

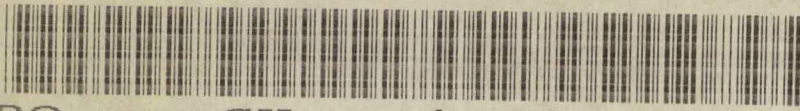
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PART F

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Lawson

PART F

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PO -CH /NL/0143



PART F

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(RPI)

DD: 25 years

Begin: ~~1/12/86~~ 7/10/86 *[Signature]* 5/9/95

Ends: ~~3/12/86~~ 4/12/86 (CONTINUED)

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

PO -CH /NL/0143

PART F

Nghal
See attached
AA

How v. impressive reflection on J. Camp Press Aff.

psp

FROM: G HACCHE
DATE: 7 OCTOBER 1986

- 1. MISS O'MARA
- 2. CHANCELLOR

mom 7/10

Don't let me see press comm (if ...)

cc
Mr Culpin
Mr S Davies
Mr Shaw
Mr MacAuslan
HE/06

THE MONTHLY UNEMPLOYMENT FIGURES AND COMPARISONS WITH ESTIMATES FROM THE LABOUR FORCE SURVEY

The Employment Gazette, to be published on 8 October, will include an article giving the latest annual comparison of the monthly claimant count with results from the 1985 Labour Force Survey (now final). Some of the material, though familiar to you from internal briefing (Mr Vernon's notes of 21 and 23 April), has not been published before and could attract press attention.

2. The major new results to be published are given below:

(i) Change in unemployment 1981-85

Between 1981 and 1985 the claimant count increased by some 900,000 while the labour force measure of unemployment increased by only about 1/3 million. About half the divergence of over 1/2 million occurred between 1984 and 1985 when the labour force measure of unemployment decreased by about 100,000 but the claimant count increased by 160,000. You will recall that the LFS defines the unemployed as those without jobs and seeking work, while the official count is based on the number of claimants at Unemployment Benefit Offices. The 1984-85 divergence of some 260,000 between the LFS and the official count can then be explained in terms of an increase of 140,000 claimants not actively seeking work and a decrease of 120,000 non claimant jobseekers.

(ii) Analysis of inactive claimants/claimants classed as employed

You will remember that the Labour Force Survey indicated that there were 1.1 million claimants who were either not actively seeking work (880,000) or had a paid job (200,000).

Analysis of the inactive claimants shows that the largest proportion (26 per cent) were not looking for work because they believed no jobs were available. Government critics may seize on this point. However, a far larger proportion in total (51 per cent) were not looking for work because they were looking after their family or home, were long term sick or disabled or retired (Table 1 overleaf).

The article notes that the number of claimants also in a paid job is not necessarily an indication of activity of claimants in the 'black economy'. Some people may legitimately claim benefits while receiving low earnings from part-time work. However, about a fifth of the claimants classed as employed said they had done more than 30 hours paid work in the reference period, though DE say this figure is likely to be affected by respondents replying incorrectly.

(iii) Unemployed rates

Table 2 below, drawn from the article, shows the unemployment rates on five separate definitions. This reveals that the official unemployment rate as currently calculated (definition 3) is by no means the lowest possible figure.

Table 2: Alternative unemployment rates

	<u>Great Britain</u>	<u>Spring 1985</u>	<u>per cent Definition of unemployment</u>
1. Labour force measure of unemployment (as percentage of labour force)		10.6	Those who in week preceding their survey interview were without jobs and seeking work.
2. Broad ILO measure of unemployment (as a percentage of corresponding measure of labour force) using 1985 LFS		11.1	Those who said they were available for work in next fortnight and seeking work during past four weeks.
3. Claimant count as percentage of working population (new wider base) ¹		11.6) Claimants of benefits at) Unemployment Benefit Offices) on day of count.)
4. Claimant count as percentage of unemployed plus employees only (traditional narrow base)		13.0)))
5. OECD standardised rate (UK, seasonally adjusted) ²		13.0	Conceptually same as 2. But based on out of date information and currently being reviewed. Likely to be revised downwards.

TABLE 1 Economically inactive claimants by reason for not seeking work

Great Britain: Spring 1985

Main reason stated for not seeking work	Number (millions)			Percent of all inactive claimants		
	Males	Females	All	Males	Females	All
Believed no jobs available	0.19	0.04	0.23	36	12	26
Long term sick or disabled family or	0.10	0.04	0.14	20	11	16
Looking after/home	0.03	0.19	0.22	6	53	25
Retired	0.08	0.01	0.09	14	3	10
Did not want/need employment	0.02	0.02	0.04	4	5	5
Not yet started looking	0.01	0.01	0.03	3	3	3
Other reason/no reply	0.09	0.05	0.14	17	13	15
All reasons	0.53	0.35	0.88	100	100	100

TABLE 1

3. The article also includes as an Appendix the details of all recent changes affecting the monthly unemployment figures, noting that six changes since 1979 have had a discernible effect on the totals for adult unemployment. This is the first time for the comprehensive list to appear in the Gazette (though the information has been given before in Parliamentary replies) and will be useful in countering Opposition references to 16 changes to the count.

Gwyn Hacche

GWYN HACCHE

FROM: K VERNON
 DATE: 21 APRIL 1986

1. MISS O'MARA *MOM 21/4*
 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 o.r
 Mr Scholar
 Mr Culpin
 Mr S Davies
 Mr Shaw
 Mr Dyer (+1 for No. 10)
 Mr Hunt
 Mr Pickering
 Mr Cropper
 Mr Ross Goobey
 Mr Lord
 HB/07

THE 1985 LABOUR FORCE SURVEY

The preliminary results of the 1985 Labour Force Survey (LFS) will be published by means of a press notice on 23 April together with a more detailed paper that will also appear in the Employment Gazette on 8 May. The main points are contained in John Lambert's letter of 17 April to No. 10.

Employment

2. You may recall that the employment statistics, published on 16 April, showed an increase of 326,000 in the GB employed labour force between June 1984 and June 1985. These estimates used the 1985 LFS to augment the regular quarterly account of employees in employment by adding revised estimates for the growth of the self-employed and for the under-recording of employees. On the basis of the 1985 Labour Force Survey alone (which

(covers only 1/3 of one per cent of all households) DE conclude that GB employment rose by nearly 300,000 between spring 1984 and spring 1985 (a slightly different period) when the respective Surveys were undertaken.

3. The 1985 LFS also suggests:

- 45 per cent of women employees but only 4 per cent of men worked part-time.
- 14½ per cent of men in employment but only 7 per cent of women were self-employed.
- ¼ million people had a second job in addition to their main activity. DE have not yet estimated how many more people had a second job in spring 1985 than in 1984. We ourselves estimate very roughly that the number of second jobs may have risen by 120,000 since spring 1983, implying that the number of people in work has risen by about 850,000 since the 1983 election. Given that this estimate may well be revised, we would recommend strongly against quoting any estimate of the rise in the numbers of people in work at this stage.

4. The 1985 LFS provides some further information on economic activity rates:

- For males, participation in the labour force is highest, at 96 per cent, between the ages of 25 and 50. For males in total it averages 75 per cent.
- For non-married females, it is highest, at over 80 per cent, between 20 and 24. It subsequently settles slightly lower, at 75 per cent, between 25 and 49. It averages 44 per cent for all non-married females.
- For married females, as one would expect, it peaks, at over 70 per cent, between the late 30s and 40s. Between 20 and 25, it is under 60 per cent. It is 58 per cent for 50s and averages 52 per cent for all married females.

5. We do not have such recent data for other countries but it is clear that GB participation rates are high:

	<u>Participation rates 1984</u>							percentages
	UK	Japan	W. Germany	France	US	Italy	Europe	
Male	88	88	79	77	85	80	82	
Female	59	57	49	55	63	41	50	
Total	73	73	64	66	73	60	65	

Source: OECD Employment Outlook.

Unemployment

6. The LFS is also used to provide an estimate of numbers unemployed. The definition includes, broadly, those who were without a job and seeking work in the reference week, whether or not they were actually available for work. Conceptually it is a better definition than the monthly claimant count since it includes some of the unemployed looking for work who are not claimants (eg over 60s who are not claimants but are looking for work) but excludes claimants who are actually working or not looking for work. You may remember that Lord Young used the 1984 LFS data to show in a 'Times' article last September that the monthly count by no means underestimated the unemployment totals, as the Opposition were claiming.

7. On the LFS definition, the number of people looking for work fell by 100,000 between spring 1984 and spring 1985. This contrasts with an increase of 150,000 claimants. DE have no ready answer for this contrast at the moment but further analysis may shed some light on this.

8. On the LFS definition, the numbers unemployed in spring 1985 were 2.8 million, over 300,000 lower than the claimant count of 3.13 million. The reconciliation of these two figures in 1985 is given below together with a reconciliation for the two previous years. The 1983 LFS was the first to provide an estimate of the number unemployed.

	<u>Numbers unemployed</u>			million
	Spring 1983	Spring 1984	Spring 1985	
Labour Force Survey	2.91	2.90	2.81	
less: not claiming benefits	0.76	0.87	0.76	
plus: claiming benefits but not unemployed	0.84	0.94	1.08	
Claimant count	2.99	2.98	3.13	

The 2.8 million unemployed on the LFS definition excludes 335,000 people termed "discouraged workers", who said they would like a job but had not looked for work in the Survey reference week because they believed there were no jobs available.

10. The Survey also provides an estimate of the number of people who said they were available for work and had looked for work in the last four weeks, though not necessarily in

the last week. If all these are defined as "unemployed", as they are in some other countries, then we arrive at an unemployment estimate of 2.96 million for spring 1985. This is some 150,000 higher than on the conventional LFS definition. But still below the claimant count for the same period.

Assessment

11. The preliminary results from the 1985 LFS are unlikely to give rise to much controversy. The references to unemployment are, on balance, helpful, showing that on the widely based LFS definition of unemployment, the numbers unemployed are actually below the claimant count. This remains true even if, in line with other countries, those searching for jobs within four weeks of the Survey are included. The results can therefore be quoted against those who claim that the monthly count seriously underestimates "true unemployment" and that a more accurate estimate would be nearer 4 million. Given the margin of error attached to the LFS results, it would, however, be unwise to claim positively that they show the "true" level of unemployment is below the monthly count.

12. Lines to Take

(a) 1985 LFS unemployment total shows estimates of "true" unemployment of around 4 million are way off course and that claimant count is broadly accurate and a fair reflection of unemployment. That remains true even when all those looking for work within four week period are included in total, as they are in some other countries.

Defensive

(b) LFS shows there are 335,000 "discouraged" workers who did not think it worth looking for work in reference week.

Definition of "discouraged" workers arbitrary. Of total, only about one-third were sufficiently concerned to find job that they actively sought one out in four week period preceding Survey.

K Vernon

K VERNON

FROM: K VERNON
 DATE: 23 APRIL 1986

1. MISS O'MARA *max 24/4*
 2. MRS LOMAX

cc CST
 FST
 EST
 MST
 Sir P Middleton
 Sir T Burns
 Mr Monck
 Mr Evans
 Mr Scholar
 Mr Culpin
 Mr S Davies
 Mr Shaw
 Mr Cropper
 Mr Ross Goobey
 Mr Lord
 HB/07

THE 1985 LABOUR FORCE SURVEY

The Chancellor asked for additional comments (your minute of 23 April).

2. DE have no simple explanation for the fall in numbers unemployed between spring 1983 and spring 1985 as I explained in my note of 21 April. When pressed further, they have suggested as one possibility that a substantial proportion of the long term unemployed may now have become so disillusioned that they would no longer regard themselves as even looking for a job. The LFS definition of unemployment covers only those looking for work in a reference week and would thus exclude this group. But as they are still claiming benefit, they remain within the official claimant count. (You may recall that the 1985 LFS records 335,000 "discouraged" workers who have not looked for work within the reference week and 221,000 who have not looked for work within 4 weeks of the Survey. But both these groups would still claim to be "looking for work" in very general terms - although they ^{too} are not included in the standard LFS unemployment definition).

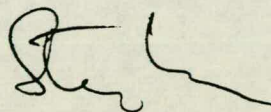
3. This explanation is consistent with the large increase in long term claimant unemployed of 191,000 between April 1983 and April 1985 - far more than the increase in total claimant unemployment of only 103,000. It would also answer the Chancellor's second

query as to why the number of claimants, either working or not looking for work, has increased. The increase would not be so much amongst those working (claimants can legitimately claim and work in some cases eg part-time workers who are available for full-time work can claim benefit) as amongst the disillusioned who no longer think it worth seeking a job. We cannot give a breakdown at present and await a more detailed analysis by DE

4. This is all very tentative for the present but DE will be analysing LFS data further in an attempt to put flesh on these arguments and to reconcile the LFS and claimant unemployment data. Their findings will appear in an 'Employment Gazette' article, perhaps in July.

5. A further point to bear in mind is that the Labour Force Survey covers only one-third of one per cent of all households. The results are subject to a considerable margin of error but DE say that the fall in unemployment on the LFS definition between spring 1984 and spring 1985 falls within a 95 per cent confidence band.

6. Finally, you asked for confirmation that the table in paragraph 5 of my minute of 22 April includes the self-employed. This is so.



pr

K VERNON

Jobs scheme 'works well' ²¹

By David Smith, Economics Correspondent

A government scheme to promote self employment is working well, according to a survey conducted by Social and Community Planning Research, a research organization.

The survey, published yesterday in the October *Employment Gazette*, shows that 61 per cent of businesses established under the Enterprise Allowance Scheme were still trading two years after the allowance ended.

Each surviving business employed an average of one other person, and most, 91 per cent, expected to be operating in 12 months' time.

The scheme, providing unemployed people with £40 a week for a year to set up in business if they have £1,000 of their own to invest, operated on a pilot basis in 1982. The

survey is based on the experiences of participants in the pilot scheme.

Since 1982, more than 170,000 people have taken part. The scheme is being expanded to provide for 86,000 entrants this year (1986-87) and 100,000 in 1987-88.

Most of the businesses are in the building trade, accounting for 26 per cent of the total. Retailing accounted for 18 per cent; services, broadly defined, also 18 per cent; manufacturing 13 per cent; repairs 11 per cent; and 14 per cent in other trades.

