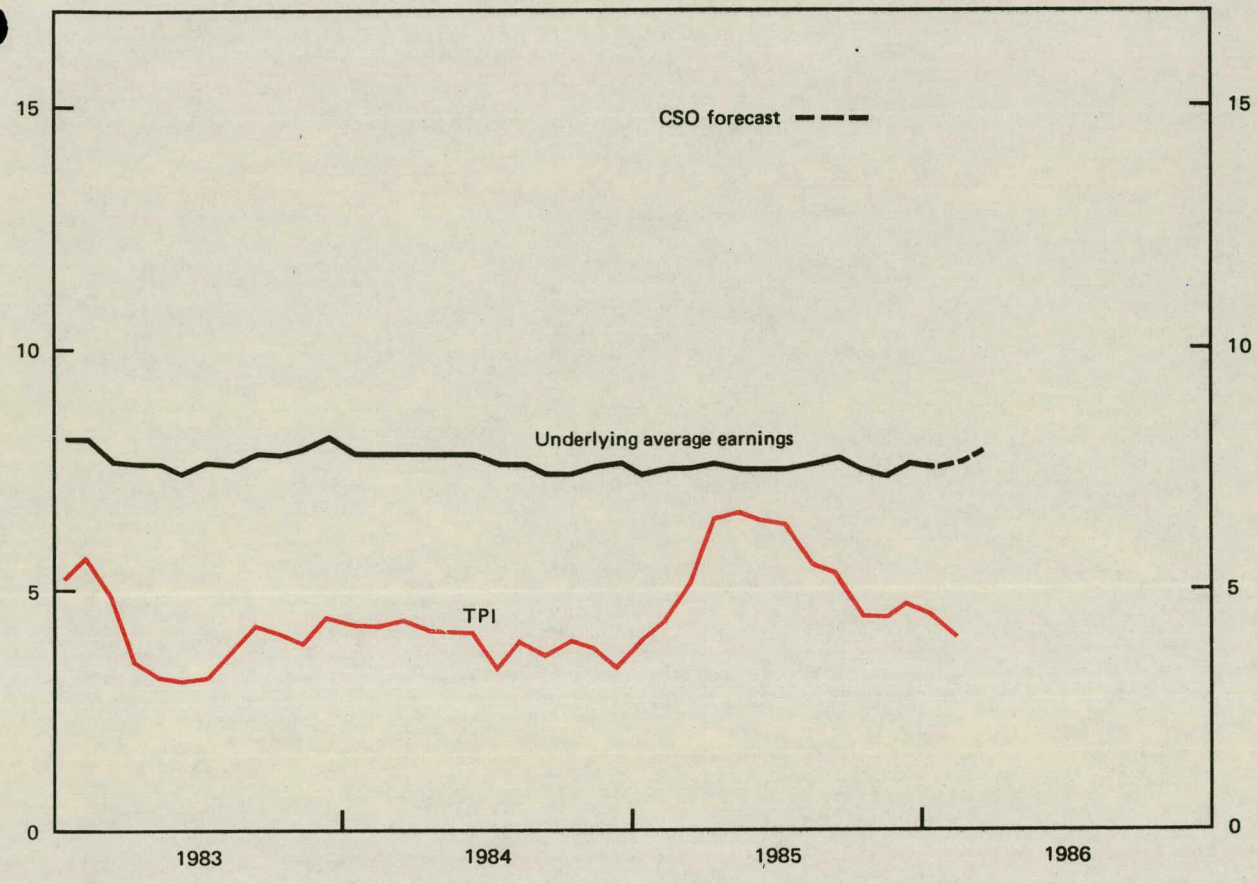


CHART 5

Interest rates

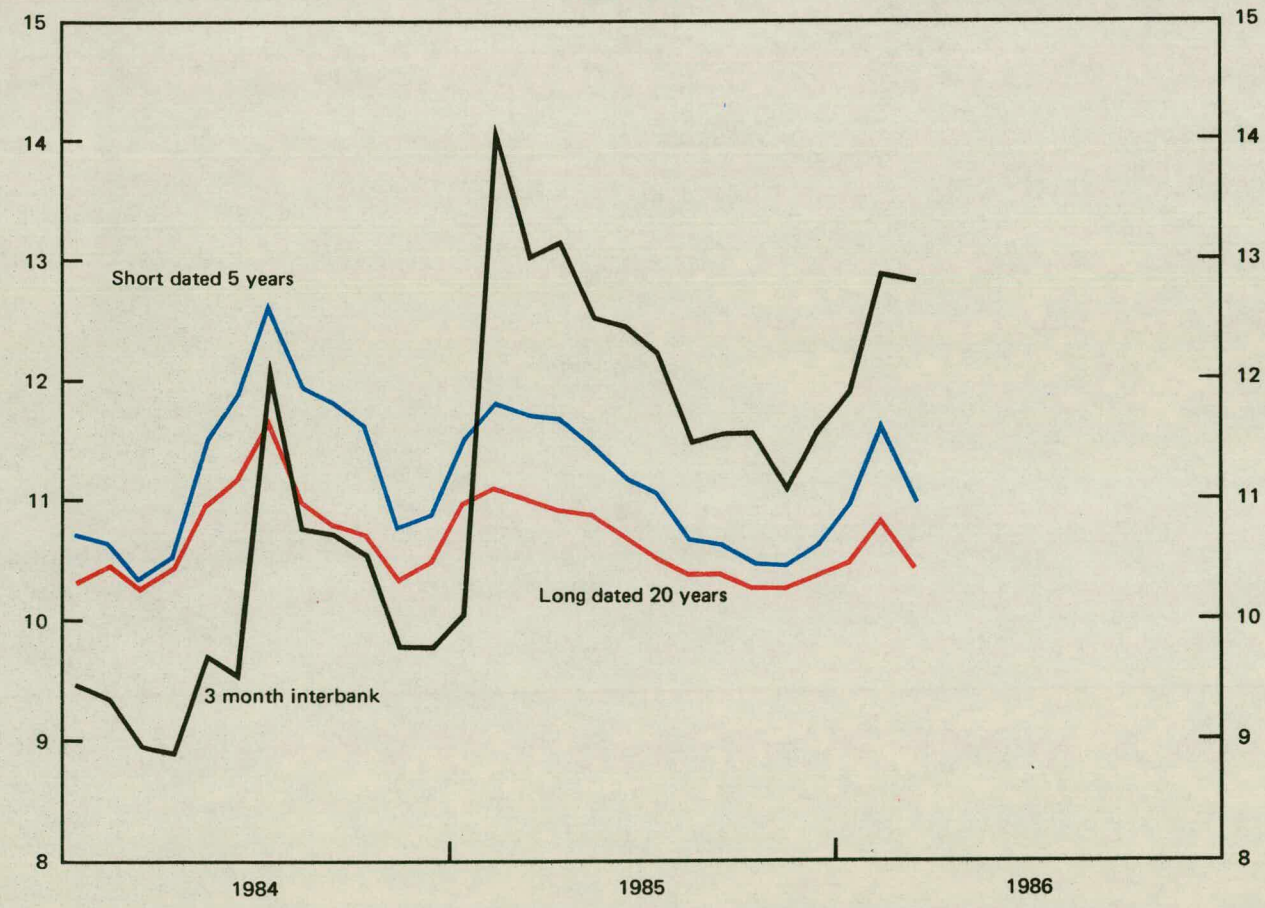
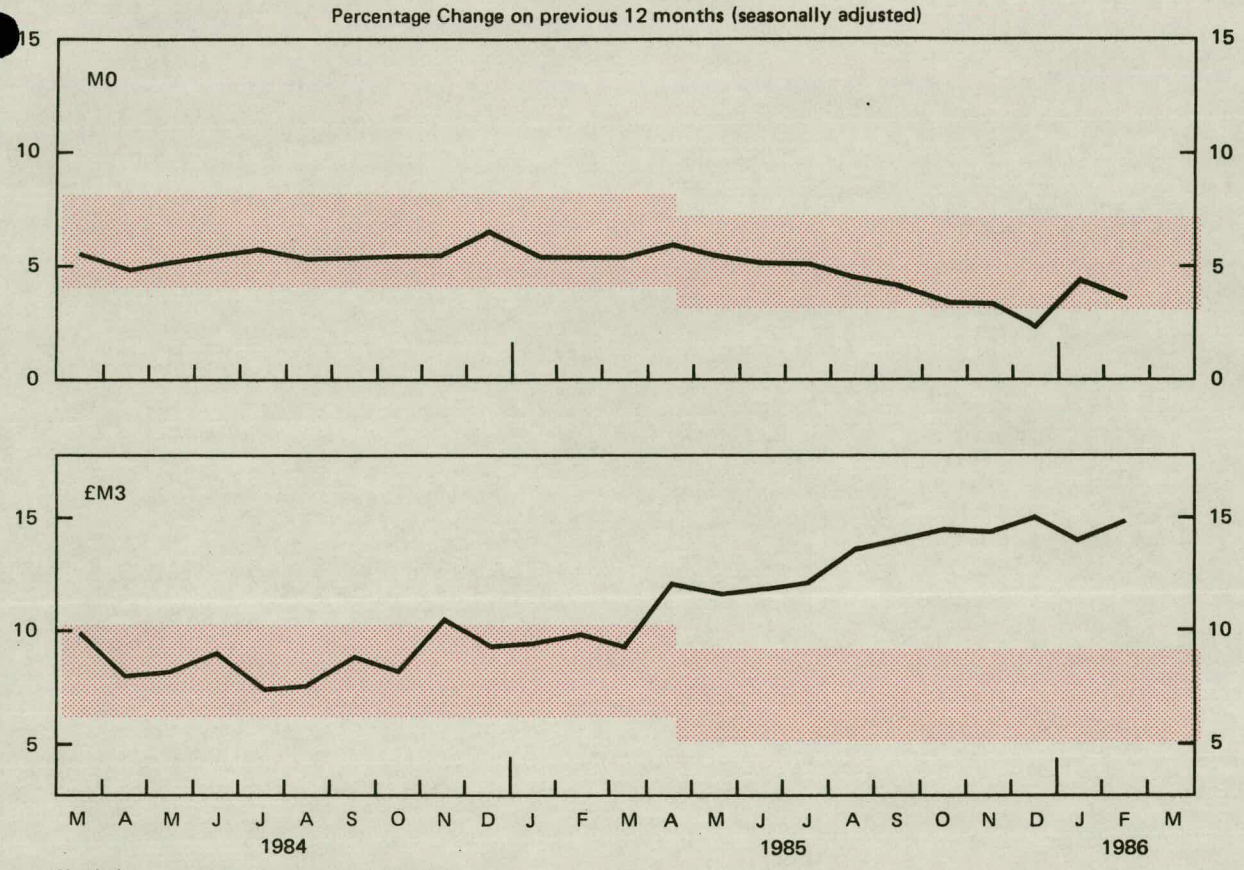


CHART 6

Monetary aggregates

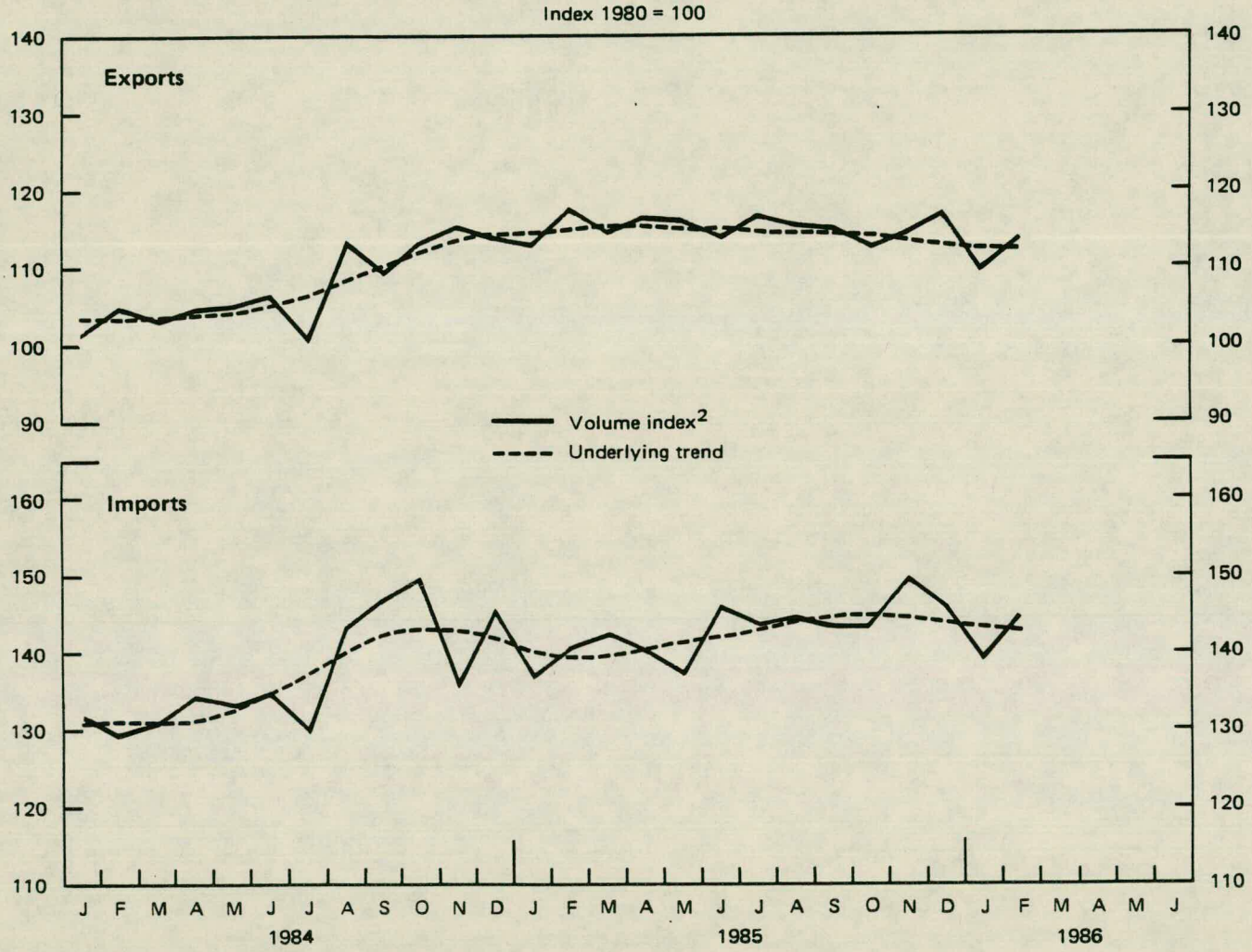
Percentage Change on previous 12 months (seasonally adjusted)



Shaded areas represent announced target ranges

Exports and Imports (excluding oil and erratics[1]) CHART 7

Index 1980 = 100



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

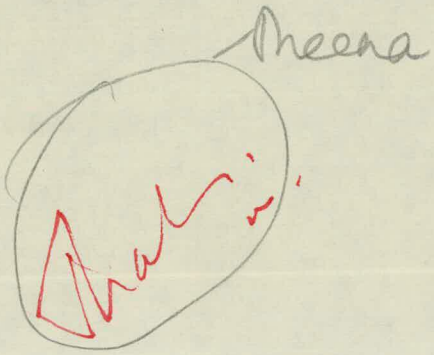
2 Seasonally adjusted data, Balance of Payments basis

62:4

CONFIDENTIAL
until 11.30am 14 April
then UNCLASSIFIED

FROM: S D KING
DATE: 10 April 1986

1. MISS O'MARA mom 11/4
2. CHANCELLOR OF THE EXCHEQUER



cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Monck
Mr Evans
Mr Culpin
Mr S Davies
Mr Brooks
Mr Pickering
Mr Pickford
Mr Vernon o.r
Mr Cropper
Mr Ross Goobey
Mr Lord
HE/01

PRODUCER PRICES FOR MARCH

These will be published at 11.30 on Monday 14 April and, following the trend of recent months, show encouraging prospects for inflation.

2. **PRODUCER PRICES**
(percentage change over year earlier)

	1985			1986	
	Q2	Q3	Q4	Q1	March
Output prices (not s.a)	5.6	5.6	5.2	5.1	5.0
Output prices (less food, drink, & tobacco)	6.4	6.5	6.0	5.2	4.9
Input prices (not s.a.)	3.4	-0.7	-5.3	-9.1	-10.9
Input prices (s.a.)	3.4	-0.7	-5.4	-9.4	-10.9

Prices of materials and fuel bought by manufacturing industry fell by 10.9 per cent (s.a.) in the year to March, after a fall of 9.6 per cent in February - the best performance since the present series began in 1974. Between February and March the index fell by 1.5 per cent - the twelfth fall in thirteen months. This fall reflects in part the lower costs of imported materials and a reduction in the scheduled prices of petroleum products.

4. Over the year to March output prices rose by 5.0 per cent - down from the 5.1 per cent recorded in February and the lowest rise recorded in the present series. Between February and March the index rose by 0.6 per cent.

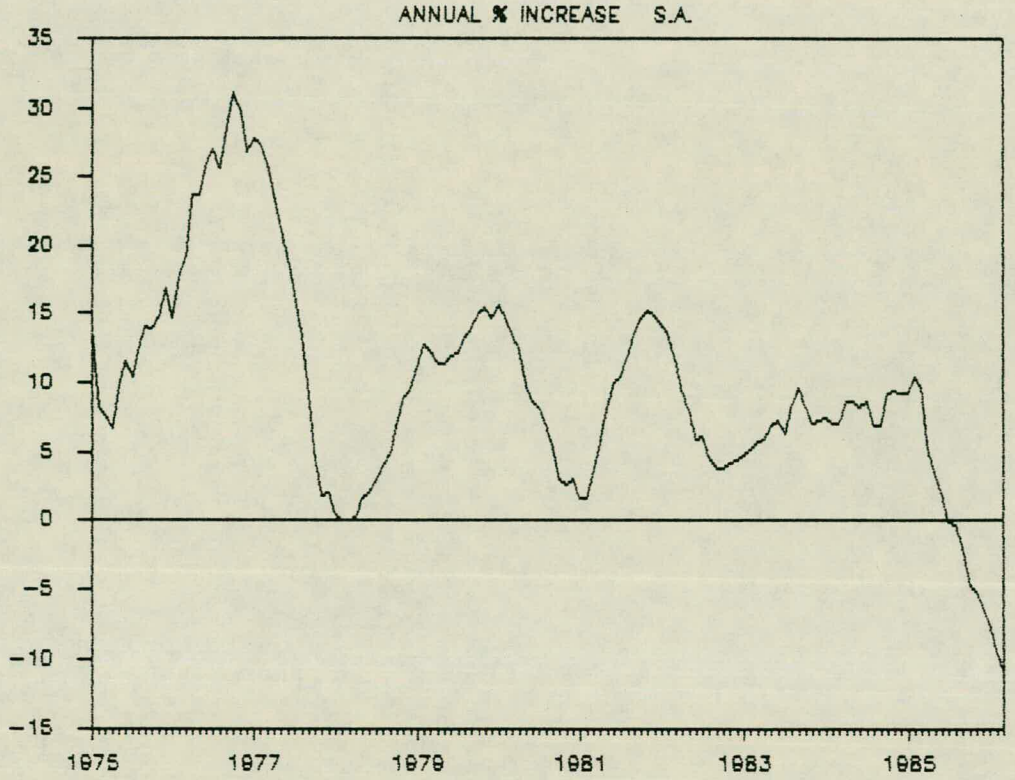
5. Excluding food, drink and tobacco, the increase in the index for manufactured products fell to 4.9 per cent in the year to March from 5.3 per cent in February.

6. Movements in annual rates of producer input and output inflation from January 1975 are shown in the attached charts.

S D KING

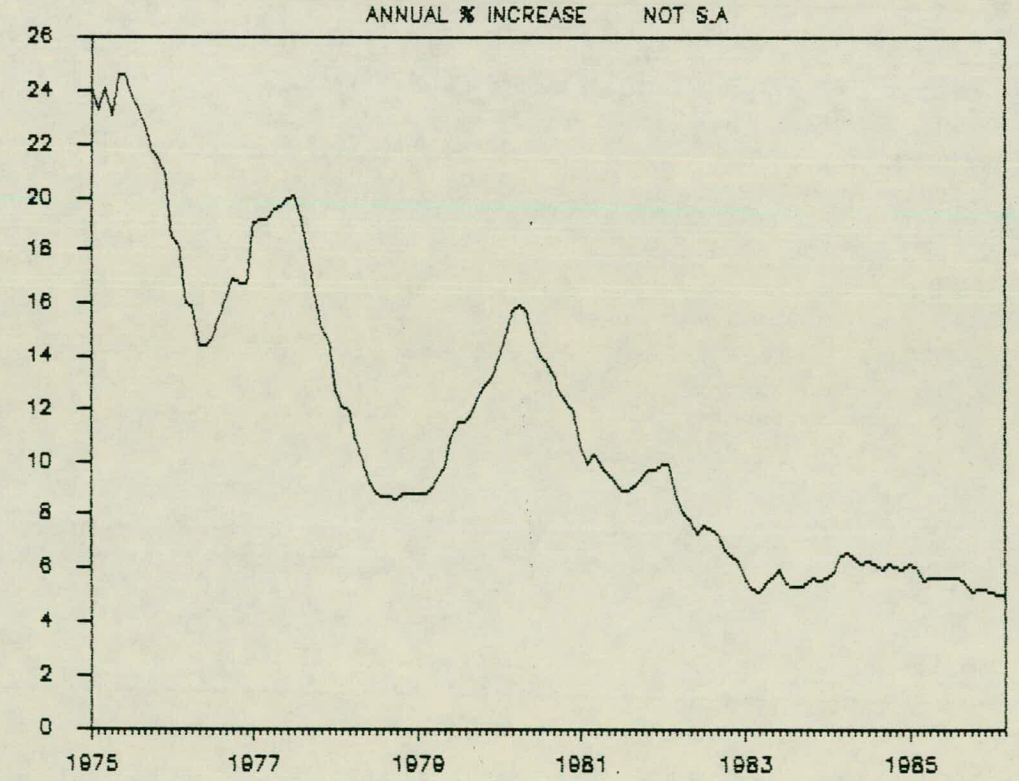
PRODUCER INPUT PRICES

ANNUAL % INCREASE S.A.