Department of Employment figures suggest the scheme is a cost efficient method of reducing unemployment. The average net cost of each person taken off the unemployment count was £1,800 in the time that the allowance is paid.

This is significantly lower than most other methods of reducing unemployment. But the build-up of employment under the scheme is comparatively slow — after two years every 100 surviving businesses employed 99 people.

● New unemployment data published in the *Employment Gazette* suggests a lower UK jobless rate in Britain than the 13 per cent estimated by the Organization for Economic Co-operation and Development.

The Labour Force Survey shows that 1.08 million people who were included in the unemployment count last year were either not looking for work, or had paid jobs. This was partly offset by 760,000 people who were seeking work but were not entitled to benefits and so did not appear in the official figures.

Benefit claimants 'outnumber job-hunters' ¹⁰

By Philip Stephens, Economics Correspondent

A SURVEY of Britain's labour force in spring 1985 suggests there were fewer people actively seeking work than claiming unemployment benefit — largely because many believed no work was available.

The Department of Employment says in an article in its monthly *Employment Gazette* that on its narrow labour force survey definition there were 2.81m people out of work in spring 1985 against 3.13m claiming benefit.

The 2.81m figure is based on a survey which asks the unemployed whether they have actively sought work in the past week. Final results show that the difference between the survey figure and the number of claimants largely reflected the fact that 230,000 people claiming benefit had given up seeking employment because they believed no jobs were available.

Overall, the survey suggests that 1.1m claimants did not fit the definition of people who had looked for work within the previous week — but that figure was partly offset by 760,000 people who were without jobs and seeking work but not claiming benefit.

Some 200,000 benefit claimants were reported to be already in employment, but the article says this is not an indication of a large "black economy." Many people with part-time or low-paid jobs remain eligible for benefit.

THE INDEPENDENT

Figuring out the dole queue ¹⁹

For the weather, you can use Fahrenheit or centigrade and still find out if it is hot. With unemployment figures, different measures give different answers. In its latest "Employment Gazette", Lord Young's department has found that instead of going up last year, the jobless total was actually going down.

The key to this mystery is the Labour Force Survey, compiled from interviews involving a sample of 60,000 households. This suggested that the jobless total was only 2,810,000 in the spring of 1985, and had fallen 100,000 in the previous year — a substantially different finding from the monthly unemployment count which showed a total of 3,130,000 and a rise of 160,000 in the year. There was a sharp rise of 140,000 people who were claiming benefits but not actively seeking work. Useful ammunition for the Government? Not entirely. Most of these people are, in reality, too sick, too old or too discouraged to find a job in today's tough labour market.

6/11

*magna - please
thank S Brooks*

CR 14/10

FROM: S BROOKS
DATE: 10 OCTOBER 1986

- 1. MR S J DAVIES *SD*
- 2. CHANCELLOR OF THE EXCHEQUER

- cc :
- PS/Chief Secretary
 - PS/Financial Secretary
 - PS/Economic Secretary
 - PS/Minister of State
 - Sir Peter Middleton
 - Sir Terence Burns
 - Mr Monck
 - Mr Culpin
 - Mr Sedgwick
 - Mr Gilhooly
 - Miss O'Mara
 - Mr Pickford
 - Mr Hacche
 - Mr Pickering
 - Mr Westwater
 - Mr P Davis
 - Mr Cropper
 - Mr Ross Goobey
 - Mr Tyrie

*C/ Some officials (eg Press Office)
have said that they do not
find notes such as this very
useful. Do you have any
views?*

*CR 10/10
I'm afraid this is a long one. I hope some help. But go on & on. I'll welcome it.*

PRODUCER PRICES FOR SEPTEMBER

The Producer Price Indices for September will be published at 11.30 a.m. on Monday 13 October. The level of the output price index rose by 0.3 per cent between August and September, and the twelve month rate of change was unchanged from the (revised) August figure of 4.4 per cent. Excluding the food, drink, and tobacco industries, the twelve month increase in output prices fell from 4 per cent in August to 3.9 per cent in September.

PRODUCER PRICES (PERCENTAGE CHANGE OVER A YEAR EARLIER)

	<u>Output prices</u>		<u>Input Prices</u>		
	All excl		All	All	All excl
	<u>All</u>	<u>FDT*</u>	<u>All</u>	(Seasonally <u>Adjusted</u>)	<u>FDT*</u>
1985 Q2	5.6	6.4	3.4	3.4	6.8
Q3	5.6	6.5	- 0.7	- 0.7	- 1.2
Q4	5.1	5.9	- 5.4	- 5.4	- 5.1
1986 Q1	5.0	5.0	- 9.4	- 9.4	-11.9
Q2	4.5	4.3	- 9.1	- 8.9	-12.4
Q3	4.4	4.0	- 8.9	- 8.8	-13.1
June	4.4	4.3	- 8.9	- 8.8	-12.4
July	4.4	4.0	-10.4	-10.2	-14.3
August	4.4	4.0	- 9.0	- 9.1	-13.2
September	4.4	3.9	- 7.4	- 7.3	-11.6

* Excluding the food, drink and tobacco industries.

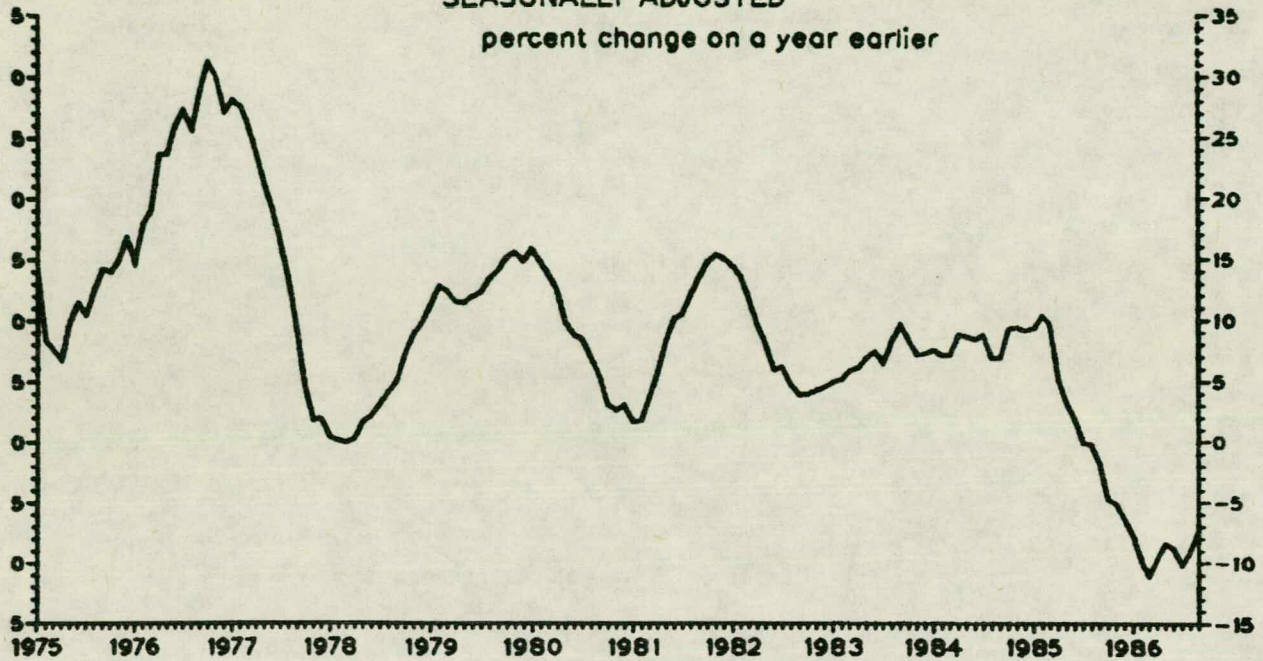
2. The producer price index for materials and food purchased by manufacturing industry increased by 1.7 per cent between August and September. (Revised figures show that August was the first month since February 1985 in which the seasonally adjusted index has increased.) The increase in August can be attributed to higher scheduled prices for petroleum products and higher costs of imported materials. The input price index remains 7.4 per cent below its level of a year ago. Excluding food, drink and tobacco, the producer price input index increased by 2.3 per cent in September but was 11.6 per cent below its level in September 1985..

3. I attach two charts showing movements in producer input and output prices since January 1975.

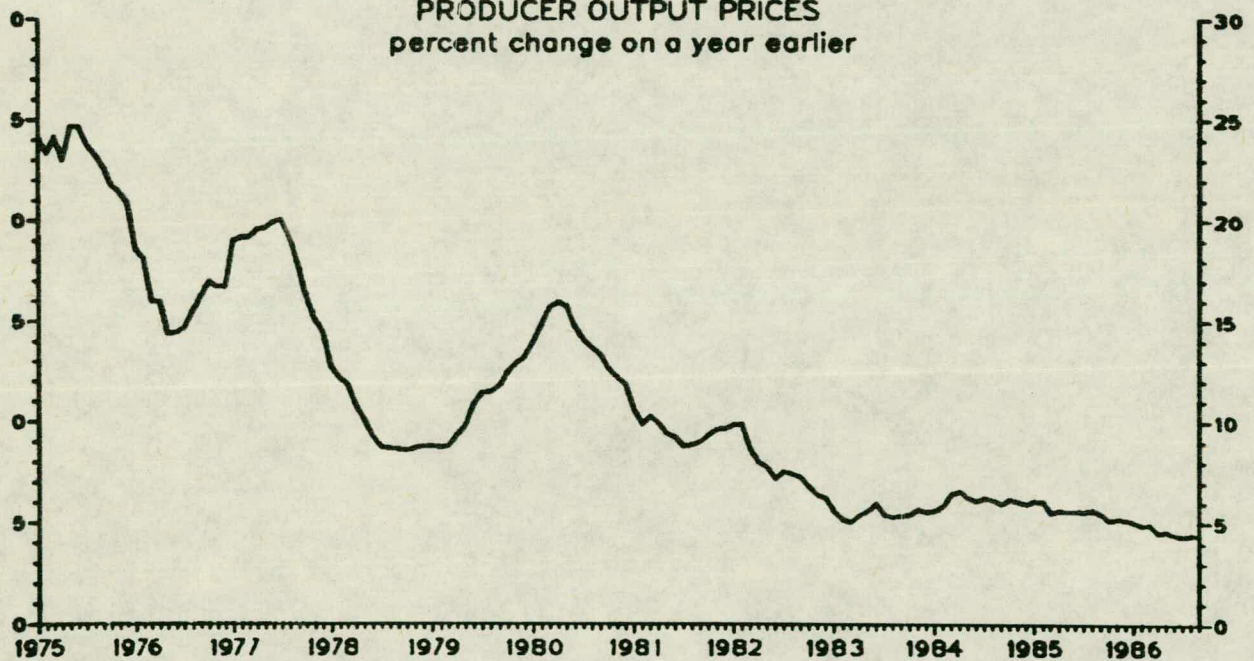
S Brooks

S BROOKS
 EAL DIVISION
 X 7946

MATERIALS AND FUEL PURCHASED BY MANUFACTURING INDUSTRY
SEASONALLY ADJUSTED
percent change on a year earlier



PRODUCER OUTPUT PRICES
percent change on a year earlier



M : TIREE.MANPUR
D : 9-10-86 G : TIREE.DISMANCOM

→ Andrew PWF

FROM: R D KERLEY
DATE: 13 OCTOBER 1986

1. MISS O'MARA

2. CHANCELLOR OF THE EXCHEQUER

The three month rise in manufacturing output is another encouraging sign that growth is picking up & may be useful for the Mansion House speech

not

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

W3

Ch
You have to fight hard through this to find out what the August figures are (because of the 3 months emphasis). They

	Manuf	Energy	Total
July	104.4	127.9	109.8
August	104.1	124.7	110.4

copy

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - AUGUST 1986

This will be published at 11.30am on Tuesday, 14 October.

2. The index of production fell by 0.3 per cent in the three months to August 1986 compared with the previous three months, but rose by 1.0 per cent compared with the same period a year earlier.

3. Manufacturing output rose by 0.6 per cent in the three months to August 1986 compared with the previous three months, but fell by 0.2 per cent compared with the same period a year earlier.

4. The CSO's assessment is that the underlying output of all production industries in 1985H2 was almost 1 per cent below 1985H1 and has remained broadly unchanged (after allowing for weather effects) for the first half of 1986. July and August are high as a result of increased manufacturing output and oil extraction. Manufacturing output reached at least a temporary peak in 1985Q2 and had declined by about 1½ per cent by 1986Q1. Output has subsequently increased, however, and in July and August it was almost back to the levels of 1985Q2.

5. Recent movements

percentage changes	1985 on 1984	Latest 3 months on <u>previous 3 months</u>	Latest 3 months on <u>same period one year earlier</u>	August on 1981Q1 <u>trough</u>	August on <u>July</u>
Index of Production	+4.8	-0.3	+1.0	+14.9	+0.5
within which:					
Manufacturing	+3.2	+0.6	-0.2	+12.2	-0.3
Energy and Water	+9.2	-2.3	+3.6	+21.6	+2.6

6. This is the first month that the CSO have not produced coal-strike adjusted figures. Although there still is an effect, which will drop out completely in two months' time, it was considered to be too small to warrant inclusion.

Lines to take

7. Positive:-

- (i) Total production in August over 2 per cent above its level in August 1985.
- (ii) Signs of pick up in manufacturing output. Up ½ per cent in latest 3 months over previous 3 months and up over 1½ per cent since beginning of year.
- (iii) Manufacturing has grown in every year since 1981 - longest period of uninterrupted growth since 1970.

8. Defensive:-

- (iv) Manufacturing output little changed over past year. Output up over 1½ per cent in 1986. Growth should pick up further this year following benefits of lower oil price.

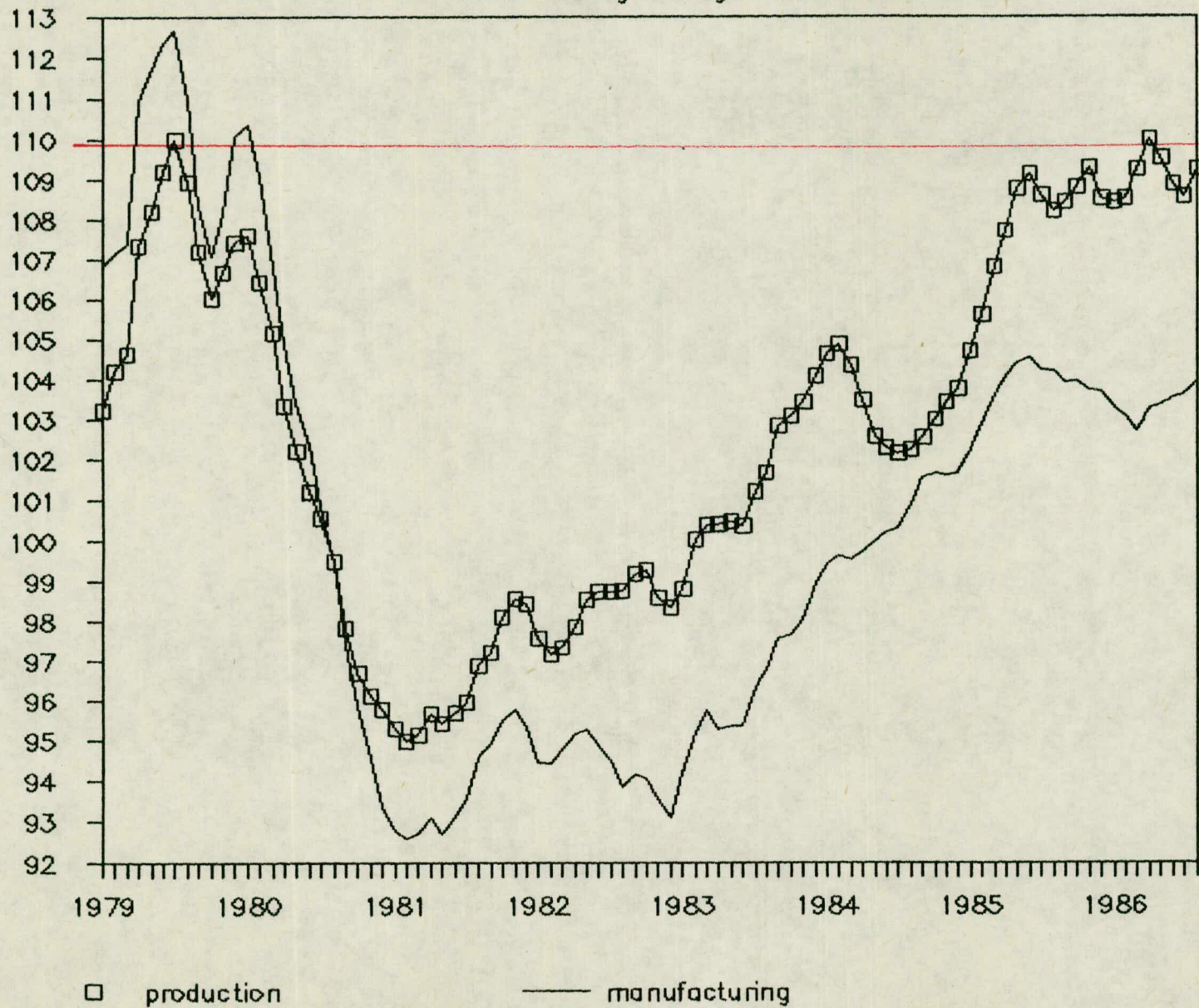
- (v) Output of production industries fell by $\frac{1}{2}$ per cent in 3 months to August 1986 compared with previous 3 months. Year on year figure up 1 per cent and growth should pick up later this year following benefits of lower oil price.

R. Kerley

R D KERLEY

OUTPUT OF THE PRODUCTION INDUSTRIES

3 month moving average 1980=100





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AND
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of Press Notice at 1.30 a.m. on 14/10/86
and thereafter unclassified

CSO(86)96
14 October 1986

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - AUGUST 1986

Output of the production industries in the three months to August 1986 is provisionally estimated to have fallen by $\frac{1}{2}$ per cent from the level of the previous three months; manufacturing output rose by $\frac{1}{2}$ per cent.

Output of production industries (to August 1986)

The August index of the output of the production industries - energy (including coal) and manufacturing - is provisionally estimated at 110.4 (1980=100, seasonally adjusted). In the three months to August, production industries' output was $\frac{1}{2}$ per cent lower than in the previous three months but was 1 per cent higher than in the same period a year earlier.

Manufacturing output in the latest three months was $\frac{1}{2}$ per cent higher than in the previous three months but was little changed from the level in the same period a year earlier (see also note 11 of Notes to Editors). Within manufacturing, the output of chemicals increased by 3 per cent, the output of metals by 2 per cent and the output of other minerals, and of other manufacturing industries by 1 per cent between the two latest three month periods. The output of engineering and allied industries, of food, drink and tobacco and of textiles and clothing was little changed.

Energy and water supply in the latest three months was $2\frac{1}{2}$ per cent lower than in the previous three months but was $3\frac{1}{2}$ per cent higher than in the same period a year earlier.

By market sector, the output of consumer goods industries increased by $\frac{1}{2}$ per cent between the two latest three month periods. In contrast, the output of both the investment goods⁽¹⁾ industries and the intermediate goods industries fell by $\frac{1}{2}$ per cent.

In the longer term, the output of the production industries in the three months to August was 15 per cent higher than at its trough in the first quarter of 1981; manufacturing output was 12 per cent higher.

Output of production and construction industries (to Q2 1986)

Output of the construction industry in the second quarter of 1986 is estimated to have been 4 per cent higher than in the previous quarter. Output of the production and construction industries in the second quarter was little changed from the level of the previous quarter, but was 14 per cent above the first quarter of 1981 trough.

Revisions

The index of production industries' output has been revised up by about $\frac{1}{2}$ per cent in June 1985 and 1 per cent in June 1986, but has been revised down by $\frac{1}{2}$ per cent in July. This is due to the updating of seasonal factors.

OUTPUT OF THE PRODUCTION INDUSTRIES(1)

(1980=100)

TABLE 1

	Broad industry groups			Market sectors		
	Production industries	Energy	Manufacturing	Consumer goods	Investment goods	Intermediate goods
	Division 1-4	Division 1	Division 2-4			
Weights	1000	264	736	245	243	512
1978	103.2	85.0	109.7	108.4	106.3	99.2
1979	107.1	100.5	109.5	108.3	104.7	107.9
1980	100.0	100.0	100.0	100.0	100.0	100.0
1981	96.6	103.8	94.0	96.4	91.3	99.2
1982	98.4	110.0	94.2	95.8	92.4	102.3
1983	101.9	115.9	96.9	98.8	92.9	107.6
1984	103.2	110.1	100.7	101.7	97.1	106.8
1985	108.2	120.2	103.9	103.6	103.5	112.7
Seasonally adjusted						
1980						
1	105.2	100.5	106.8	105.9	107.2	104.1
2	101.3	98.4	102.3	100.6	101.9	101.3
3	97.8	98.8	97.5	98.5	97.4	97.8
4	95.7	102.2	93.4	94.9	93.4	96.8
1981						
1	95.1	101.8	92.7	96.0	89.9	97.1
2	95.8	103.2	93.1	95.4	90.6	98.3
3	97.2	103.5	94.9	97.4	91.8	99.5
4	98.4	106.9	95.4	96.8	92.9	101.9
1982						
1	97.2	104.3	94.7	96.1	92.9	99.8
2	98.8	109.7	94.9	95.7	93.7	102.8
3	99.2	113.2	94.1	95.9	92.2	103.7
4	98.4	112.9	93.2	95.6	90.8	103.0
1983						
1	100.4	113.1	95.8	97.6	93.6	104.9
2	100.4	114.5	95.3	97.4	90.7	106.3
3	102.8	117.6	97.5	100.0	92.7	109.0
4	104.0	118.3	98.9	100.5	94.4	110.2
1984						
1	104.2	117.3	99.5	100.5	94.7	110.4
2	102.3	108.1	100.2	101.6	96.2	105.6
3	102.5	105.4	101.5	102.5	97.9	104.8
4	103.8	109.6	101.7	102.1	99.5	106.5
1985						
1	106.8	115.6	103.6	103.5	102.9	110.0
2	109.1	122.0	104.5	103.2	105.2	113.9
3	108.4	121.1	103.9	104.2	102.7	113.3
4	108.5	122.0	103.7	103.7	103.1	113.5
1986						
1	109.2	127.5	102.7	102.8	102.6	115.3
2	108.9	123.7	103.5	104.1	101.9	114.2
1984						
A	102.1	103.5	101.6	102.0	97.9	104.1
S	103.3	106.8	102.1	103.6	98.7	105.4
O	103.6	110.1	101.3	102.5	98.9	106.3
N	103.4	108.9	101.4	101.5	99.2	106.1
D	104.3	109.8	102.3	102.3	100.5	107.0
1985						
J	106.4	115.7	103.0	103.1	102.0	110.0
F	106.1	113.8	103.3	103.3	102.0	109.1
M	107.9	117.2	104.5	104.0	104.8	111.0
A	109.1	122.3	104.4	103.0	104.8	114.1
M	109.3	123.2	104.3	102.7	105.6	114.2
J	109.0	120.5	104.9	104.0	105.2	113.3
J	107.5	118.8	103.5	103.4	102.2	112.1
A	108.1	119.1	104.2	104.7	102.7	112.4
S	109.7	125.4	104.1	104.5	103.1	115.4
D	108.6	122.7	103.6	103.1	103.6	113.8
N	109.6	126.7	103.5	103.8	102.1	116.1
D	107.3	116.5	104.0	104.1	103.5	110.7
1986						
J	108.4	125.1	102.4	101.8	102.3	114.3
F	109.8	129.3	102.8	103.4	102.4	116.3
M	109.5	128.0	102.9	103.2	103.1	115.4
A	110.7	129.0	104.1	104.7	102.5	117.2
M	108.4	123.3	103.1	103.6	101.8	113.6
J	107.5	118.8	103.4	103.9	101.5	111.9
J	109.8	124.7	104.4	104.5	102.6	115.4
A	110.4	127.9	104.1	104.6	101.9	117.0
% 3-month on 3-month change (2)	-0.3	-2.3	+0.6	+0.5	-0.5	-0.5

(1) Output index numbers include adjustments, as necessary, to compensate for the use of sales indicators (see Notes to Editors).
 (2) Average of June to August 1986 compared with the average of March to May 1986.

OUTPUT OF MANUFACTURING INDUSTRIES

(1980=100)

TABLE 2

	Metals	Other minerals and mineral products(1)	Chemicals and man-made fibres	Engineering and allied industries	Food, drink and tobacco	Textiles, clothing footwear and leather	Other manufacturing
	Class 21-22	Class 23-24	Class 25-26	Class 31-37	Class 41-42	Class 43-45	Class 46-49
Weights	25	41	68	325	99	52	126
1978	126.5	111.9	108.5	110.1	99.2	119.3	109.5
1979	131.8	111.0	111.3	107.6	100.7	117.9	111.9
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	106.0	89.0	99.6	91.8	98.3	92.7	93.2
1982	103.2	90.9	99.7	92.9	99.8	91.2	90.8
1983	104.7	93.9	107.4	94.9	100.9	94.7	93.7
1984	108.2	95.0	113.9	99.3	102.0	97.9	97.7
1985	114.8	94.3	118.9	104.3	101.0	102.0	99.0
Seasonally adjusted							
1980							
1	81.6	109.9	111.6	108.0	101.4	108.9	108.8
2	116.3	104.4	101.7	102.4	99.9	103.0	100.6
3	104.8	95.7	93.2	97.5	99.5	97.2	97.1
4	97.3	89.9	93.5	92.0	99.3	90.8	93.6
1981							
1	99.3	89.2	96.5	89.7	99.3	91.2	93.5
2	104.3	88.4	98.2	90.8	96.7	92.2	93.1
3	107.4	90.0	102.5	93.0	98.2	93.1	93.2
4	113.2	88.7	101.2	93.7	98.8	94.2	92.9
1982							
1	110.3	89.8	99.9	93.7	98.9	92.0	91.0
2	108.3	91.7	99.7	93.6	100.1	91.3	91.3
3	100.3	91.2	99.6	92.6	100.7	91.4	90.8
4	93.8	91.0	99.5	91.8	99.6	90.3	90.2
1983							
1	98.7	93.0	104.1	94.7	99.8	92.8	92.7
2	104.9	91.3	106.8	93.0	98.7	93.5	92.6
3	105.3	95.6	109.1	94.9	103.2	94.9	93.6
4	110.1	95.7	109.7	96.9	102.0	97.4	95.6
1984							
1	112.1	94.1	111.4	97.3	101.9	96.8	97.1
2	105.0	95.1	112.2	98.3	102.5	97.5	98.2
3	108.5	96.2	116.1	100.5	102.3	98.4	97.4
4	107.2	94.8	115.9	101.0	101.4	98.9	98.2
1985							
1	112.1	92.5	120.0	104.2	101.8	100.6	97.8
2	117.6	94.5	120.7	105.7	100.0	102.0	97.9
3	116.0	94.2	118.6	103.8	100.5	103.1	100.3
4	113.7	96.1	116.2	103.5	101.6	102.4	100.1
1986							
1	110.3	92.4	117.3	102.2	101.0	103.1	99.1
2	111.6	99.0	117.4	102.5	101.2	102.9	100.7
1984							
A	109	96	118	101	101	97	98
S	108	97	116	101	103	101	97
O	105	94	115	101	101	99	98
N	108	94	116	101	101	98	98
D	109	96	117	102	102	99	99
1985							
J	110	92	120	103	102	99	98
F	110	91	120	104	102	100	98
M	116	94	120	105	102	102	98
A	116	94	122	105	100	102	98
M	118	94	119	106	100	101	98
J	119	95	122	106	100	104	98
J	116	94	119	103	100	102	100
A	118	93	118	104	101	104	101
S	114	95	119	104	100	103	100
O	114	96	116	103	102	102	100
N	115	96	117	103	101	104	101
D	112	96	116	104	102	101	100
1986							
J	111	94	119	102	100	102	99
F	110	91	119	102	102	104	99
M	110	92	114	103	102	103	100
A	109	99	117	103	102	105	101
M	112	98	117	102	101	101	100
J	114	101	118	102	101	103	101
J	113	95	120	104	103	102	102
A	112	96	121	103	102	105	101
% 3-month on 3-month change (2)	+2.4	+1.0	+3.0	-0.2	+0.5	+0.2	+1.1

(1) Mainly building materials

(2) Average of June to August 1986 compared with the average of March to May 1986.