PRODUCER OUTPUT PRICES

ANNUAL % INCREASE NOT S.A



8:2

PERSONAL AND CONFIDENTIAL
until 11.30am Thursday 17 April
then UNCLASSIFIED

FROM: K VERNON
DATE: 16 APRIL 1986

1. MISS O'MARA

2. CHANCELLOR OF THE EXCHEQUER

Depressing news coming hard on the heels of the unemployment figures. But we still have a robust line on the performance of manufacturing industry as a whole. NAM 16/4

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

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - FEBRUARY 1986

This will be published at 11.30am on Thursday, 17 April.

2. The index of production in the three months to February fell by ½ per cent from the level of the previous three months: manufacturing output was broadly unchanged. In comparison with a year earlier, production rose by 3½ per cent and manufacturing output rose by 1 per cent.

3. Between January and February the index of production rose by 1½ per cent. Manufacturing output rose by ½ per cent but output of the energy and water supply industries rose by 4 per cent: this was mainly due to a rise of 7 per cent in 'other' energy and water supply, (excluding coal), reflecting increased demand for gas and electricity in a cold February. Oil and gas extraction rose by 4 per cent to equal the peak reached in January 1985.

PERSONAL AND CONFIDENTIAL
until 11.30am Thursday 17 April
then UNCLASSIFIED

Recent movements

percentage changes	1985 on 1984	3 Months to Feb 1986 on 3 months to Nov 1985	3 months to Feb 1986 on 3 months to Feb 1985	February on January
Index of Production	+4½	-½	+ 3½	+ 1½
within which:				
Manufacturing	+3	0	+ 1	+ ½
Energy and Water	+9	-1½	+ 9	+ 4
adjusted for coal strike:				
Index of Production	+2½	- ½	0	+ 1½
Manufacturing output	+2½	+0	+ ½	+ ½

5. Recent index numbers for manufacturing, and consequently production in total, have been revised downwards on receipt of later and more complete information. On the basis of these estimates both manufacturing and industrial production have shown no growth since 1985Q2 and CSO's assessment is that they are flat in underlying terms.

6. Despite these downward revisions CSO will continue to make bias adjustments upward to recent estimates of manufacturing output that are broadly upward. Historical experience shows that such adjustments are warranted.

7. Manufacturing output in the latest three months was 11½ per cent above its 1981Q1 trough but was 8 per cent below 1979Q2 peak. The index of production was 1½ per cent above its average 1979 level.

Other Industrial detail

8. Good increases in output in the three months to February 1986 compared with a year earlier were recorded by Mechanical engineering [+8 per cent], Textiles [+5 per cent]. Falls over the same period were recorded by electrical and instrument engineering [-4 per cent], and chemicals [-3 per cent] - two industries which had, until recently, shown good year on year growth.

Assessment

9. Manufacturing output rose strongly, in 1984 and 1985 as a whole but has shown no growth since 1985Q2. CSO believe the underlying trend is broadly flat. Because energy output is flat in the same terms, the trend in industrial production is also flat.

10. Press comment will probably be unfavourable emphasising the flat profile of manufacturing and production indices since 1985Q2.

11. Manufacturing output grew by 3 per cent in 1985, the fourth year of uninterrupted growth - the longest such period since 1970.

Lines to take

12. Possible lines for IDT to take are:

13. Positive:-

(i) Manufacturing output expected to grow by 3 per cent this year following 3 per cent growth in 1985 and 4 per cent growth in 1984.

(ii) Manufacturing output has now grown for four successive years - longest period of uninterrupted growth since 1970.

(iii) Manufacturing output up by 11½ per cent on 1981Q1 trough and up 9 per cent since June 1983 election.

(iv) Manufacturing profitability in 1984 best since 1973. Exports up 6 per cent in 1985 to beat 1984's all time and expected to rise by further 6 per cent in 1986. No previous five year period in which manufacturing has been so successful in holding its market share and keeping pace with world output. Manufacturing industry expected to be major beneficiary of fall in oil price.

Defensive:-

(v) Manufacturing output trend flat. Halt in growth expected to be temporary. Good growth of 3 per cent expected in 1986 as a whole - making five successive years of growth.

(vi) Downward revisions to manufacturing output show bias adjustment unjustified

No. Historical experience shows initial estimates of manufacturing output have been underestimated on average. Therefore bias adjustments completely justified.

K Vern

K VERNON
EB

PERSONAL AND CONFIDENTIAL
until 11.30am, Thursday 17 April

TABLE 1

OUTPUT OF PRODUCTION AND CONSTRUCTION INDUSTRIES

1980 = 100, seasonally adjusted

	Production * (Divisions 1-4) *	Energy and Water Supply (Division 1)	Manufacturing (Divisions 2-4)	Construction (Division 5)
1979	107.1	100.5	109.5	105.8
1980	100.0	100.0	100.0	100.0
1981	96.6	103.9	94.0	89.9
1982	98.4	110.0	94.2	91.6
1983	101.9	115.8	96.9	95.3
1984	103.2	110.1	100.7	98.6
1985	107.9 R	120.1	103.6 R	100.0
1983 Q4	104.1	118.3	98.9	97.8
1984 Q1	104.3	117.7	99.5	97.0
Q2	102.2	107.9	100.1	98.1
Q3	102.7	105.4	101.7	100.5
Q4	103.6	109.5	101.5 R	98.7
1985 Q1	106.4 R	115.9	103.0 R	99.3
Q2	108.4 R	121.0	103.8 R	100.2
Q3	108.4 R	121.4 R	103.7 R	99.3
Q4	108.6 R	121.9 R	103.8 R	101.3
December	104.0	109.4	102.1	
1985 January	106.0 R	115.9	102.5 R	
February	105.7 R	114.0	102.7 R	
March	107.6	117.8	103.9 R	
April	108.7 R	122.3	103.8 R	
May	108.8 R	123.1	103.7 R	
June	107.6 R	117.6	104.0 R	
July	107.7 R	120.1 R	103.3 R	
August	108.1 R	119.2 R	104.1 R	
September	109.4 R	124.9 R	103.8 R	
October	108.3 R	122.8 R	103.1 R	
November	109.9 R	126.5 R	104.0 R	
December	107.6 R	116.5 R	104.5 R	
1986 January	108.3 R	124.0 R	102.6 R	
February	110.1	128.9	103.3	
% changes				
Latest 3 months on previous 3 months	-0.5	-1.3	-0.2	2.0
Latest 3 months on year earlier	3.3	8.9	1.0	2.6
Latest 3 months on 1981 Q1 (trough)	14.3	20.7	11.6	9.6
+				
Latest 3 months on 1979 Q2 (peak)	-0.5	18.2	-7.9	-5.5

Notes

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

'R' signifies revised figure + Energy & Water Supply peak is 1979 Q3

PERSONAL AND CONFIDENTIAL
until 11.30am, Thursday 17 April

TABLE 2

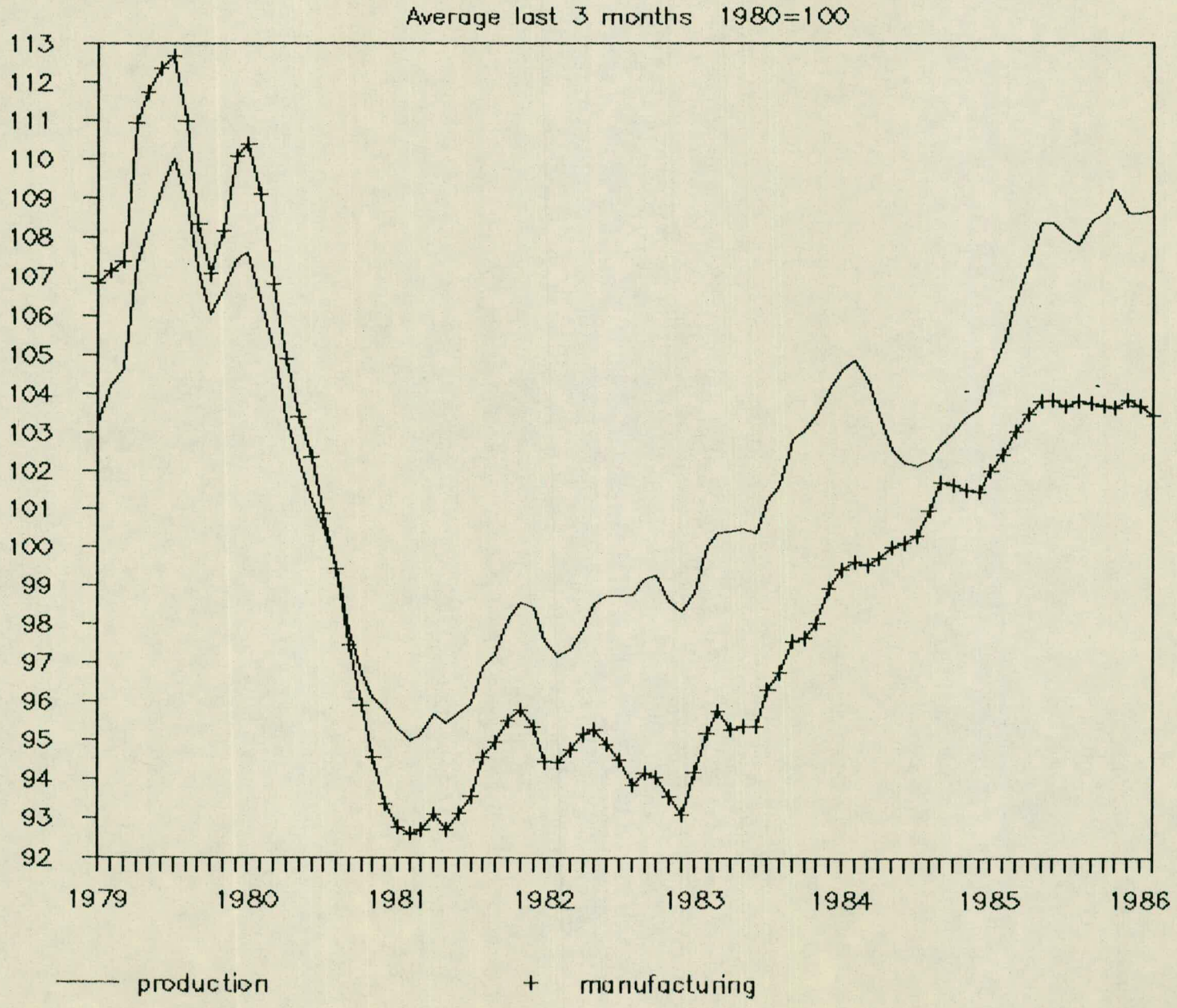
OUTPUT OF PRODUCTION INDUSTRIES CHANGES IN DETAIL

Percentage change, latest 3 months* on:

	Previous 3 months	Same 3 months last year	1981 Q1 (trough of output of production industries)
Total Production Industries	-0.5	3.3	14.2
Energy & Water Supply	-1.3	8.9	20.8
o.w. extraction of oil & gas	-3.8	-3.6	38.4
coal and coke	-2.1	153.2	-17.9
Total Manufacturing	-0.2	1.0	11.6
o.w. Metals	-2.0	1.8	11.0
Other minerals +	0.6	2.9	7.5
Chemicals (and man-made fibres)	-1.7	-2.9	19.3
Engineering	-0.1	0.6	14.8
Food, drink, tobacco	1.5	1.9	4.4
Textiles etc.	-0.7	4.0	13.2
Other ++	-0.4	1.4	6.0

* October, November and December 1985
\+ Mainly building materials
++ Paper, printing, publishing, timber, furniture, rubber, plastics

INDEX NUMBERS OF OUTPUT



PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM ON THURSDAY 17 APRIL AND THEREAFTER RESTRICTED

JO11

(2)

MR D NORGROVE

Prime Minister's Office

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - FEBRUARY 1986

The provisional index of output of the production industries for February 1986 will be issued at 11.30 am on Thursday 17 April. A copy of the Press Notice is attached.