OUTPUT OF PRODUCTION AND CONSTRUCTION INDUSTRIES (1)

(1980=100)

TABLE 3

Weights (parts per thousand of GDP(0))	Production and construction Division 1-5	Construction Division 5	Production industries Division 1-4	Energy Division 1	Manufacturing Division 2-4	Oil and gas extraction Class 13
	424	63	361	95	266	44
1978	103.4	105.1	103.2	85.0	109.7	68.9
1979	106.9	105.8	107.1	100.5	109.5	98.7
1980	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.6	89.9	96.6	103.8	94.0	110.3
1982	97.4	91.6	96.4	110.0	94.2	125.6
1983	100.9	95.3	101.9	115.9	96.9	137.6
1984	102.5	98.6	103.2	110.1	100.7	147.1
1985	107.0	99.8	108.2	120.2	103.9	150.3
Seasonally adjusted						
1979 1	104.1	101.0	104.6	97.0	107.4	89.6
2	108.9	107.2	109.3	101.0	112.3	99.3
3	107.3	107.7	107.2	104.0	108.3	106.0
4	107.5	107.2	107.4	100.0	110.1	99.9
1980 1	105.2	104.9	105.2	100.5	106.8	100.1
2	101.2	101.5	101.3	98.4	102.3	96.8
3	98.3	100.5	97.8	98.8	97.5	97.5
4	95.3	93.0	95.7	102.2	93.4	105.5
1981 1	94.8	92.4	95.1	101.8	92.7	107.4
2	94.8	89.5	95.8	103.2	93.1	107.8
3	96.3	90.9	97.2	103.5	94.9	110.7
4	96.7	86.9	96.4	106.9	95.4	115.3
1982 1	96.1	89.1	97.2	104.3	94.7	113.4
2	97.6	90.6	98.8	109.7	94.9	126.0
3	98.1	92.6	99.2	113.2	94.1	131.0
4	97.7	94.3	98.4	112.9	93.2	131.9
1983 1	99.4	93.7	100.4	113.1	95.8	131.7
2	99.2	92.1	100.4	114.5	95.3	131.5
3	102.0	97.7	102.8	117.6	97.5	142.0
4	103.1	97.8	104.0	118.3	98.9	145.2
1984 1	103.1	97.0	104.2	117.3	99.5	148.3
2	101.6	98.1	102.3	108.1	100.2	144.0
3	102.2	100.5	102.5	105.4	101.5	144.3
4	103.1	98.7	103.8	109.6	101.7	151.8
1985 1	105.7	99.5	106.8	115.6	103.6	155.0
2	107.8	100.0	109.1	122.0	104.5	150.9
3	107.0	99.1	108.4	121.1	103.9	146.4
4	107.4	100.8	108.5	122.0	103.7	148.9
1986 1	107.7	98.1	109.2	127.5	102.7	155.7
2	107.9	101.8	108.9	123.7	103.5	149.9

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

NOTES TO EDITORS

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

2. The purpose of the index numbers is to measure changes in net output or value added (that is total outputs less total inputs) at constant (1980) prices. Conceptually, this should be estimated as the difference between outputs and inputs, each valued at the appropriate prices of the base year. However, this approach, known as double deflation, is difficult to apply reliably since it requires a great deal of information. In practice, movements in net output at constant prices are generally estimated by movements in gross output at constant prices. This yields satisfactory estimates, provided the ratio of gross to net output remains largely unchanged, as will generally be the case in the short-term. Further discussion of the concepts of measurement may be found in "Sources and Methods, Studies in Official Statistics No 37" (HMSO, 1985).

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

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

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

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

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

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

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

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

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

11. Bias adjustments for the index of manufacturing output

In an attempt to allow for understatement in the provisional figures, an improved system of adjustments to manufacturing output was introduced in January. Some detail was included in note 12 of Notes to Editors in the January Press Notice and a fuller note on the methodology of the adjustment procedure is available on request from the CSO. The adjustment procedure makes use of smoothed monthly CBI figures on expectations of growth in output. The bias adjustments included in the manufacturing figures this month are:

1986						
March	April	May	June	July	August	
+0.2	+0.2	+0.2	+0.2	+0.3	+0.5	

J0274

MR D NORRGROVE

Prime Minister's Office

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - AUGUST 1986

The provisional index of the output of the production industries for August 1986 will be published at 11.30 am on Tuesday 14 October. A copy of the Press Notice is attached.

Latest figures

The August 1986 index of the output of the production industries - energy (including coal) and manufacturing - is provisionally estimated at 110.4 (1980=100, seasonally adjusted), an increase of $\frac{1}{2}$ per cent on July. For manufacturing the index was 104.1, a decrease of $\frac{1}{2}$ per cent on July (see also paragraph on bias adjustment below).

In the three months to August the output of production industries was $\frac{1}{2}$ per cent lower than in the previous three months but manufacturing output was $\frac{1}{2}$ per cent higher. Some industry detail is given in the attached Table A.

Assessment

Manufacturing output reached at least a temporary peak in the second quarter of 1985 and then declined $1\frac{1}{2}$ per cent by the first quarter of 1986. However output has subsequently increased and in July and August it was almost back to the level experienced in the second quarter of last year.

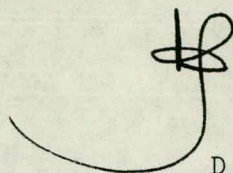
The underlying output of all production industries in the second half of 1985 was almost 1 per cent below the level reached in the first half and has remained broadly unchanged (after allowing for weather effects) for the first half of 1986. July and August are high as a result of increased manufacturing output and oil extraction.

Bias adjustment for manufacturing output

In line with revised procedures 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 10 of Notes to Editors of Press Notice).

Figures for September 1986

Figures for September 1986 are scheduled for publication on Thursday 13 November.

A handwritten signature in black ink, consisting of a stylized 'D' and 'K' intertwined, with a long horizontal stroke extending to the left.

D C K Stirling
13 October 1986

Central Statistical Office

++ PERSONAL AND CONFIDENTIAL until release of Press Notice at 11.30 am on October 14 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	108.2	95.0	113.9	99.3	102.0	97.9	97.7
1985	108.2	120.2	103.9	114.8	94.3	118.9	104.3	101.0	102.0	99.0
1985 1	106.8	115.6	103.6	112.1	92.5	120.0	104.2	101.8	100.6	97.8
2	109.1	122.0	104.5	117.6	94.5	120.7	105.7	100.0	102.0	97.9
3	108.4	121.1	103.9	116.0	94.2	118.6	103.8	100.5	103.1	100.3
4	108.5	122.0	103.7	113.7	96.1	116.2	103.5	101.6	102.4	100.1
1986 1	109.2	127.5	102.7	110.3	92.4	117.3	102.2	101.0	103.1	99.1
2	108.9	123.7	103.5	111.6	99.0	117.4	102.5	101.2	102.9	100.7
1986 J	107.5	118.8	103.4	114	101	118	102	101	103	101
J	109.8	124.7	104.4	113	95	120	104	103	102	102
A	110.4	127.9	104.1	112	96	121	103	102	105	101
Percentage change latest 3 months on: previous 3 months										
	-0.3	-2.3	+0.6	+2.4	+1.0	+3.0	-0.2	+0.5	+0.2	+1.1
a year earlier										
	+1.0	+3.6	-0.2	-4.0	+3.4	+0.2	-1.6	+1.5	-0.1	+1.6
1st quarter 1981(a)										
	+14.9	+21.6	+12.2	+13.8	+9.0	+24.1	+14.4	+2.7	+13.1	+8.3
1st half 1979(b)										
	+2.1	+25.1	-5.3	-13.4	-9.8	+10.3	-6.4	+2.2	-14.0	-8.9

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	98.4	95.7	108.2	95.0	114.9	78.8	101.0
1985	67.2	150.3	98.7	106.0	114.8	94.3	120.2	74.2	99.3
1985 1	36.0	155.0	99.5	100.1	112.1	92.5	121.4	71.8	98.7
2	71.0	150.9	99.2	108.9	117.6	94.5	122.0	76.3	99.7
3	80.3	146.4	98.6	108.1	116.0	94.2	119.9	75.5	100.6
4	81.4	148.9	97.4	107.0	113.7	96.1	117.5	73.0	98.2
1986 1	79.5	155.7	95.3	115.5	110.3	92.4	118.5	74.7	96.0
2	78.2	149.9	102.7	111.6	111.6	99.0	118.8	69.9	93.3
1986 J	78	143	98	108	114	101	119	70	90
J	76	158	101	105	113	95	122	68	94
A	77	163	99	106	112	96	122	73	93
Percentage change latest 3 months on: previous 3 months									
	-1.7	-0.1	-3.2	-6.8	+2.4	+1.0	+3.1	-2.4	-3.3
a year earlier									
	-2.4	+8.6	-0.5	-2.8	-4.0	+3.4	+0.3	-7.5	-7.9
1st quarter 1981(a)									
	-20.8	+43.9	+3.5	+9.7	+13.8	+9.0	+25.3	-22.0	+4.3
1st half 1979(b)									
	-19.3	+63.7	-11.9	+1.3	-13.4	-9.8	+12.5	-48.9	-25.0

DETAILED ANALYSIS continued	Mechanical engineering	Electrical and instrument engineering	Motor vehicles and parts	Other transport equipment	Food	Drink and tobacco	Textiles	Clothing, footwear and leather	Paper, printing and publishing	All other manufacturing
1984	87.4	123.0	81.1	91.5	104.6	96.7	93.7	101.5	96.4	99.3
1985	93.3	130.9	86.3	94.6	104.1	94.4	98.4	105.2	98.5	99.6
1985 1	91.5	132.1	86.9	95.7	104.3	96.8	97.1	103.6	97.3	98.3
2	94.9	132.6	87.5	96.5	102.9	94.1	97.0	106.2	97.5	98.3
3	92.2	129.2	88.5	93.5	104.3	92.4	99.7	106.0	99.3	101.5
4	94.7	129.7	82.2	92.9	105.1	94.3	99.6	104.9	99.9	100.4
1986 1	95.0	126.1	80.6	94.3	104.6	93.6	99.1	106.6	97.8	100.5
2	96.8	126.3	82.3	92.4	105.1	93.0	99.2	106.0	99.1	102.7
1986 J	96	125	83	93	105	93	100	105	99	104
J	97	128	84	93	106	96	98	105	101	102
A	98	129	75	95	106	94	103	108	100	102
Percentage change latest 3 months on: previous 3 months										
	-	+0.7	-1.2	+0.8	+0.4	+0.7	+1.0	-0.5	+1.5	+0.6
a year earlier										
	+4.6	-2.3	-8.6	-1.0	+1.5	+1.8	+1.0	-1.0	+1.5	+1.6
1st quarter 1981(a)										
	+11.0	+37.7	+4.8	-11.3	+7.3	-6.6	+10.6	+15.3	+5.6	+11.6
1st half 1979(b)										
	-12.0	+23.5	-34.6	-0.2	+6.1	-5.8	-19.7	-8.6	-6.2	-11.6

(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 Geoffrey Pattie

(Private Secretary
to Giles Shaw

(Private Secretary
to John Butcher

(Sir Brian Hayes
(Mr H H Liesner

(Mr A Whiting
(Mr N Harvey
(Mr E J Wright

Bank of England

(Mr R Leigh-Pemberton

At this side, the word output is used. Consider a better output; see below 1986 etc. vs.

FROM: A ROSS GOOBEY
DATE: 15 OCTOBER 1986

MR MONCK

cc PS/Chancellor
Sir T Burns

SHORT TERM INDUSTRIAL INDICATORS

Earlier in the year I suggested that the volumes of gas produced by BOC were reasonable real-time indicators of industrial output.

2. I have just received an updated version of the relevant graphs, which show that the industries which BOC supplies are still in a fairly depressed state. The executive involved put the poor performance down to the problems of shipbuilding, heavy engineering, scrap cutting etc, but as you see from the longer term graph, they are forecasting an upturn in 1987.

3. Another helpful short-term indicator might be the loadings, in and out, of OCL's containers. The director concerned to whom I spoke recently said that his containers had been arriving loaded and departing empty in August and September, (this was on September 26th).