Latest Figures

The February 1986 index of output of the production industries, that is energy and manufacturing, is provisionally estimated at 110.1 (1980=100, seasonally adjusted), up 1½ per cent on January. There was a high level of output in the energy and water supply industries reflecting, in part, the exceptionally cold weather. For manufacturing the index was 103.3, up ½ per cent on January (see section on Bias Adjustments below).

In the three months to February output of the production industries was down ½ per cent compared with the previous three months and manufacturing output was broadly unchanged. Some industry detail is given in the attached table.

Assessment

With downward revisions, manufacturing output now looks to have been flat since the second quarter of 1985. Figures for the latest two months, January and February, show a fall but it is too early to say whether this represents a change in trend or merely a short-term fluctuation.

The energy sector continues to look rather flat, with the result that on an underlying basis the output of the production industries in the three months to February is unchanged compared with the same period a year ago.

Bias Adjustment for Manufacturing Output

In line with the revised procedure introduced in January, figures of manufacturing output for the last six months include adjustments to try to allow for under-estimation in the provisional estimates (see Note 11 of Notes to Editors of Press Notice).

Revisions

Index numbers have been revised downwards, particularly for January, on receipt of later and more complete information. The revisions apply mainly to the manufacturing figures and have reduced the index of manufacturing output by almost ½ per cent in the fourth quarter of 1985 and by over 1½ per cent in January this year.

Figures for March

Figures for March are scheduled for publication on Thursday 15 May.

D C K STIRLING
16 April 1986

Central Statistical Office

Table A

Copy No.

++ PERSONAL AND CONFIDENTIAL until release of Press Notice at 11.30 am on April 17 1986 and thereafter unclassified ++

Index of output of the production industries 1980=100

SUMMARY	Total production industries	Energy and water supply	Total manufacturing industries	Metals	Other minerals and mineral products	Chemicals and man-made fibres	Engineering and allied industries	Food, drink and tobacco	Textiles, footwear, clothing and leather	Other manufacturing
1984	103.2	110.1	100.7	108.4	95.1	113.9	99.2	102.1	97.9	97.7
1985	107.9	120.1	103.6	112.9	94.2	118.2	103.9	101.8	101.8	98.5
1984 3	102.7	105.4	101.7	109.4	96.0	116.2	100.7	102.2	98.4	97.6
4	103.6	109.5	101.5	106.4	95.0	116.1	100.4	101.8	99.3	98.1
1985 1	106.4	115.9	103.0	110.2	92.4	119.0	103.7	101.7	99.6	97.5
2	108.4	121.0	103.8	115.9	94.2	119.6	104.7	100.9	100.3	97.5
3	108.4	121.4	103.7	114.7	94.0	118.4	103.3	101.4	103.3	100.0
4	108.6	121.9	103.8	111.0	96.2	115.9	103.8	103.2	103.9	98.9
1985 D	107.6	116.5	104.4	109	96	115	105	105	103	98
1986 J	108.3	124.0	102.6	109	96	116	102	102	102	99
F	110.1	128.9	103.3	112	95	114	102	104	104	100
Percentage change latest 3 months on: previous 3 months	-0.5	-1.3	-0.2	-2.0	+0.6	-1.7	-0.1	+1.5	-0.7	-0.4
a year earlier	+3.3	+8.9	+1.0	+1.8	+2.9	-2.9	+0.6	+1.9	+4.0	+1.4
1st quarter 1981(a)	+14.2	+20.8	+11.6	+11.0	+7.5	+19.3	+14.8	+4.4	+13.2	+6.0
1st half 1979(b)	+1.7	+24.8	-5.8	-15.5	-11.1	+6.0	-6.1	+3.9	-14.0	-10.8

DETAILED ANALYSIS	Coal and coke	Extraction of mineral oil and natural gas	Mineral oil processing	Other energy and water supply	Metals	Other minerals and mineral products	Chemicals	Man-made fibres	Metal goods not elsewhere specified
1984	33.8	147.1	98.5	95.8	108.4	95.1	114.9	78.8	100.9
1985	67.2	150.1	98.6	105.9	112.9	94.2	119.5	74.1	99.3
1984 3	23.7	144.3	98.4	89.9	109.4	96.0	117.3	79.3	102.6
4	27.6	151.8	99.3	90.1	106.4	95.0	117.3	76.8	99.2
1985 1	35.9	155.7	99.2	100.1	110.2	92.4	120.3	73.0	98.0
2	70.9	148.7	99.6	108.9	115.9	94.2	120.9	75.4	98.1
3	80.2	147.4	98.7	107.7	114.7	94.0	119.6	75.9	101.3
4	81.7	148.8	97.0	107.0	111.0	96.2	117.2	72.1	99.8
1985 D	81	138	97	107	109	96	117	68	100
1986 J	80	152	96	110	109	96	117	77	101
F	79	158	94	118	112	95	116	72	102
Percentage change latest 3 months on: previous 3 months	-2.1	-3.8	-1.1	+4.4	-2.0	+0.6	-1.6	-2.3	+0.1
a year earlier	+153.2	-3.6	-0.9	+16.6	+1.8	+2.9	-2.9	-0.8	+2.7
1st quarter 1981(a)	-17.9	+38.4	-0.5	+14.9	+11.0	+7.5	+20.4	-19.8	+14.0
1st half 1979(b)	-16.2	+58.9	-15.3	+6.2	-15.5	-11.1	+8.0	-47.6	-17.9

DETAILED ANALYSIS continued	Mechanical engineering	Electrical and instrument engineering	Motor vehicles and parts	Other transport equipment	Food	Drink and tobacco	Textiles	Clothing, footwear and leather	Paper, printing and publishing	All other manufacturing
1984	87.4	122.8	81.3	91.5	104.7	96.7	93.7	101.5	96.4	99.3
1985	92.4	130.9	86.4	93.3	104.9	95.4	98.3	104.8	98.3	98.6
1984 3	87.7	126.4	81.8	91.7	104.9	96.7	93.9	102.4	95.9	99.5
4	87.6	128.5	77.6	92.6	104.8	95.5	94.2	103.6	97.8	98.5
1985 1	90.9	131.0	86.6	96.6	104.5	95.8	96.8	102.0	97.3	97.8
2	94.4	130.4	87.6	96.7	103.4	95.6	96.2	103.9	97.3	97.7
3	90.8	129.7	89.1	90.2	105.1	93.8	99.5	106.6	99.3	100.9
4	93.5	132.3	82.4	89.8	106.6	96.3	100.6	106.7	99.5	98.1
1985 D	96	134	86	90	109	96	99	107	100	97
1986 J	97	121	80	93	107	93	99	105	98	99
F	99	120	78	94	108	97	103	105	100	100
Percentage change latest 3 months on: previous 3 months	+5.7	-4.7	-2.9	+2.3	+2.4	-0.8	-0.3	-0.9	-0.1	-0.8
a year earlier	+7.9	-3.9	-2.1	-3.2	+2.8	-	+4.8	+3.5	+2.1	+0.6
1st quarter 1981(a)	+11.1	+34.8	+6.2	-12.8	+9.6	-5.8	+10.9	+15.2	+4.8	+7.4
1st half 1979(b)	-11.8	+20.9	-33.8	-1.8	+8.3	-5.0	-19.6	-8.8	-7.0	-14.9

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

Personal numbered copies of the minute and attachment to:

Treasury	(Principal Private Secretary (Sir Peter Middleton
Cabinet Office	(Mr Jack Hibbert
Department of Trade and Industry	(Private Secretary Secretary of State's Office
	(Private Secretary to Mr Geoffrey Pattie
	(Private Secretary to Mr Peter Morrison
	(Private Secretary to Mr John Butcher
	(Sir Brian Hayes (Mr H Liesner
	(Mr Whiting (Mr Harvey (Mr Wright
Bank of England	(Mr R Leigh-Pemberton

From: SIR PETER MIDDLETON

Date: 17 April 1986

CHANCELLOR

cc Sir T Burns
Mr Evans
Mr Odling-Smee
Mr Scholar
Mr Melliss
Mr Riley
Mr Westaway

TREASURY WORKING PAPER ON FEEDBACK RULES AND CONSISTENT EXPECTATIONS

You asked in January for my views on this paper.

2. I have held this back until the Budget and the Lombard speech were out of the way. The danger was that it might be thought that feedback rules would be a more effective way of running policy than financial targets. It could be taken to signal the return to a fine tuning approach based on model relationships. Hence the need to avoid any risk at all over the Budget period and its immediate aftermath.

3. I think the risk involved in publication is now minimal. Your policy is clear. You are not likely to be pressed, except by Sam Brittan, to target money GDP directly. And he is unlikely to use this as ammunition if he comes across it, which is not very likely. What is more, it can be made clear, if necessary, that the paper is perfectly compatible with controlling money GDP by using expectations based on forward looking indicators. Indeed this point is made in paragraphs 64, 65 and 68. The money supply and the exchange rate are the prime examples of forward looking indicators. And no one can now be in any doubt that information on monetary conditions, rather than past movements of money GDP, determine current interest rate decisions.

4. I therefore recommend that you agree to publish this as a piece of experimental work by Mr Westaway in the usual very low key way. Some time towards the end of the month might be about right.

P E MIDDLETON

CONFIDENTIAL

FROM: S BROOKS
DATE: 17 APRIL 1986

Seen in draft

1. MR S J DAVIES
2. CHANCELLOR OF THE EXCHEQUER

cc: PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr F E R Butler
Mr F Cassell
Mr N Monck
Mr Kemp
Mr H P Evans
Mr Odling-Smee
Mr Scholar
Mr Culpin
Miss O'Mara
Mr Gilhooly
Mr Pickford
Mr Vernon
Mr Halligan
Mr P Davis
Mr Westwater
Mr H Davies
Mr Cropper

THE MARCH RPI (to be published at 11.30 a.m. on Friday 18 April)

The RPI increased by 0.1 per cent between February and March. The twelve month rate of inflation fell from 5.1 per cent in February to 4.2 per cent in March. This is a little better than we expected, and is the lowest figure since July 1983.

2. As anticipated petrol prices fell sharply between February and March, by about 8½ p per gallon. There were small price rises across a wide range of goods with some minor price reductions recorded in durable household goods and miscellaneous goods.

3. We expect the twelve month rate of inflation to be below 3½ per cent in April, probably around 3¼ per cent. In spite of the Budget duty increase reductions in the price of petrol are likely to have been recorded between the March and April survey dates, and most of the ¾ per cent drop in the mortgage rate announced after the Budget will show up in the April RPI (although this is partly offset by lower tax relief resulting from the cut in

the standard rate of income tax). The twelve month rate has not been below 3½ per cent since March 1968.

4. The twelve month rate is likely to stay below 3½ per cent for the next few months. This was anticipated at the time of the Budget forecast and is consistent with the Budget forecast of 3½ per cent in 1986Q4. It is likely that the recorded rate of inflation will be higher in the second half of 1986 than in the second quarter.

5. The RPI figures are a little better than the City is expecting. Wood MacKenzie, Phillips & Drew and Laing Cruickshank are all forecasting a twelve month rate of 4.4 per cent, while James Capel have 4.3 per cent.

Eric Brooks

S BROOKS
EA1 DIVISION
X 7946

n1asb-rpi

16/3341

Agreed oil
bf 23/4

From: MRS R LOMAX
Date: 21 April 1986

MR SCHOLAR

cc
Mr Culpin

ASSOCIATION OF ECONOMIC REPRESENTATIVES IN LONDON

Prompted by the Financial Secretary's recent speech on privatisation ("Britain's Privatisation Programme Sets World Example"), the Chancellor thinks there may be a strong case for talking about privatisation to the Association of Economic Representatives in London, rather than, as we thought, oil.

2. He has asked the three of us to confer, and to let him know our combined view. He may then want to talk to us.

RL.

MRS R LOMAX

CHANCELLOR OF THE EXCHEQUER

Note.

Asked John Fitton to produce his note today if at all possible.

RS 22/4.

SEAADG/SE

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 25 APRIL 1986 AT 11.30 AM

To:
MINISTER FOR TRADE

Copy No 3.... (23)

From:
P J STIBBARD
US/S2
Room V/258 215-5574

21 April 1986

C/ To note, especially X. Release will be this Friday at 11.30am. We will need to study press briefing carefully (Y is right, but we'll need more than that). RO 22/4

OVERSEAS TRADE FIGURES FOR MARCH

THE CURRENT ACCOUNT

In March exports were valued at £5733 million and imports of £6871 million so that visible trade, seasonally adjusted on a balance of payments basis, showed a deficit of £1138 million compared with a deficit of £338 million in February.

The Central Statistical Office project a surplus of £600 million for invisibles in March so that the current account is provisionally estimated to have been in deficit by £538 million.

X The March deficits on current account and on visible trade are the highest experienced since monthly records began in 1963, and they reflect record monthly deficits on manufactures and non-oil trade as a whole. Y Clearly in this month's press briefing it will be more necessary than usual to play down the significance on a single month's figure.

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

Seasonally adjusted
Balance of payments basis
£ million

	Current Account Balance	Visible Trade Balances Total	Oil	Non-oil	Invisibles Balance
1984	+ 880	-4391	+6937	-11328	+5270
1985	+2952	-2068	+8163	-10231	+5020
1985 Q4	+ 921	- 225	+1893	-2117	+1146
1986 Q1	+ 863A	-1337	+2079	-3415	+2200
1986 Jan	+1140A	+ 140	+ 997	- 858	+ 1000A
Feb	+ 262A	- 338	+ 685	-1023	+ 600A
Mar	- 538A	-1138	+ 397	-1535	+ 600A

A = Projection

In the first quarter of 1986, there was a deficit on visible trade of £1.3 billion - a surplus on trade in oil of £2.1 billion offset by a deficit of £3.4 billion on non-oil trade. Between the fourth quarter of last year and the first quarter of 1986, the deficit on

visible trade increased by £1.1 billion - the surplus on oil increased by £0.2 billion while the deficit on non-oil trade increased by £1.3 billion.

EXPORTS

The value of exports in March was £454 million (7½ per cent) lower than in February. Exports of oil fell by £360 million reflecting both lower prices and a fall in volume. In tonnage terms, deliveries of oil fell back from the high volumes recorded in January and February to a level similar to that prevailing during the latter half of 1985. The value of non-oil exports (excluding the erratic items) fell by £85 million (2 per cent) between February and March.

By value, exports fell by 4½ per cent between the fourth quarter of last year and the latest quarter. Exports to Western Europe fell by 6½ per cent and exports to North America by 1 per cent. Exports to the other developed countries increased by 2 per cent between the two quarters and deliveries to the developing countries also rose a little.

Table 2: EXPORT VOLUME INDEX NUMBERS: 1980 = 100 (Tables 4, 5 and 9 of Press Notice)

Seasonally adjusted

	BOP BASIS	OTS BASIS				
	Total Trade	Total exc oil and erratics	Basic Materials	Fuels	Manufactures exc erratics	
					Semis	Finished
1984	112.5	107.6	106.3	160.2	112.1	103.8
1985	118.6	115.0	107.0	170.9	118.9	113.7
1985 Q4	118.9	114.4	106	168	119	114
1986 Q1	117.3	111.2	113	184	115	109
1986 Jan	118.1	108.9	116	206	111	108
Feb	120.7	113.9	111	192	121	109
Mar	113.1	110.9	112	154	113	110

In the first quarter of 1986, export volume was 1½ per cent lower than in the fourth quarter of 1985 and 1 per cent lower than in the first quarter of 1985. Excluding oil and the erratic items, export volume fell by 3 per cent in the latest quarter. The gradual decline in the underlying level of non-oil export volume - which began in the middle of last year - has continued during the first quarter of 1986.

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 25 APRIL 1986 AT 11.30 AM

IMPORTS

The value of imports in March was £347 million (5½ per cent) higher than in February. Imports of the erratic items increased by £88 million while imports of oil fell by £71 million. Excluding oil and the erratic items, imports also rose by 5½ per cent between February and March.

By value, imports rose 1½ per cent between the fourth quarter of last year and the first quarter of 1986. Imports from the developed countries as a whole increased by 1½ per cent with arrivals from Western Europe up 3 per cent and imports from North America down by 4½ per cent. Imports from the other developed countries were unchanged in the latest three months while imports from the developing countries fell by 2 per cent.

Table 3: IMPORT VOLUME INDEX NUMBERS: 1980 = 100 (Tables 4 and 13 of Press Notice)

Seasonally adjusted

	BOP BASIS	OTS BASIS				
	Total Trade	Total exc oil and erratics	Basic Materials	Fuels	Manufactures exc erratics	
					Semis	Finished
1984	121.9	137.0	101.7	86.5	137.2	153.0
1985	125.7	142.6	102.2	85.0	143.9	161.5
1985 Q4	127.4	146.1	106	81	149	167
1986 Q1	125.4	144.3	105	68	148	159
1986 Jan	119.9	138.5	96	66	141	155
Feb	125.5	144.4	114	71	147	159
Mar	130.9	150.1	106	67	155	163

In the first quarter of 1986 total import volume was 1½ per cent lower than in the fourth quarter of 1985 and 1 per cent down on the first quarter of 1985. Excluding oil and the erratic items, import volume fell by 1 per cent in the first quarter of this year but there are signs that the underlying level of non-oil import volume may have risen a little in the latest few months.

TRADE IN MANUFACTURES

Estimates of trade in manufactures on a balance of payments basis for the first quarter of 1986 will be published with the March current account figures. There was a deficit of £1.4 billion on trade in manufactures in the first quarter of this year compared with a deficit of £0.6 billion in the fourth quarter of last year and a deficit of £1.1 billion in the first quarter of 1985.

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 25 APRIL 1986 AT 11.30 AM

Table 4: TRADE IN MANUFACTURES (SITC 5-8) (Table 16 of Press Notice, quarterly data only)

£ million
Seasonally adjusted
Balance of payments basis

	Exports	Imports	Balance
1984	46590	50469	- 3879
1985	52296	55313	- 3017
1985 Q4	13098	13653	- 555
1986 Q1	12694	14127	- 1433
1986 Jan	4106	4372	- 266
Feb	4325	4706	- 382
Mar	4263	5049	- 786

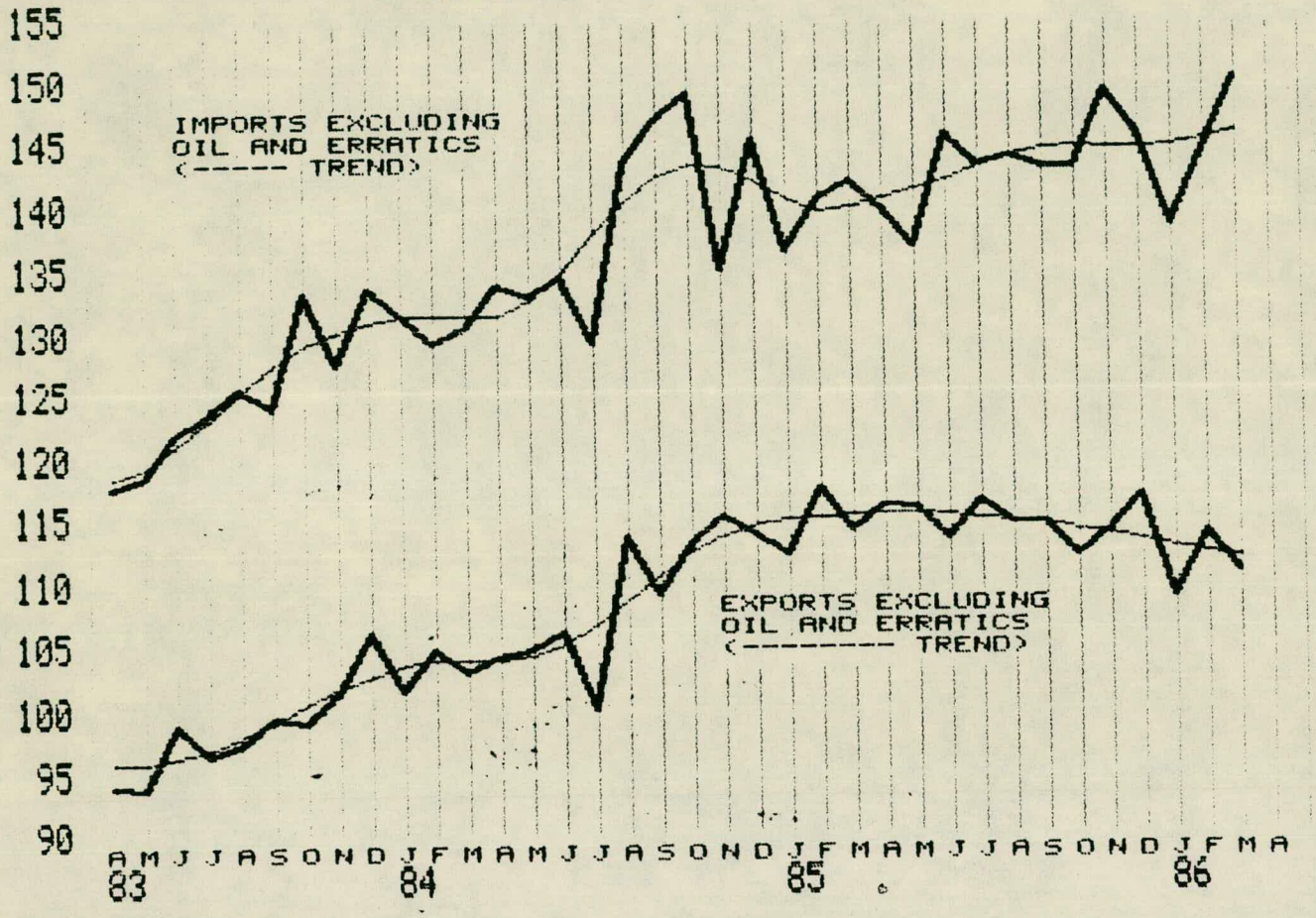
PUBLICATION

The release of the press notice containing the March figures is scheduled for Friday 25 April at 11.30am.