4. I think he would be prepared to supply similar information regularly if asked.

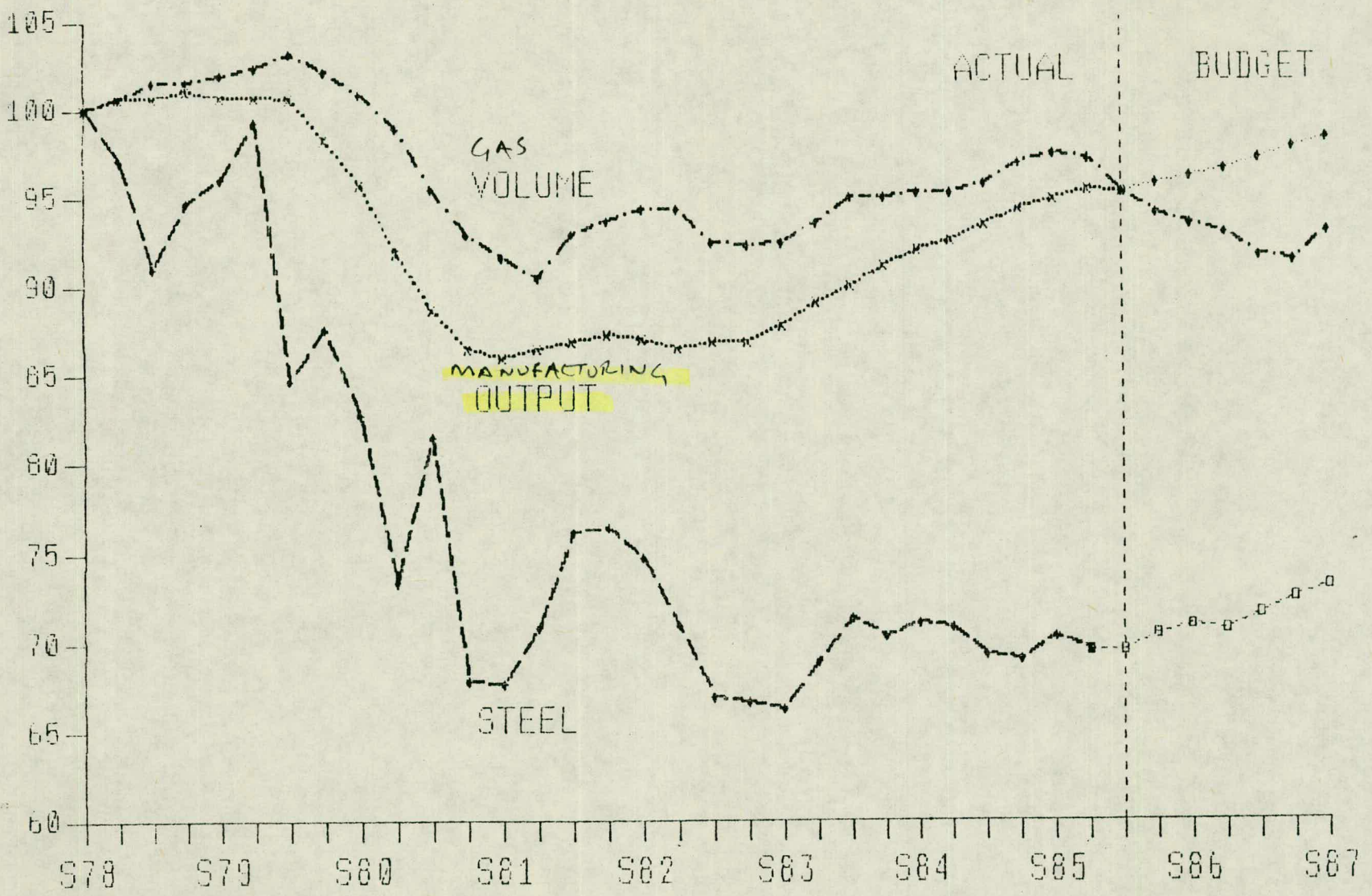
ARG

A ROSS GOOBEY

UK GASES COMPRESSED

BUDGET 1986/87

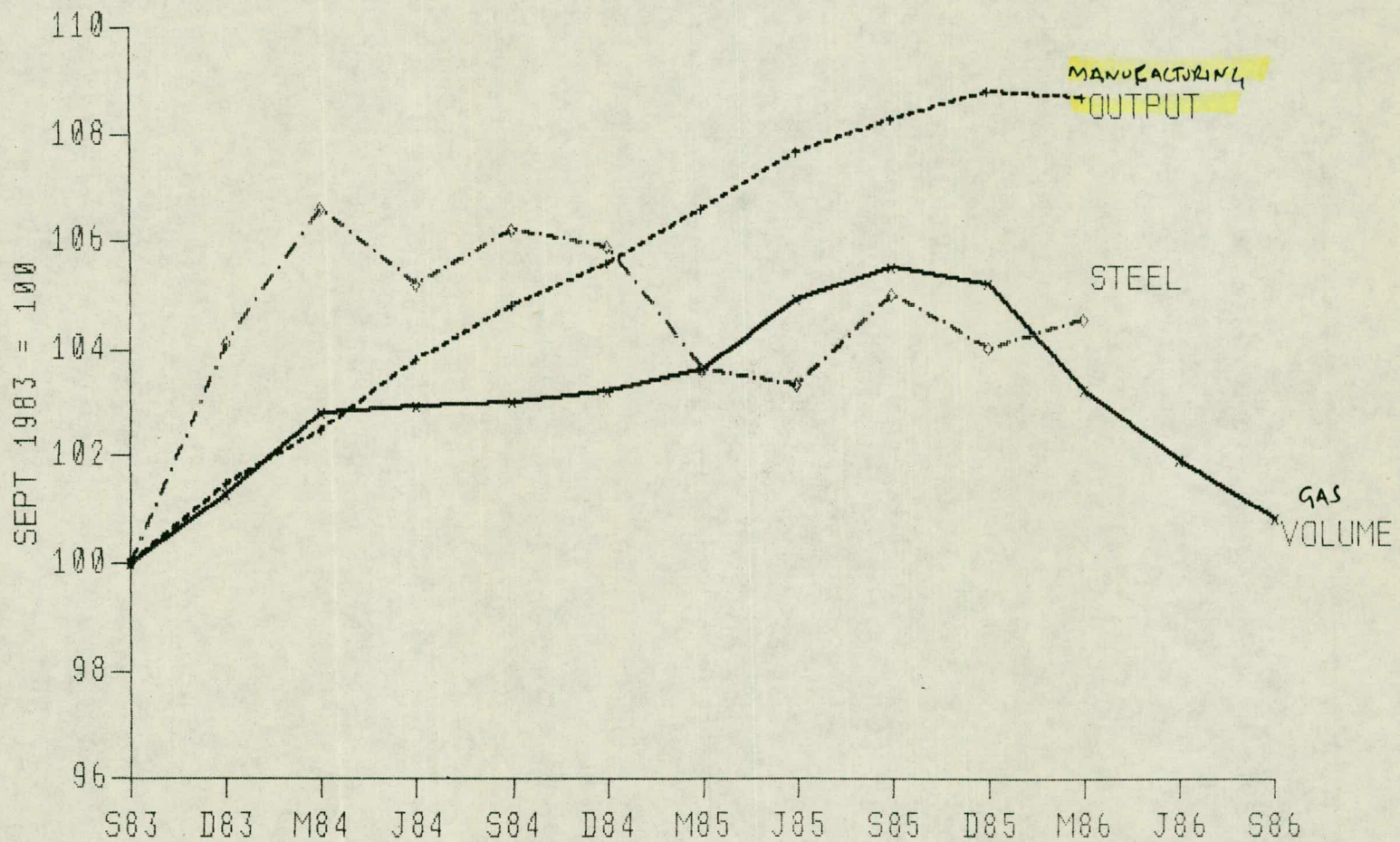
MAT'S - FABRICATION VOLUME & MANUFACTURING OUTPUT



UK GASES COMPRESSED

1983/86

MAT'S - FABRICATION VOLUME & MANUFACTURING OUTPUT



psf

FROM: S BROOKS
 DATE: 16 OCTOBER 1986

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

cc : PS/Chief Secretary
 PS/Financial Secretary
 PS/Economic 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 Sedgwick
 Mr Odling-Smee
 Mr Scholar
 Mr Bottrill
 Mr Culpin
 Mr Gilhooly
 Miss O'Mara
 Mr Mowl
 Miss Noble
 Mr Pickford
 Mr Hacche
 Mr Halligan
 Mr P Davis
 Mr Westwater
 Mr Ross Goobey
 Mr Gropper
 Mr Tyrie

THE SEPTEMBER RPI (to be published at 11.30 a.m. on Friday 17 October)

The level of the RPI rose by 0.5 per cent between August and September. The twelve month rate of inflation rose to 3.0 per cent in September from 2.4 per cent in August. This is marginally higher than we expected.

2. Excluding mortgage interest payments, the twelve month rate rose from 3.3 per cent in August to 3.4 per cent in September.

3. The rise in the twelve month rate reflects in part the decline in mortgage rates in September last year. There was a large increase in petrol prices of about 9 p per gallon between the August and September survey dates. Durable household goods was the only group for which prices fell between August and September. Apart from petrol, which alone accounted for half the rise between the two months, there was a large number of minor price rises spread throughout the index.

4. The increase in the all items RPI between January 1986 and September 1986 (the period relevant to the April 1987 social security uprating) was 2.1 per cent.

5. In October we expect little change in the twelve month rate of inflation. If there is a mortgage rate increase in November, the twelve month rate of inflation is likely to rise to a little over 3 per cent in the last two months of the year.

6. The RPI figures are broadly in line with City expectations. Wood Mackenzie, Goldman Sachs and Laing Cruickshank expect a twelve month rate of 3.0 per cent; Phillips and Drew 2.9 per cent.

S Brooks

S BROOKS
EAL DIVISION
EXT 7946

From:- MRS M. HENSON

DATE:- 17 OCTOBER 1986

MR HACCHE

COMBINED RELEASE OF LABOUR MARKET STATISTICS
ON 16 OCTOBER

The Chancellor has seen and was
grateful for your minute of
14 October.

Meena Henson

Unemployment

2. Seasonally-adjusted adult unemployment (excluding school leavers) fell sharply by 22,000 in September to 3,197,000, 11.6 per cent of the working population. Over the past six months the seasonally adjusted total has hardly changed, and over the last three months it has fallen on average by over 7,000 a month.

3. The headline total increased by 53,000 to 3,333,000, 12.1 per cent of the working population. This rise included an increase of 48,000 school leavers.

4. The stock of vacancies at Jobcentres (seasonally adjusted) increased a further 7,000 in September to reach 208,000.

5. Points of interest:

(a) September saw the largest fall in seasonally adjusted adult unemployment since April 1979.

(b) Last month seasonally adjusted adult unemployment was estimated to have *risen* slightly in August. As a result of changes to the seasonal factors this has now been revised to a significant fall of 4,000.

(c) Male unemployment (seasonally adjusted, adult) fell by 13,000 in September and has fallen by 19,000 in the last six months. Female unemployment fell by 9,000 in September but has risen by 18,000 in the last six months.

(d) The headline total is likely to fall in October. Seasonal factors will cause a fall in adult unemployment and some of this year's school leavers will have taken up YTS places or other jobs.

(e) [UNPUBLISHED, NOT FOR USE: Employment measures are estimated to have reduced the adult count by about 280,000 in September. The estimated effect on the count has been rising by about 5,000 month for more than a year]

(f) The stock of vacancies is at the highest level since the end of 1979. Inflows of notified vacancies have risen sharply in recent months and are also at their highest level since 1979. Placings have been rising more modestly and are still below the peak level reached last December.

Employment figures

6. This month we have figures for total employment in the second quarter, when the GB employed labour force increased by 19,000. This rise was the net result of an assumed increase of 30,000 in the self-employed and a decrease of 11,000 employees in employment. The number of employees in services increased by 35,000 but this was offset by decreases of 40,000 in manufacturing industries, and 8,000 in energy and water supply industries. The increase in total employment in the year to June 1986 was 199,000, compared with 332,000 in the year to June 1985 and 468,000 in the year to June 1984.

7. The rise in total employment in the second quarter was the thirteenth successive quarterly increase, the longest period of continuous employment growth for almost 30 years. However, this quarter's increase was also the smallest of the thirteen. The increase in total employment since June 1983 is still just below 1 million made up as follows:

Employees in Employment

Self employment	Males	Females Full time	Females Part time	Employed Labour Force	thousand
+505	-50	-22	+567	+999	

8. Later information is available for employees in employment in manufacturing. The average decrease of 11,000 per month in the three months to August was similar to that in the previous three months. The average rate of decrease of 13,000 a month so far this year is considerably faster than that in mid 1985 when there was only a very slow downward drift.

Assessment

9. DE's view is that unemployment has reached a turning point, almost certainly due to the introduction of Restart, which they estimate has reduced the claimant total by 20,000-25,000 between July and September.

10. You will have seen Mr S Davies' note of today which concludes that DE's estimate of the effect of Restart seems plausible. However, as Mr Davies points out, the trend in unemployment, excluding the effects of Restart, has also improved markedly in recent months - a rather puzzling development given the recent sluggish employment performance and relatively low level of overtime hours.

LINES TO TAKE

11. Unemployment/Vacancies:

Positive

On unemployment

Seasonally adjusted adult unemployment fell sharply in September - the largest fall for over 7 years [since April 1979].

On vacancies

Stock of vacancies has risen in each of the last eight months and is at highest level for seven years.

Defensive

Fall in unemployment result of people being scared off count by Restart; not due to underlying improvement in economy.

Recent improvement in trend not just due to Restart.

Restart's aim to help long term unemployed by offering in depth interview leading to offer of job on training or other help. But if some fraudulent claimants ceasing to claim, helpful side effect.

12. Employment

Positive

(i) Around one million more jobs created since June 1983.

(ii) Rises in employed labour force recorded for thirteenth successive quarters - longest period of continuous growth for almost thirty years.

Defensive

(i) Fall in employment in 1986Q2 but for arbitrary assumption on self-employment

Assumption on growth in self-employment in Q2 perfectly reasonable - based on average growth between 1981 and 1985 and therefore no reason to suspect upward bias.

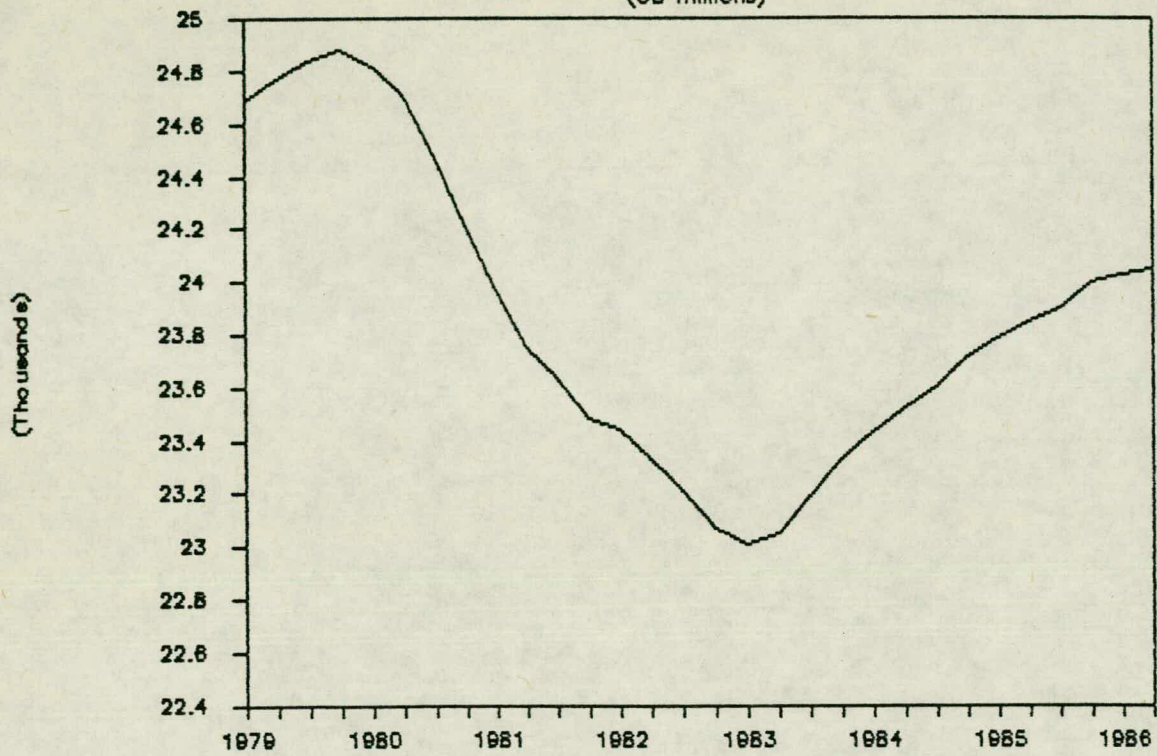
(ii) Increase in employment slowing; jobs increase in 1986Q2 smallest quarterly increase since recovery in employment began.