P J STIBBARD

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT 11.30AM 25.4.86

VOLUME INDICES



ON A BALANCE OF PAYMENTS BASIS 1980=100 SEASONALLY ADJUSTED

CIRCULATION LIST

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	2	Prime Minister
	3	Chancellor of the Exchequer
	4	Secretary of State for Trade and Industry
	5	Sir Robert Armstrong (Cabinet Office)
	6	Sir Brian Hayes (Dept of Trade and Industry)
	7	Sir Peter Middleton (HM Treasury)
	8	Governor of the Bank of England
	9	Chairman of the Board of HM Customs and Excise
	10	Mr J Hibbert (CSO)
	11	Mr Finlinson (HM Customs and Excise)
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	20	Mr E J Wright) Dept of Trade and Industry
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	23	Mr D B Packer)

COVERING SECRET AND PERSONAL

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Mrs R Lomax
Principal Private Secretary
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON
SW1P 3AG

22 April 1986

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

Publication is set for Friday 25 April at 11.30 am and I should be grateful if you would arrange for the Notice to be cleared by noon on Thursday 24 April 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

COVERING SECRET AND PERSONAL

REVISED DRAFT

COPY 3
No. (14)

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THE CURRENT ACCOUNT OF THE UNITED KINGDOM BALANCE OF PAYMENTS

MARCH 1986

The current account for March is estimated to have been in deficit by £538 million compared with a surplus of £262 million in February. In March exports were valued at £5733 million and imports at £6871 million so that trade in goods was in deficit by £1138 million.

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

FIRST QUARTER 1986

In the first quarter of 1986, the current account showed a surplus of £0.9 billion - roughly the same as in the previous quarter. There was a deficit on visible trade of £1.3 billion in the latest quarter compared with a deficit of £0.2 billion in the previous quarter. The surplus on invisibles is projected at £2.2 billion, compared with an estimate of £1.1 billion for the previous quarter.

CURRENT ACCOUNT

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

		Current Balance	Visible Trade			Invisibles Balance [b]
			Balance	Exports fob	Imports fob	
1984		+ 880	- 4391	70367	74758	+ 5270
1985		+ 2952	- 2068	78072	80140	+ 5020
1985	Q1	- 374	- 1266	20070	21336	+ 892
	Q2	+ 1333	- 124	20237	20361	+ 1457
	Q3	+ 1072	- 453	18748	19201	+ 1525
	Q4	+ 921	- 225	19018	19242	+ 1146
1986	Q1	+ 863 a	- 1337	18174	19511	+ 2200 a
1985	Oct	+ 334	+ 7	6329	6323	+ 327
	Nov	+ 112	- 214	6301	6515	+ 326
	Dec	+ 475	- 18	6387	6405	+ 493
1986	Jan	+ 1140 a	+ 140	6255	6116	+ 1000 a
	Feb	+ 262 a	- 338	6186	6524	+ 600 a
	Mar	- 538 a	- 1138	5733	6871	+ 600 a

a Invisibles for the first quarter 1986 are projections and subject to revision as information becomes available.

b Monthly figures are one-third of the appropriate calendar quarter's estimate of projection, except for VAT abatements received from the European Community which are allocated to the month they are known to have been received. Information relating to credits and debits can be found in Table 3.

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VISIBLE TRADE IN MARCH 1986

There was a deficit on visible trade in March of £1138 million compared with a deficit of £338 million in February. The surplus on oil fell by £289 million while the deficit on non-oil trade increased by £512 million.

At £5733 million, exports in March were £454 million (7½ per cent) lower than in February. Exports of oil fell by £360 million reflecting both lower prices and a fall in tonnage exported. The fall in tonnage reflected a return to the level of deliveries prevailing during the latter half of 1985, following the high volumes recorded in January and February. The value of non-oil exports (excluding the erratic items) fell by £85 million in March - the result of falls in semi-manufactures and in food and basic materials. Exports of finished manufactures increased by 1½ per cent.

Total imports were valued at £6871 million in March, which was £347 million (5½ per cent) higher than in February. Imports of the erratic items increased by £88 million while imports of oil fell by £71 million. Excluding these items, imports also rose by 5½ per cent between the two months. With the exception of basic materials and fuels, all of the broad commodity sectors recorded an increase in March.

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RECENT TRENDS

Visible balance

In the first quarter of 1986 there was a deficit on visible trade of £1.3 billion -a surplus on trade in oil of £2.1 billion offset by a deficit on non-oil trade of £3.4 billion. Between the fourth quarter of last year and the latest quarter, the deficit on visible trade increased by £1.1 billion - the surplus on oil increased by £0.2 billion while the deficit on non-oil trade increased by £1.3 billion.

Exports

Exports amounted to £18.2 billion in the latest quarter, £0.8 billion (4½ per cent) lower than in the previous quarter. Exports of oil fell by £0.4 billion and exports of the erratic items by £0.2 billion. Non-oil exports, excluding the erratic items fell by £0.2 billion (1½ per cent).

Between the latest two quarters, total export volume fell by 1½ per cent to a level 1 per cent lower than a year earlier. Excluding oil and the erratic items export volume was down 3 per cent in the latest quarter. The underlying level of non-oil export volume has fallen in recent months.

Imports

Total imports were valued at £19.5 billion in the first quarter, £0.3 billion (1½ per cent) higher than in the fourth quarter of last year. Imports of oil fell by £0.6 billion. Imports of the erratic items increased by £0.3 billion between the two quarters

so that non-oil imports, excluding the erratic items, increased by £0.6 billion (3½ per cent). Higher arrivals of food, beverages and tobacco products (up by £0.3 billion) and of chemicals and motor cars (both up by £0.1 billion) account for most of the increase.

Total import volume fell by 1½ per cent between the fourth quarter of last year and the latest quarter to a level 1 per cent down on the first quarter of 1985. Excluding oil and the erratic items, import volume fell by 1 per cent in the latest quarter. The underlying level of non-oil import volume has increased since the beginning of 1985 but there appears to have been little change over the past few months.

Terms of trade and unit values

The terms of trade index fell by ½ per cent in the first quarter; the result of a 1 per cent fall in the export unit value index and a ½ per cent fall in the import unit value index. Compared with the same period a year ago, the export unit value index has fallen by 5 per cent and the import unit value index by 9½ per cent. As a result, the terms of trade index is now 5 per cent higher than a year ago.

Export unit values for fuels fell by 19 per cent and those for basic materials fell by 1½ per cent between the fourth quarter of 1985 and the first quarter of this year. All of the other broad sectors showed an increase in export unit values in the latest quarter - chemicals (up 3½ per cent) recorded the largest increase.

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Among the import unit values, those for fuels fell by 15 per cent in the first quarter. Import unit values for basic materials were marginally down in the first quarter and those for chemicals were unchanged. Elsewhere however import unit values increased between the fourth quarter of 1985 and the latest quarter.

Analysis by area

By value, exports to the developed countries fell by 4½ per cent in the first quarter of this year. Exports to the European Community fell by 7 per cent and exports to North America were 1 per cent down on the previous quarter. Exports to the other developed countries increased by 2 per cent between the two quarters and deliveries to the developing countries also rose a little.

Imports from the developed countries increased by 1½ per cent between the latest two quarters. Within the total, imports from the European Community grew by 2½ per cent while imports from North America were down by 4½ per cent. Imports from the other developed countries were unchanged in the latest quarter and those from the developing countries were reduced by 2 per cent.

NOTES TO EDITORS

1 SPAIN/PORTUGAL

Spain and Portugal are now members of the European Community. In this press notice all references to the EC includes these two countries.

2 STANDARD NOTES

The standard notes describe the differences between the Balance of Payments (BOP) and the ~~0 Trade verseas~~ Overseas Trade Statistics (OTS) bases of compilation. Copies can be obtained from the address below. ~~2 3 AREA~~

3 AREA DATA (tables 11 and 15)

Low value consignments ie items of an individual value less than £475, are not analysed by country. Area figures in tables 11 and 15 are therefore deficient to the extent of these consignments.

In addition the data by area are seasonally adjusted independently leading to further differences between the sum of areas and figures for total trade.

4 MONTHLY REVIEW OF EXTERNAL TRADE STATISTICS

THE MONTHLY REVIEW SUPPLEMENTS THE INFORMATION CONTAINED IN THIS PRESS NOTICE. IT GIVES LONGER HISTORICAL RUNS OF DATA AND CONTAINS CHARTS, TABLES ON THE UK BALANCE OF PAYMENTS, UK EXPORTS AND IMPORTS ON AN OVERSEAS TRADE STATISTICS BASIS, AND CERTAIN INTERNATIONAL COMPARISIONS. THE MONTHLY REVIEW IS AVAILABLE FROM THE DEPARTMENT OF TRADE AND INDUSTRY, AT THE ADDRESS GIVEN BELOW FOR AN ANNUAL SUBSCRIPTION OF £36, OR £3 PER COPY.

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

INDEX OF TABLES

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

£ million seasonally adjusted

		Current Balance	Visible Trade					Invisible Balance b
			Exports fob	Imports fob	Visible Balance	of which Oil	of which Non-Oil	
1984		+ 880	70367	74758	- 4391	+ 6937	- 11328	+ 5270
1985		+ 2952	78072	80140	- 2068	+ 8163	- 10231	+ 5020
1985	Q1	- 374	20070	21336	- 1266	+ 1958	- 3225	+ 892
	Q2	+ 1333	20237	20361	- 124	+ 2411	- 2535	+ 1457
	Q3	+ 1072	18748	19201	- 453	+ 1900	- 2353	+ 1525
	Q4	+ 921	19018	19242	- 225	+ 1893	- 2117	+ 1146
1986	Q1	+ 863 a	18174	19511	- 1337	+ 2079	- 3415	+ 2200 a
1985	July	+ 309	6401	6600	- 199	+ 585	- 784	+ 508 b
	August	+ 342	6105	6272	- 167	+ 653	- 820	+ 509 b
	Sept	+ 421	6242	6328	- 87	+ 662	- 749	+ 508 b
	Oct	+ 334	6329	6323	+ 7	+ 754	- 747	+ 327 b
	Nov	+ 112	6301	6515	- 214	+ 649	- 862	+ 326 b
	Dec	+ 475	6387	6405	- 18	+ 491	- 508	+ 493 b
1986	Jan	+ 1140 a	6255	6116	+ 140	+ 997	- 858	+ 1000 a
	Feb	+ 262 a	6186	6524	- 338	+ 685	- 1023	+ 600 a
	Mar	- 538 a	5733	6871	- 1138	+ 397	- 1535	+ 600 a
% Change Latest 3 months on - previous 3 months			- 4½	+ 1½				
Same 3 months one year ago			- 9½	- 8½				

a Invisibles for the first quarter 1986 are projections and subject to revision as more information becomes available. VAT abatements received from the EC in January have been included in the projections for that months.

b Monthly figures are one third of the appropriate quarters estimate or projection except for VAT abatements received from the Community which are allocated to the month they are known to have been received.

Table 3

INVISIBLES

£ million seasonally adjusted

		All Sectors						Private Sector and Public Corporations d		
		Credits	Debits	Balance	of which Services	of which Interest Profits Dividends	of which Transfers	Credits	Debits	Balance
1983		65225	61226	+ 3999	+ 3671	+ 2468	- 2140	60614	52374	+ 8240
1984		76491	71221	+ 5270	+ 4225	+ 3342	- 2297	71603	61623	+ 9980
1985		80027	75007	+ 5020	+ 6291	+ 2294	- 3565	75512	64138	+ 11374
1984	Q1	17533	16488	+ 1045	+ 1041	+ 529	- [illegible]	16286	14134	+ 2152
1984	Q2	17921	16824	+ 1097	+ 983	+ 862	- 748	16904	14448	+ 2456
	Q3	19483	18178	+ 1305	+ 1145	+ 891	- 731	18497	15832	+ 2665
	Q4	21554	19731	+ 1823	+ 1056	+ 1060	- 293	19916	17209	+ 2707
1985	Q1	21394	20502	+ 892	+ 1220	+ 712	- 1040	20214	17591	+ 2623
	Q2	20163	18706	+ 1457	+ 1662	+ 501	- 706	19152	16306	+ 2846
	Q3	19356	17831	+ 1525	+ 1729	+ 715	- 919	18175	14976	+ 3199
	Q4	19114	17968	+ 1146	+ 1680	+ 366	- 900	17971	15265	+ 2706

d ie excluding general Government transactions and all transfers.

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EXPORT AND IMPORT UNIT VALUE AND VOLUME INDEX NUMBERS

Table 4

(Balance of Payments basis)

Indices 1980 = 100

		Unit Value (Not seasonally adjusted)			Volume (seasonally adjusted)	
		Exports	Imports	Terms of Trade[e]	Exports	Imports
1984		136.0	139.7	97.4	112.5	121.9
1985		143.5	145.2	98.8	118.6	125.7
1985	Q1	146.4	152.3	96.1	118.6	126.6
	Q2	145.5	148.8	97.8	120.5	124.8
	Q3	141.7	141.4	100.2	116.3	124.1
	Q4	140.5	138.3	101.6	118.9	127.4
1986	Q1	139.0	137.7	101.0	117.3	125.4
1985	July	142.2	143.5	99.1	117.9	126.1
	Aug	141.4	140.3	100.8	114.4	122.7
	Sept	141.4	140.5	100.6	116.7	123.6
	Oct	140.5	139.1	101.0	118.8	125.0
	Nov	140.4	137.6	102.1	118.5	129.6
	Dec	140.5	138.2	101.7	119.4	127.8
1985	Jan	140.8	138.4	101.7	118.1	119.9
	Feb	138.8	137.9	100.6	120.7	125.5
	Mar	137.5	136.7	100.6	113.1	130.9
% Change Latest 3 months on						
- previous 3 months		- 1	- ½	- ½	- 1½	- 1½
- same 3 months one year ago		- 5	- 9½	+ 5	- 1	- 1

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

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

Table 5

(Balance of Payments basis)

seasonally adjusted

		Value £ million fob		Volume Index 1980 = 100	
		Exports	Imports	Exports	Imports
1984		65746	71197	115.4	128.8
1985		73765	76598	123.0	133.4
1985	Q1	19171	20233	124.3	133.2
	Q2	18948	19326	124.1	131.4
	Q3	17835	18439	121.5	132.4
	Q4	17811	18599	122.2	136.5
1986	Q1	17150	18584	121.7	132.6
1985	July	6007	6227	121.7	132.6
	Aug	5928	6132	121.5	132.8
	Sept	5899	6081	121.4	131.9
	Oct	5921	6073	122.1	133.2
	Nov	5898	6293	121.8	138.7
	Dec	5993	6234	122.9	137.6
1986	Jan	5924	5864	122.9	127.2
	Feb	5836	6230	125.2	133.2
	Mar	5391	6490	116.9	137.4
% Change Latest 3 months on					
- previous 3 months		- 3½	-	- ½	- 3
- same 3 months one year ago		- 11	- 8	- 2	- ½

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

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

seasonally adjusted

		Balance of Trade in oil	Exports of Oil					Imports of Oil					
			Total	Crude Oil [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
1984		+ 6937	14852	12173	75.9	160.4	2679	7915	3751	25.0	150.1	4163
1985		+ 8163	16050	12921	79.0	163.5	3128	7887	4155	26.1	159.0	3732
1985	Q1	+ 1958	4721	3923	21.5	182.3	798	2763	1211	6.9	176.5	1552
	Q2	+ 2411	4336	3499	20.1	174.0	837	1925	1078	6.5	165.6	847
	Q3	+ 1900	3410	2599	17.5	148.4	810	1509	816	5.6	145.4	694
	Q4	+ 1893	3583	2900	19.9	145.9	683	1690	1050	7.2	146.9	640
1986	Q1	+ 2079	3144	2549	23.0	110.7	595	1066	621	5.7	108.6	444
1985	July	+ 585	1124	808	5.3	152.1	316	539	270	1.8	150.8	269
	Aug	+ 653	1143	852	5.8	148.2	290	490	275	1.9	141.6	215
	Sept	+ 662	1143	939	6.5	145.6	204	481	271	1.9	144.1	210
	Oct	+ 754	1277	1050	7.2	145.8	227	523	291	2.0	143.9	233
	Nov	+ 649	1180	974	6.7	145.8	207	532	327	2.2	150.6	205
	Dec	+ 491	1126	876	6.0	146.1	249	635	433	3.0	146.2	202
1986	Jan	+ 997	1390	1146	8.3	138.4	244	393	249	1.8	137.4	144
	Feb	+ 685	1057	869	8.3	104.3	188	372	229	2.2	102.3	143
	Mar	+ 397	697	534	6.4	83.1	164	301	143	1.7	85.8	157
% Change Latest 3 months on - previous 3 months		- 12	- 12	+ 16		- 24	- 13	- 37	- 41	- 20		- 26	- 31
- same 3 months one year ago		- 33	- 35	+ 7		- 39	- 25	- 61	- 49	- 17		- 38	- 71

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

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

		Total								Excluding Erratics[f]			
		Value, £ million, fob (seasonally adjusted)			Unit value index 1980 = 100 (not seasonally adjusted)			Volume index 1980 = 100 (seasonally adjusted)		Value, £ million fob (seasonally adjusted)		Volume index 1980 = 100 (seasonally adjusted)	
		Balance of non oil trade	Exports	Imports	Exports	Imports	Terms of Trade[e]	Exports	Imports	Exports	Imports	Exports	Imports
1984		- 11328	55515	66843	133.5	136.2	98.0	105.1	128.2	50894	63282	107.6	137.0
1985		- 10231	62022	72253	141.8	141.9	99.9	110.6	132.9	57715	68711	115.0	142.6
1985	Q1	- 3225	15349	18573	142.2	147.1	96.7	109.2	131.6	14450	17470	114.8	139.8
	Q2	- 2535	15901	18436	142.8	144.7	98.7	112.1	132.4	14612	17401	115.3	140.9
	Q3	- 2353	15338	17691	141.6	139.3	101.7	110.0	132.9	14425	16930	115.4	143.6
	Q4	- 2117	15435	17552	140.6	136.5	103.0	111.3	134.7	14229	16909	114.4	146.1
1986	Q1	- 3415	15030	18445	143.0	140.1	102.1	107.2	134.8	14006	17519	111.2	144.3
1985	July	- 784	5277	6062	141.7	140.8	100.6	112.7	134.7	4884	5688	116.6	143.4
	Aug	- 820	4962	5783	141.6	138.5	102.2	107.3	131.4	4786	5642	114.9	144.1
	Sept	- 749	5099	5847	141.5	138.5	102.2	109.9	132.5	4756	5599	114.8	143.2
	Oct	- 747	5052	5799	140.7	137.3	102.4	109.4	132.7	4644	5550	112.3	143.2
	Nov	- 862	5121	5983	140.6	135.8	103.5	111.1	137.8	4717	5761	114.1	149.3
	Dec	- 508	5262	5770	140.6	136.3	103.2	113.5	133.6	4867	5599	116.9	145.7
1986	Jan	- 858	4865	5723	141.9	137.5	103.2	104.7	128.9	4534	5471	108.9	138.5
	Feb	- 1023	5129	6152	143.0	140.7	101.7	109.8	134.4	4778	5858	113.9	144.4
	Mar	- 1535	5036	6570	144.2	142.0	101.5	107.1	141.3	4694	6189	110.9	150.1
% Change Latest 3 months on - previous 3 months			- 2½	+ 5	+ 1½	+ 2½	- 1	- 3½	-	- 1½	+ 3½	- 3	- 1
- same 3 months one year ago			- 2	- ½	+ ½	- 5	+ 5½	- 2	+ 2½	- 3	+ ½	- 3	+ 3

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

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

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EXPORTS BY COMMODITY

(Overseas Trade Statistics basis)

Table 8

£ million, fob, seasonally adjuste

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capit[j]
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	j	j	j	j
1984	70488	4693	1989	15308	46703	42169	16333	8217	8116	25835	1050	4673	11199	8912
1985	78331	4970	2145	16712	52514	48482	18449	9411	9038	30033	1343	5257	13493	9940
1985 Q1	20148	1192	579	4892	13035	12181	4692	2384	2307	7489	338	1292	3330	2529
Q2	20258	1284	529	4513	13436	12248	4704	2402	2303	7544	340	1304	3350	2550
Q3	18828	1300	531	3600	12879	12020	4532	2285	2246	7489	336	1342	3394	2416
Q4	19097	1193	506	3708	13164	12033	4522	2340	2182	7512	329	1319	3418	2445
1986 Q1	18257	1206	511	3297	12766	11807	4418	2293	2125	7389	293	1297	3346	2452
1986 Jan	6297	370	174	1453	4145	3817	1414	736	677	2404	101	415	1073	814
Feb	6205	436	173	1106	4340	4021	1547	817	730	2474	104	445	1124	802
Mar	5755	400	165	739	4281	3968	1457	740	717	2511	88	438	1149	836
Percentage Change	-4½	+1	+1	-11	-3	-2	-2½	-2	-2½	-1½	-11	-1½	-2	+½