Even so, employment has increased over 13 successive quarters. Smaller increase mainly reflects temporary pause in economic activity which should soon be reversed.

pp R. Hawley
GWYN HACCHE

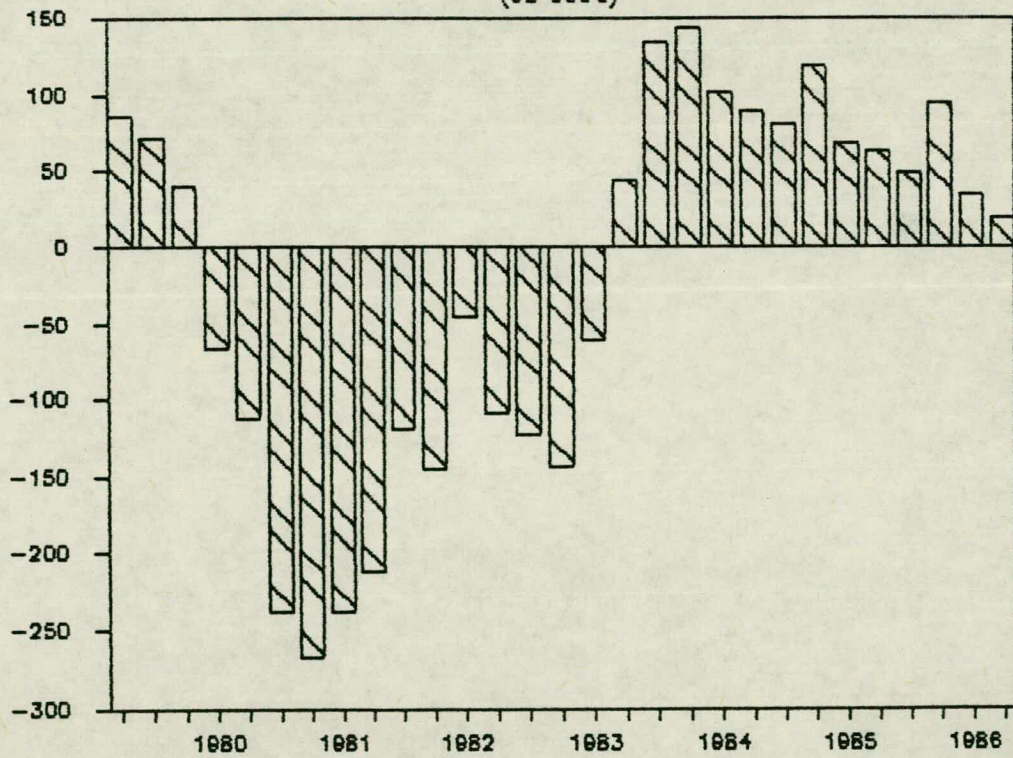
Employed Labour Force

(GB millions)



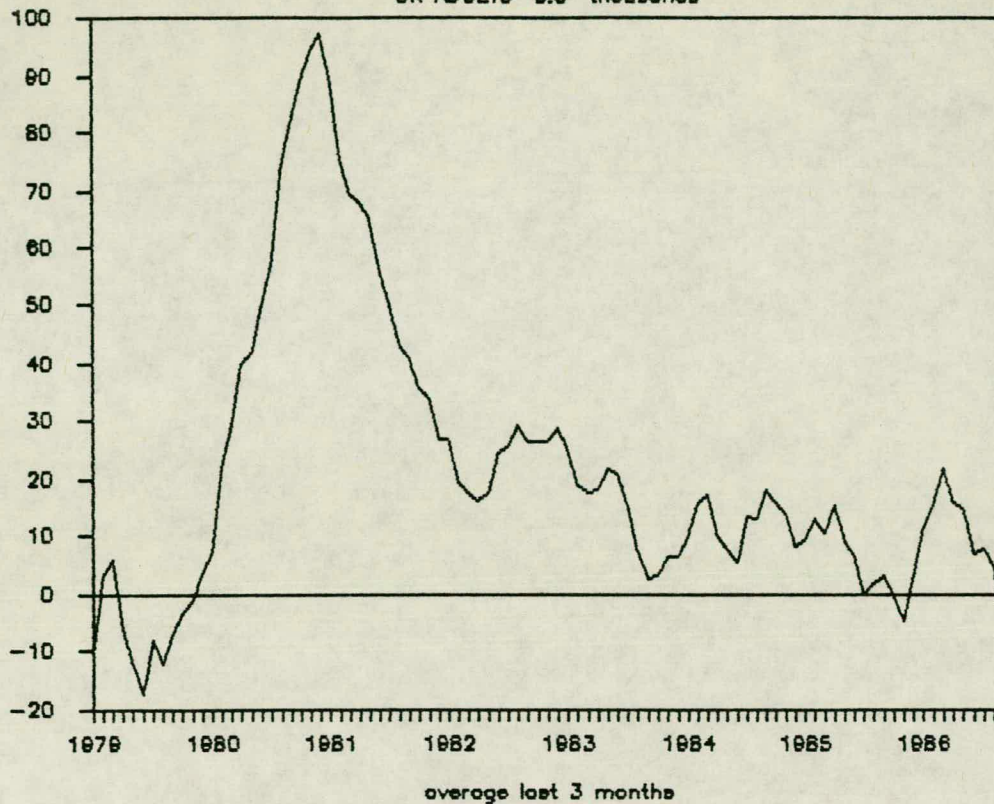
Changes In Employment

(GB 000's)



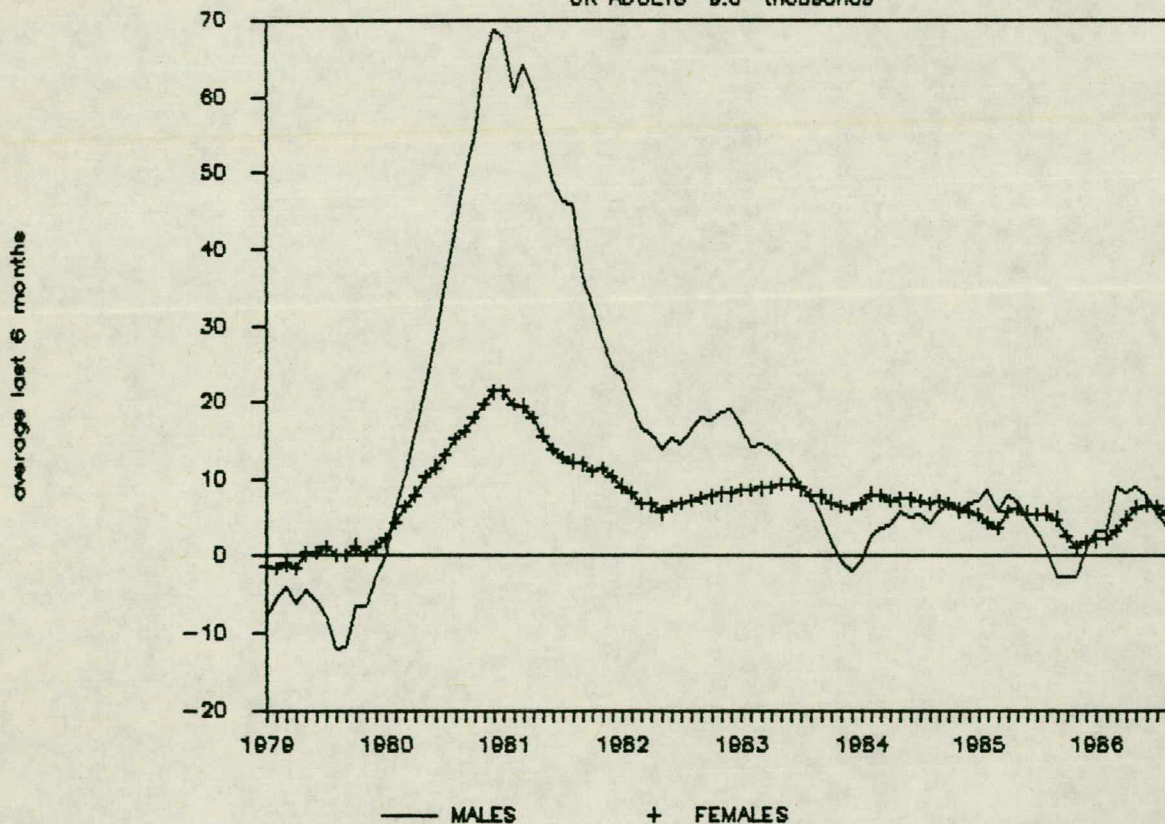
CHANGES IN UNEMPLOYMENT

UK ADULTS s.o thousands



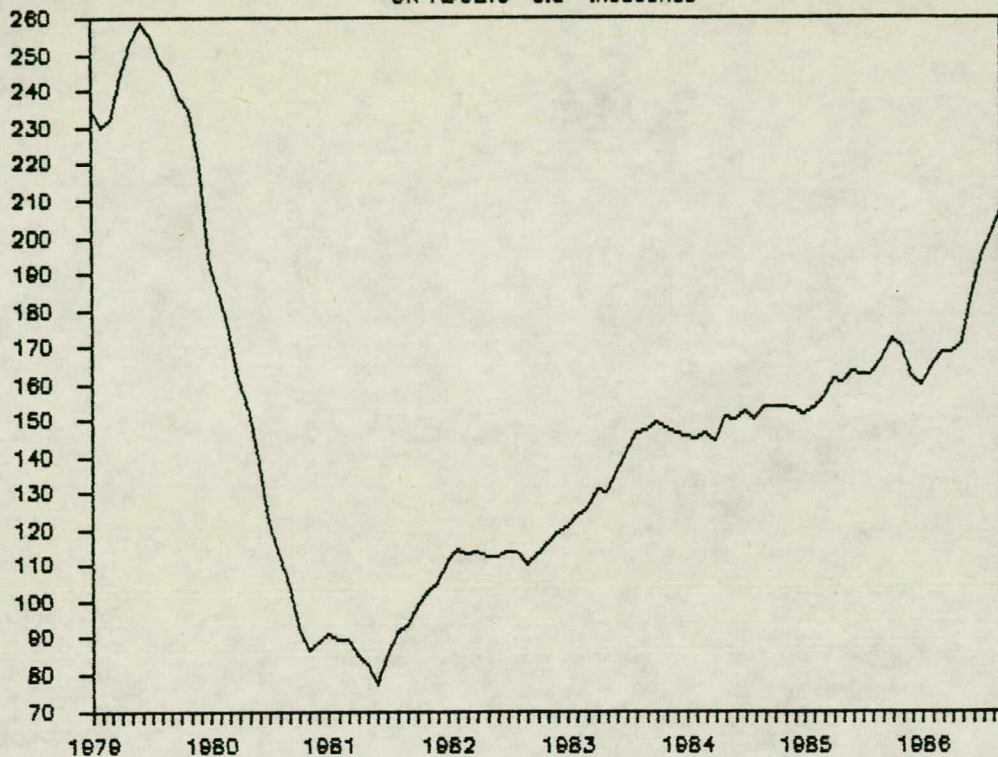
CHANGES IN UNEMPLOYMENT BY SEX

UK ADULTS s.o thousands



VACANCIES

UK ADULTS e.o thousands





DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 4887
GTN 215
(Switchboard) 01-215 7877

Mr A Allan
Principal Private Secretary
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON
SW1 3AG

*It is an @
all clear while
ham-07 (visit) reports
went to records in September?
went to bank for release
20 October 1986*

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

Publication is set for Thursday 23 October at 11.30 am and I should be grateful if you would arrange for the Notice to be cleared by 12.00 noon Wednesday 22 October and to inform me accordingly.

A copy of this letter and draft Press Notice is being sent to Sir Peter Middleton and Mr King, H M Treasury.

Yours sincerely

W. E. Boyd.

W E BOYD

until release of Press Notice on 23 October 1986



1. Cuts
2. p. 1

FROM: A C S ALLAN
DATE: 21 OCTOBER 1986

MR S KING

cc: Mr Bottrill
Mr Culpin

SEPTEMBER TRADE FIGURES

The Chancellor has seen the draft Press Notice on the Current Account and has asked whether it is true that non-oil exports were at a record in September. If so, he feels this should be brought out in the Press Briefing.

ACSA

A C S ALLAN

3981

FROM: S D KING
 DATE: 21 October 1986

AB
 21/10

Thanks.
 OK, n sound.
 An n add.
 AAA: add.
 X SLY n imports
 basic materials
 P.M.

1. MR BOTTRILL
2. CHANCELLOR OF THE EXCHEQUER

cc: see attached list

Content with press briefing?

CR2/10

SEPTEMBER TRADE FIGURES

The September trade figures will be released at 11.30 am on Thursday 23 October. They will show a deficit on visible trade of £877 million. Combined with a projected surplus on invisibles of £600 million, they give a current account deficit of £277 million.