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

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

EXPORTS BY COMMODITY: VOLUME INDICES

(Overseas Trade Statistics basis)

Table 9

INDICES 1980 = 100, seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capit[j]
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	j	j	j	j
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1984	112.8	117.2	106.3	160.2	104.4	107.0	112.1	124.3	102.3	103.8	82.4	107.8	105.4	102.(
1985	119.3	119.1	107.0	170.9	110.8	115.7	118.9	133.3	107.5	113.7	99.4	111.6	121.4	107.(
1985 Q1	119.4	118	110	180	110	116	120	134	109	113	99	109	120	110
Q2	121.0	122	102	176	112	116	120	133	109	114	100	111	120	109
Q3	117.1	123	110	161	109	115	117	130	107	114	102	114	123	105
Q4	119.7	114	106	168	112	116	119	136	105	114	97	112	123	106
1986 Q1	118.0	117	113	184	107	111	115	131	102	109	87	108	117	103
1986 Jan	119.0	107	116	207	105	109	111	128	98	108	90	102	114	105
Feb	121.2	129	112	192	109	114	121	140	105	110	93	112	118	103
Mar	113.7	113	112	154	107	111	113	124	104	110	79	108	119	104
Percentage Change	-1½	+2½	+7	+10	-5	-4	-3½	-4	-2½	-4½	-10	-4	-5	-3

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

j 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

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 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	j	j	j	j
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1984	136.0	128	131	152	135	133	127	130	125	137	157	135	140	132
1985	143.4	134	140	155	143	142	135	139	132	147	162	147	150	141
1985 Q1	146.3	132	146	173	143	141	135	139	132	145	161	146	148	139
Q2	145.4	134	146	163	144	143	136	141	133	147	162	147	150	142
Q3	141.6	134	136	142	143	143	135	140	132	147	162	148	151	141
Q4	140.4	134	130	140	142	142	134	137	131	148	163	149	151	141
1986 Q1	138.9	136	128	114	145	145	137	142	133	150	166	153	153	144
1986 Jan	140.6	134	128	134	143	144	136	140	133	149	164	151	152	142
Feb	138.6	136	128	112	145	145	137	141	133	150	164	153	152	144
Mar	137.4	138	129	95	146	147	138	144	133	152	170	156	155	145
Percentage Change	- 1	+ 1½	- 1½	- 19	+ 2	+ 2	+ 2½	+ 3½	+ 2	+ 2	+ 2	+ 3	+ 1½	+ 2

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

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

EXPORTS BY AREA
(Overseas Trade Statistics basis)

Table 11

£ million, fob, seasonally adjuste

		Developed Countries						Developing Countries			Centrally
	Total[K]	Total	European Community	Rest of W Europe	North America Total	North America USA	Other	Total	Oil exporting countries	Other	planned economie
1984	70488	55364	33127	7132	11416	10159	3688	13356	5806	7550	1630
1985	78331	62722	38200	7420	13310	11499	3792	13880	5957	7924	1587
1985 Q1	20148	15940	9992	1779	3179	2817	990	3758	1682	2077	389
Q2	20258	16210	9537	2034	3667	3189	972	3606	1510	2096	420
Q3	18828	15203	9312	1790	3182	2715	919	3314	1408	1906	386
Q4	19097	15369	9359	1817	3282	2778	910	3202	1357	1845	392
1986 Q1	18257	14652	8689	1779	3254	2784	930	3241	1405	1837	442
1986 Jan	6297	5025	2970	610	1173	985	272	1099	486	613	143
Feb	6205	5053	2971	608	1120	968	354	1036	432	604	174
Mar	5755	4575	2748	561	961	831	304	1106	486	620	125
Percentage Change	- 4½	- 4½	- 7	- 2	- 1	-	+ 2	+ 1	+ 3½	- ½	+ 13

K See paragraph 3 of Notes to Editors.

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IMPORTS BY COMMODITY
(Overseas Trade Statistics basis)

Table 12

£ million cif seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 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	j	j	j	j
1984	78967	8933	5418	10334	53011	49708	17930	6322	11608	31778	3670	8346	10218	9543
1985	84790	9274	5389	10517	58288	54953	19619	6903	12716	35334	4165	8887	11623	10659
1985 Q1	22565	2354	1468	3546	14844	13806	4817	1674	3143	8989	1014	2243	2975	2757
Q2	21548	2352	1366	2656	14848	13842	4920	1792	3128	8922	1116	2219	2928	2659
Q3	20321	2311	1312	2138	14250	13508	4913	1729	3184	8595	988	2189	2838	2581
Q4	20356	2256	1243	2178	14346	13798	4970	1708	3262	8829	1047	2237	2882	2662
1986 Q1	20607	2507	1225	1662	14839	14002	5024	1809	3215	8978	1152	2281	2881	2665
1986 Jan	6487	791	374	586	4621	4376	1579	583	996	2797	349	714	903	831
Feb	6912	809	437	576	4964	4683	1671	599	1073	3011	368	772	967	905
Mar	7207	907	414	500	5255	4943	1773	627	1146	3170	435	795	1011	929
Percentage Change	+ 1	+ 11	- 1½	— 24	+ 3½	+ 1½	+ 1	+ 6	- 1½	+ 1½	+ 10	+ 2	-	-

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

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

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

Table 13

INDICES 1980 = 100 seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 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	j	j	j	j
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94
1984	120.2	112.3	101.7	86.5	134.1	146.7	137.2	164.5	125.9	153.0	119.9	139.6	161.4	172.9
1985	124.3	113.6	102.2	85.0	140.7	154.5	143.9	176.2	130.6	161.5	127.9	139.6	172.8	187.2
1985 Q1	125.1	111	102	102	139	151	139	168	126	159	123	135	171	189
Q2	123.3	112	98	82	141	153	142	180	126	160	139	137	170	184
Q3	122.8	116	103	75	140	154	147	180	133	159	125	139	171	184
Q4	126.0	115	106	81	143	160	149	177	137	167	124	147	180	192
1986 Q1	124.2	126	105	68	141	155	148	183	133	159	130	145	171	175
1986 Jan	119.2	120	96	66	136	149	141	177	126	155	122	140	165	174
Feb	124.6	123	114	71	141	154	148	183	133	159	125	147	171	175
Mar	128.7	136	106	67	146	160	155	190	141	163	143	148	176	177
Percentage Change	- 1½	+ 10	- 1	- 16	- 1½	- 3½	- 1	+ 3½	- 3	- 5	+ 4½	- 1½	- 5	- 9

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

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

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

INDICES 1980 = 100 not seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 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	j	j	j	j
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94
1984	138.0	132	133	168	134	133	126	134	123	137	144	135	145	129
1985	143.1	137	130	172	141	141	134	143	130	146	152	147	155	134
1985 Q1	150.3	142	143	191	146	144	136	146	132	150	154	151	158	138
Q2	146.7	141	136	181	144	143	136	144	133	148	150	147	159	136
Q3	139.2	135	124	161	139	139	132	141	128	144	149	145	154	131
Q4	136.3	132	116	155	137	138	131	140	127	143	156	143	148	131
1986 Q1	135.6	134	116	132	140	142	132	141	129	148	165	145	152	138
1986 Jan	136.1	133	115	153	137	138	130	139	127	144	160	141	149	133
Feb	135.9	135	116	131	141	142	133	141	129	149	166	145	153	140
Mar	134.7	135	116	113	143	144	133	142	130	151	171	148	155	142
Percentage Change	- ½	+ 2	- ½	- 15	+ 2	+ 2½	+ 1	-	+ 1½	+ 3½	+ 6	+ 1	+ 3	+ 6

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

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

IMPORTS BY AREA
(Overseas Trade Statistics basis)

Table 15

£ million cif seasonally adjusted

		Developed Countries						Developing Countries			Centrally
	Total K	Total	European Community	Rest of W Europe	North America Total	USA	Other	Total	Oil exporting countries	Other	planned economies
1984	78967	65279	37408	11184	11067	9368	5620	11514	2934	8579	2043
1985	84790	71520	41413	12025	11703	9920	6379	11233	2782	8451	1894
1985 Q1	22565	18709	10596	2940	3600	3074	1573	3296	812	2484	558
Q2	21548	17957	10271	3060	3044	2602	1582	2984	851	2133	441
Q3	20321	17293	10096	3083	2546	2166	1569	2499	499	2000	485
Q4	20356	17561	10451	2942	2512	2078	1655	2454	620	1834	410
1986 Q1	20607	17817	10695	3070	2395	2007	1657	2401	495	1906	424
1986 Jan	6487	5535	3374	897	773	641	491	812	204	608	142
Feb	6912	5968	3512	1078	774	650	604	770	155	615	134
Mar	7207	6313	3809	1095	848	7186	562	819	136	683	147
Percentage Change	+ 1	+ 1½	+ 2½	+ 4½	- 4½	- 3½	-	- 2	- 20	+ 4	+ 3½

K See paragraph 3 Notes to Editors.

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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
1984	4672	8196	- 3524	2014	4864	- 2850	15308	9917	+ 5391
1985	4936	8481	- 3545	2161	4789	- 2628	16712	10094	+ 6618
1984 Q2	1175	2037	- 862	493	1174	- 681	3520	2355	+ 1165
Q3	1142	2073	- 932	519	1192	- 673	3840	2507	+ 1333
Q4	1218	2126	- 908	563	1349	- 786	4180	3297	+ 883
1985 Q1	1186	2155	- 969	585	1315	- 731	4892	3387	+ 1505
Q2	1276	2153	- 877	533	1226	- 693	4513	2548	+ 1965
Q3	1290	2122	- 832	534	1162	- 628	3600	2067	+ 1533
Q4	1185	2052	- 867	509	1086	- 577	3708	2092	+ 1616
1986 Q1	1198	2340	- 1142	515	1088	- 573	3297	1574	+ 1723

	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
1984	18266	18410	- 144	28324	32059	- 3735	46590	50469	- 3879
1985	20042	19978	+ 65	32254	35335	- 3081	52296	55313	- 3017
1984 Q2	4502	4439	+ 62	6717	7775	- 1058	11218	12214	- 996
Q3	4558	4684	- 127	7126	8336	- 1210	11684	13021	- 1337
Q4	4960	4890	+ 69	7797	8771	- 974	12757	13662	- 905
1985 Q1	5017	4836	+ 182	7946	9263	- 1316	12963	14098	- 1135
Q2	5201	5050	+ 151	8223	9025	- 803	13423	14075	- 652
Q3	4852	5126	- 274	7960	8361	- 402	12812	13487	- 675
Q4	4973	4967	+ 5	8125	8686	- 560	13098	13653	- 555
1986 Q1	4812	5281	- 470	7882	8846	- 963	12694	14127	- 1433

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

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