Main points

^a Some good news i share
 growth i imports of basic
 materials.

2. Current Account

AA

£ billion

	1985			1986			January-September
		Q1	Q2	Q3	August	September	
Oil	8163	1922	732	768	211	276	3422
Non-oil	-10274	-3381	-2345	-3718	-1697	-1153	-9444
Visibles o.w.	-2111	-1459	-1613	-2951	-1486	-877	-6023
Manufactures	-3017	-1434	-612	-1951	-1089	-566	-3997
Invisibles	5713	2056	1958	1800*	600*	600*	5814*
Current balance	3602	597	345	-1151	-886	-277	-209

* projection

3. The value of exports rose in September from the depressed level in August. However, the value of imports was unchanged from the high level reached in August. The combined effect was to give

a visible trade deficit of £0.9 billion (compared with £1.5 billion in August), and a current account deficit of £0.3 billion. The cumulative current account for the first three quarters of 1986 shows a deficit of £0.2 billion; for the third quarter alone it is £1.2 billion. This is the largest quarterly deficit recorded in nominal terms, although at 1½ per cent of nominal GDP it is much smaller than some of the deficits recorded in the mid 1970s (eg 1974Q1, 3.9 per cent; 1974Q4, 4 per cent).

4. Exports

	percentage change		
	<u>September on August</u>	<u>1986Q3 on 1986Q2</u>	<u>1986Q3 on 1985Q3</u>
Total value	11	-1	-6½
Total volume	8	2½	6½
Total volume excluding oil and erratics	6½	2½	2½
Manufactures volume (excl. erratics, OTS basis)	5½	1	1½
Fuels volume	5	4½	10½

5. Export volumes, excluding oil and erratics, bounced back by 6½ per cent in September from their depressed level in August. There were increases in all four main categories (food, beverages and tobacco, basic materials, fuels, and manufactures) in September. The rise in the latest month maintains the underlying upward trend; volumes rose by 2½ per cent in 1986Q3 on the previous quarter to a level 2½ per cent above that of a year earlier.

6. Imports

	percentage change		
	<u>September on August</u>	<u>1986Q3 on 1986Q2</u>	<u>1986Q3 on 1985Q3</u>
Total Value	0	6	7
Total Volume	-2	8	11½
Total Volume exc. oil and erratics	-2½	7½	8½
Manufactures volume (OTS basis)	-2	7½	1
Fuels volume	3	24½	42½

7. Import volumes, excluding oil and erratics, fell by 2½ per cent from the historically high level reached in August. Nevertheless, the underlying trend upward has been strong in recent months; volumes rose by 7½ per cent in 1986Q3 on the previous quarter to a level 8½ per cent above that of a year earlier. Food, beverages and tobacco, and total manufactures fell slightly but there was a sharp increase in imports of basic materials. NB

Geographical area

8. By geographical area, there were sharp increases in exports to France, Italy, Germany and the US. There were signs of some slight recovery in exports to the oil exporting countries although, in value terms, levels are still well down on those reached earlier in the year. Imports from the EC fell slightly, but were offset by a rise in those from the rest of Europe. Other than this, however, there was little change on imports.

Trade prices

9. percentage change

	<u>Import prices (OTS)</u>		<u>Export prices (OTS)</u>	
	<u>September on August</u>	<u>1986Q3 on 1986Q2</u>	<u>September on August</u>	<u>1986Q3 on 1986Q2</u>
Manufactures	1½	1½	0	1½
Food, drink, tobacco	½	½	½	-½
Basic materials	1	-2	-1½	-3
Fuel	8	-19	12	-16
Total (BOP basis)	2	-1	½	0
Non-oil (BOP basis)	1½	1	0	1

10. The overall terms of trade deteriorated by 1½ per cent in September on the previous month, although there was an improvement of between ½ and 1 per cent in 1986Q3 on the previous quarter. The non-oil terms of trade also deteriorated by 1½ per cent in September, although in 1986Q3 as a whole they were unchanged on the previous quarter.

Comparison with forecast

11. [NOT FOR USE: the September and third quarter outturns for exports were slightly lower than assumed in the October internal forecast but for imports the outturns were slightly higher.]

Assessment

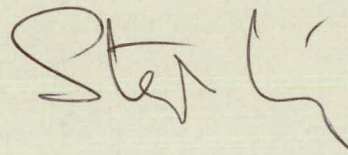
12. The deterioration in the current account in the third quarter reflects a worsening in the balance on non-oil trade - the balance on oil is roughly the same as it was in the second quarter. There are a number of reasons which might account for this. Export growth has been restrained by exceptionally weak demand in the oil exporting countries. Imports, however, have been very strong in August and September. This probably reflects a pick-up in domestic demand; manufacturing output has been rising, and retail sales are buoyant. Imports of consumer goods have been high in the last few months, although they fell back slightly in the latest month. The main increases in September in value terms were in basic materials and fuels. The fuels increase can be accounted for by the recent oil price rise. The increase in basic materials, however, may be an indication that manufacturers are stockbuilding in response to a strengthening of output expectation - this would be consistent with the recent improvement in the CBI balance on output expectations (an alternative explanation could be that prices of basic materials are expected to rise in the future, having come to the bottom of the present cycle).

Market expectations

13. The average market expectation (based on brokers' circulars) is for a visible trade deficit of around £700 million and a current account deficit of around £100 million. The outturns are thus worse than the expectation, and the figures may not be taken very well by the market. But as things look at the moment, and assuming a satisfactory outcome to the OPEC meeting, they will come against a market background that looks a good deal better than it did at the beginning of the week.

Press Briefing

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

A handwritten signature in dark ink, appearing to read "Step L" or "S D King" in a cursive style.

S D KING

DRAFT BRIEFING FOR IDT

Positive

- the part you wanted included.

1. Non-oil export volumes, excluding erratics, up by 8 per cent in September on August, and by 2½ per cent in 1986Q3 on 1986Q2, to reach all time highs. Volume of manufactured exports up by 5½ per cent in the latest month.

Defensive

1. Deficit of £0.3 billion in September - giving cumulative deficit for the year so far of £0.2 billion.

X | September figures a substantial improvement on previous month. Exports recovered from freak low in August and on clear upward trend despite weak demand from OPEC. Recent high level of imports reflects pick-up in domestic demand and industrial activity, but volumes down from high level in August.

Sharp ↑ in M of basic materials.

2. Deficit in third quarter cannot be attributed to deterioration in oil balance. Need decline in nominal exchange rate to improve situation.

Nominal exchange rate has already fallen but, as Chancellor noted in speeches to IMF and Mansion House, it will take time to have its full effect on the current account. However, in long run, nominal depreciation which threatened the Government's inflation objectives or encouraged excessive pay settlements would clearly be undesirable. More important for competitiveness is the need to improve performance on unit labour costs; excessive pay settlements can only make situation worse.

3. FSBR current account forecast too optimistic.

[Current account surplus of £3½ billion forecast for 1986 after £3.6 billion in 1985. Current account deficit of £0.2 billion in year to September].

Chancellor has already made this clear. An updated forecast will be published as usual later in the Autumn.

4. On basis of latest figures, seems likely that current account will be in large deficit in 1987.

✓ Much too soon to say. Current account will benefit from likely pick-up in world trade, *and from lagged effect of decline in exchange rate.*

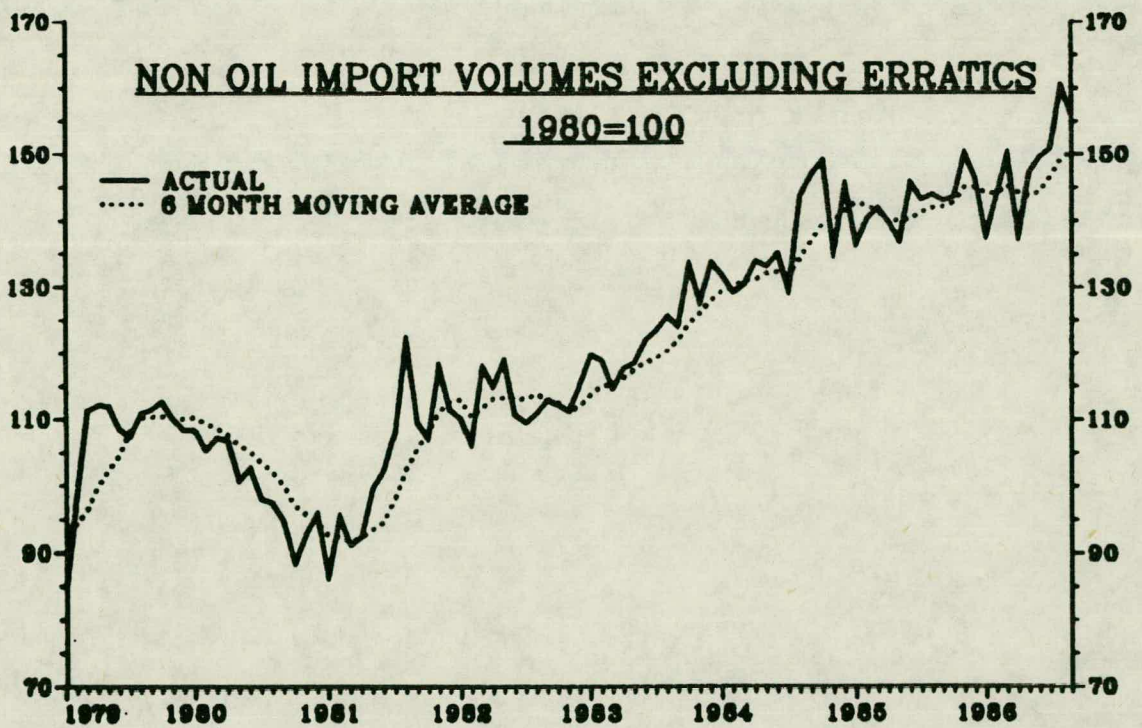
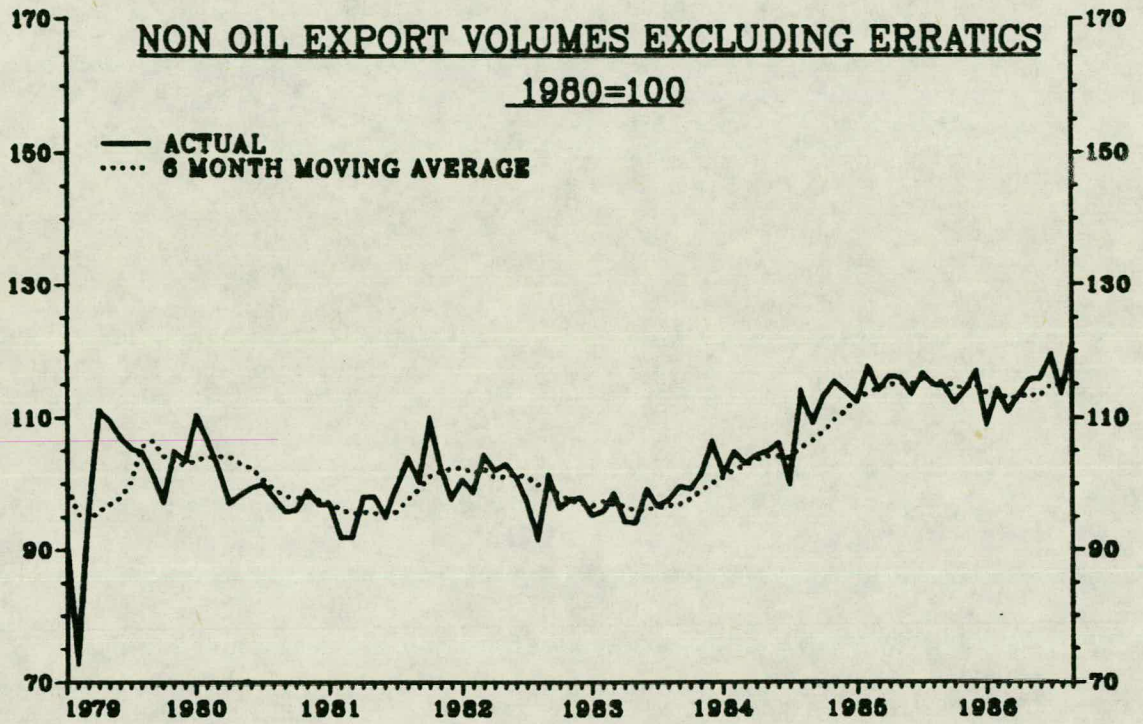
5. Import volume picking up.

Some rise to be expected given pick up in economic growth; indeed, similar experience has been shared by other countries in G5. But in volume terms, imports excluding erratics have fallen back on August's figures.

6. Trade in manufactures.

[Deficit of £566 million in September, giving cumulative deficit for first nine months of year of £4 billion.]

Figures have moved erratically over past few months; and unwise to concentrate on just one statistic in judging performance of manufacturing industry. Manufacturing output has grown in every year since 1981, longest period of uninterrupted growth since 1970's; manufacturing profitability, at 8 per cent, highest since 1973; manufacturing investment up 2 per cent in 1986 Q2 on 1985Q2.



TRADE FIGURES FOR SEPTEMBER 1986

Advance circulation

Chancellor	Mr Peretz
Chief Secretary	Mr Mowl
Economic Secretary	Miss O'Mara
Sir P Middleton	Mr Culpin
Sir G Littler	Mr Barrell
Sir T Burns	Mr Owen
Mr Cassell	Mr Norgrove - No. 10
Mr H P Evans	
Mr Sedgwick	

Circulation after 11.30 a.m. on Thursday 23 October

Financial Secretary
Minister of State
Mr Matthews
Mr Shaw
Mr Hacche
Mr Tyrie
Mr Ross Goobey
Miss Roche (No. 10)

*Page let us have below with add - excluded
(a) RPI data of pub. below with add - excluded
RPI data of pub. below with add - excluded
(b) a table of pub. below with add - excluded
Mortgage rates, a table of pub. below with add - excluded
(c) a table of pub. below with add - excluded
Mortgage rates, a table of pub. below with add - excluded
Mortgage rates, a table of pub. below with add - excluded*

FROM: S BROOKS
DATE: 21 October 1986

MRS RYDING

cc: Mr Sedgwick
Mr Davies

MONTHLY PATH FOR THE RPI

Our current view of the likely monthly path of the RPI is shown in the attached table.

*We could do as led to stall until teachers' pay, at the way.
? For PEN material on future handling?
AA
ybs.
(with min -
Curl
Stall until after AS)*

Ch
This is going to be v tricky - with substance & handling with No 10.

(a) on present forecast, yes-on-year increase will be greater than @ last election throughout **April - Oct** 1987. (and all figs assume mortgage rate not increasing further).

(b) the two main things we could do to influence this are
(i) give local authorities still more grant so as to hold down rate rises
(ii) fail to revalue indirect taxes in the Budget.

S BROOKS
EAL Division

For next PEN

Expected Path of the RPI

	RPI	% change on a year earlier	RPI excl. mortgage interest payments	% change on a year earlier
1986				
October	388.0	2.9	385.2	3.3
November	390.3	3.1	386.3	3.3
December	392.4	3.6	387.1	3.4
1987				
January	393.8	3.7	388.4	3.6
February	394.5	3.5	388.9	3.3
March	395.2	3.6	389.6	3.4
April	400.8	4.0	395.2	3.7
May	402.3	4.2	396.5	3.8
June	403.8	4.7	398.0	3.8
July	403.3	4.8	397.3	4.0
August	404.1	4.7	397.9	3.8
September	403.9	4.2	397.5	3.3
October	405.2	4.4	398.6	3.5
November	405.1	3.8	398.4	3.1
December	405.2	3.3	398.2	2.9

Yr on yr
in May 83
3.7%

no: checks was
"high" on Apr RPI
of 4.2: Mar (by
had pushed into
after push by June
(do checks)

*Andrew**Ruf*

FROM: CATHY RYDING
DATE: 22 OCTOBER 1986

MR KING

cc: Chief Secretary
Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Cassell
Mr H P Evans
Mr Sedgwick
Mr Peretz
Mr Bottrill
Mr Mowl
Miss O'Mara
Mr Culpin
Mr Barrell
Mr Owen
Mr Norgrove - No.10

SEPTEMBER TRADE FIGURES

The Chancellor was grateful for your minute of 21 October.

2. To confirm our telephone conversation this morning, the Chancellor suggests that Defensive 1 should include a reference to the fact that the recent high level of imports reflects a sharp increase in the import of basic materials. He also suggests that Defensive 4 be redrafted as follows :-

'Much too soon to say. Current account would benefit from likely pick up in world trade, and from lagged effect of decline in exchange rates.'

C.R

CATHY RYDING

SECRET AND PERSONAL until release of Press Notice
on 23/10/86 at 11.30 am

THE CURRENT ACCOUNT OF THE
UNITED KINGDOM BALANCE OF PAYMENTS

SEPTEMBER 1986

The current account for September is estimated to have been in deficit by £277 million compared with a deficit of £886 million in August. In September, exports were valued at £6082 million and imports at £6959 million so that trade in goods was in deficit by £877 million.

The balance on invisibles in September 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.

THIRD QUARTER 1986

In the third quarter of this year, the current account showed a deficit of £1.2 billion compared with a surplus of £0.3 billion in the second quarter. There was a deficit on visible trade of £3.0 billion compared with a deficit of £1.6 billion in the second quarter. The surplus on invisibles in the third quarter is projected at £1.8 billion.

CURRENT ACCOUNT

TABLE 1 £ million, Seasonally adjusted

	Current Balance	Visible Trade			Invisibles Balance ^b
		Balance	Exports fob	Imports fob	
1984	+ 1212	- 4384	70367	74751	+ 5596
1985	+ 3602	- 2111	78051	80162	+ 5713
1985 Q3	+ 1447	- 440	18749	19188	+ 1886
Q4	+ 612	- 292	19006	19299	+ 904
1986 Q1	+ 597	- 1459	18204	19663	+ 2056
Q2	+ 345	- 1613	17708	19321	+ 1958
Q3	+ 1151 ^a	- 2951	17542	20492	+ 1800 ^a
1986 Apr	+ 360	- 293	6017	6310	+ 653
May	- 46	- 698	5865	6563	+ 652
June	+ 30	- 623	5826	6449	+ 653
July	+ 12 ^a	- 588	5990	6577	+ 600 ^a
Aug	- 886 ^a	- 1486	5470	6956	+ 600 ^a
Sept	- 277 ^a	- 877	6082	6959	+ 600 ^a
Jan-Sept 1986	- 209 ^a	- 6023	53453	59476	+ 5814 ^a

^a Invisibles for July to September 1986 are projections and subject to revision as information becomes available.

^b Monthly figures are one-third of the appropriate calendar quarter's estimate or 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 SEPTEMBER 1986

There was a deficit on visible trade in September of £877 million compared with a deficit of £1486 million in August. The surplus on oil at £276 million was £65 million higher than in August and the deficit on non-oil trade fell by £544 million to £1153 million.

At £6082 million, exports in September were 11 per cent higher than the low August level and $1\frac{1}{2}$ per cent higher than in July. Exports of oil increased by £89 million between August and September and exports of the erratic items increased by £230 million. Excluding oil and the erratic items exports in September were 6 per cent higher than in August and 2 per cent higher than in July.

Total imports were valued at £6959 million, virtually the same as in August. Imports of the erratic items increased by £137 million between the two months however, and imports of oil increased by £24 million. Excluding oil and the erratic items, imports in September were $2\frac{1}{2}$ per cent lower than in August.

RECENT TRENDS

Visible balance

In the third quarter of this year there was a deficit on visible trade of £3.0 billion - a surplus on trade in oil of £0.8 billion offset by a deficit of about £3.7 billion on non-oil trade. Between the second and third quarters the deficit on visible trade increased by £1.3 billion reflecting an increase in the deficit on non-oil trade - the surplus on oil was little changed.

Exports

Exports amounted to £17.5 billion in the third quarter, £0.2 billion (1 per cent) less than in the second quarter. Exports of oil fell by £0.2 billion between the two quarters while exports of the erratic items fell by £0.4 billion. Excluding oil and the erratic items exports grew by 3 per cent between the second and third quarters. Exports of food and of basic materials grew strongly; exports of manufactures (excluding the erratic items) were 2 per cent up in the third quarter.

By volume, exports grew by $2\frac{1}{2}$ per cent in the third quarter to be 6 per cent higher than in the third quarter of 1985. Export volume excluding oil and the erratic items grew by $2\frac{1}{2}$ per cent between the latest two quarters. The latest monthly figures confirm that the underlying level of non-oil export volume has been rising over the last six months or so.

Imports

Total imports were valued at £20.5 billion in the third quarter, £1.2 billion (6 per cent) more than in the previous quarter. Between the two quarters, imports of oil fell by £0.2 billion while imports of the erratic items were little changed. Excluding oil and the erratic items, imports increased by 8 per cent with finished manufactures up 11 per cent and semi-manufactures up 5 per cent.

By volume, imports increased by $8\frac{1}{2}$ per cent in the latest quarter to a level 12 per cent higher than the same period a year ago. Excluding oil and the erratic items import volume rose by $7\frac{1}{2}$ per cent in the latest quarter. The underlying level of non-oil import volume has recently been growing rapidly.

Terms of trade and unit values

The terms of trade index increased by $\frac{1}{2}$ per cent in the latest quarter with the export unit value index remaining virtually unchanged and the import unit value index falling by about 1 per cent. Compared with the third quarter of last year, the export unit value index has fallen by 5 per cent and the import unit value index by $7\frac{1}{2}$ per cent so that the terms of trade index is now about 3 per cent higher than a year ago.

Export unit values for fuels fell by 16 per cent in the latest quarter while the unit value index for non-oil exports increased by 1 per cent. Within the total for non-oil exports, the unit value index for basic materials fell by 3 per cent and those for food beverages and tobacco fell by $\frac{1}{2}$ per cent. Export unit values for semi-manufactures were unchanged between the latest two quarters while those for finished manufactures grew by 2 per cent.

The import unit values for fuels fell by 19 per cent in the quarter while the unit value index for non-oil imports rose by 1 per cent. Import unit values for semi-manufactures were $\frac{1}{2}$ per cent up on the second quarter while

those for finished manufactures increased by $2\frac{1}{2}$ per cent.

Analysis by area

Exports to the developed countries increased by 1 per cent while exports to the developing countries fell by $8\frac{1}{2}$ per cent (mainly reflecting a 17 per cent fall in exports to the oil exporting countries). Within the total for the developed countries, exports to the European Community countries and to the 'other' developed countries rose by $3\frac{1}{2}$ per cent while exports to North America were down $4\frac{1}{2}$ per cent.

Total imports from the developed countries increased by $7\frac{1}{2}$ per cent between the second quarter and the third quarter. Within the total, arrivals from the European Community were up by 9 per cent while imports from North America increased by 2 per cent. Imports from the developing countries as a whole increased by 4 per cent in the latest quarter; a 15 per cent fall in arrivals from the oil exporting countries being offset by an 8 per cent increase in imports from the other developing countries.

NOTES TO EDITORS

1 STANDARD NOTES

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

2 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 comparisons. The Monthly Review is available from the Department of Trade and Industry at the address given below for an annual subscription of £38 or £3 per copy.

3 AREA (tables 11 and 15)

Low value consignments ie items of an individual value less than £475, are not analysed by country and are therefore excluded from the area data in tables 11 and 15.

In addition the method of seasonal adjustment leads to further differences between the sum of areas and figures for total trade.

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

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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	Non-Oil	
1984	+ 1212	70367	74751	- 4384	+ 6937	- 11321	+ 5596
1985	+ 3602	78051	80162	- 2111	+ 8163	- 10274	+ 5713
1985 Q3	+ 1447	18749	19188	- 440	+ 1900	- 2340	+ 1886
Q4	+ 612	19006	19299	- 292	+ 1893	- 2185	+ 904
1986 Q1	+ 597	18204	19663	- 1459	+ 1922	- 3381	+ 2056
Q2	+ 345	17708	19321	- 1613	+ 732	- 2345	+ 1958
Q3	+ 1151 a	17542	20492	- 2951	+ 768	- 3718	+ 1800 a
1986 Jan	+ 1102	6284	6160	+ 124	+ 949	- 826	+ 978
Feb	+ 161	6188	6566	- 378	+ 643	- 1021	+ 539
Mar	- 666	5732	6936	- 1205	+ 330	- 1534	+ 539
Apr	+ 360	6017	6310	- 293	+ 252	- 545	+ 653
May	- 46	5865	6563	- 698	+ 201	- 899	+ 652
June	+ 30	5826	6449	- 623	+ 279	- 901	+ 653
July	+ 12 a	5990	6577	- 588	+ 281	- 869	+ 600 a
Aug	- 886 a	5470	6956	- 1486	+ 211	- 1697	+ 600 a
Sept	- 277 a	6082	6959	- 877	+ 276	- 1153	+ 600 a
% Change							
Latest 3 months on previous 3 months/same 3 months one year ago		- 1	+ 6				
		- 6½	+7				

a Invisibles for July and September 1986 are projections and subject to revision as more information become available.

b Monthly figures are one-third of the appropriate quarters estimate or projection, except for VAT abatement 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			Credits	Debits	Balance
				Services	Interest Profits Dividends	Transfers			
1983	65224	61255	+ 3969	+ 3652	+ 2421	- 2104	60599	52903	+ 7696
1984	76737	71141	+ 5596	+ 3744	+ 4157	- 2305	71859	62054	+ 9805
1985	80608	74895	+ 5713	+ 5812	+ 3400	- 3499	76241	64791	+ 11450
1984 Q3	19613	18248	+ 1365	+ 949	+ 1177	- 761	18641	16030	+ 2611
Q4	21529	19489	+ 2040	+ 953	+ 1322	- 235	19850	17118	+ 2732
1985 Q1	21780	20542	+ 1238	+ 1202	+ 1051	- 1015	20612	17817	+ 2795
Q2	20324	18639	+ 1685	+ 1621	+ 817	- 753	19362	16376	+ 2986
Q3	19518	17632	+ 1886	+ 1600	+ 1217	- 931	18352	14939	+ 3413
Q4	18986	18082	+ 904	+ 1389	+ 315	- 800	17915	15659	+ 2256
1986 Q1	18954	16898	+ 2056	+ 1233	+ 1038	- 215	17793	14883	+ 2910
Q2	18606	16648	+ 1958	+ 1408	+ 1147	- 597	17375	14234	+ 3141

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	98.9	118.6	125.8
1985 Q3	141.7	141.4	100.2	116.3	124.1
Q4	140.5	138.2	101.6	118.9	127.9
1986 Q1	139.0	137.5	101.1	117.4	126.1
Q2	134.8	131.6	102.4	120.8	128.1
Q3	134.7	130.6	103.2	123.6	138.6
1986 Jan	140.7	138.2	101.8	118.6	120.1
Feb	138.7	137.7	100.7	120.6	125.9
Mar	137.5	136.5	100.7	113.0	132.3
Apr	135.3	133.0	101.7	121.5	123.4
May	134.3	131.6	102.0	120.2	131.2
June	134.9	130.3	103.6	120.7	129.6
July	133.3	129.3	103.2	126.6	134.0
Aug	135.0	129.9	103.9	117.3	142.3
Sept	135.9	132.5	102.5	126.8	139.5
% Change					
Latest 3 months on					
- previous 3 months	-	- 1	+ ½	+ 2½	+ 8½
- same 3 months					
one year ago	- 5	- 7½	+ 3	+ 6	+ 12

^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
(Balance of Payments basis)

Table 5

	Value £ million fob		Volume Index 1980 = 100	
	Exports	Imports	Exports	Imports
1984	65746	71191	115.4	128.8
1985	73760	76617	123.0	133.4
1985 Q3	17835 3410	14425 14228	121.5	132.3
Q4	17811 3583	18661 14228	122.3	137.1
1986 Q1	17146 3117	18715 14029	121.6	133.2
Q2	16162 1717	18419 14445	121.6	135.9
Q3	16423 1557	19608 14866	128.0	147.4
1986 Jan	5921 1378	5903	122.9	127.3
Feb	5835	6260	125.1	133.4
Mar	5390	6552	116.8	138.9
Apr	5381 oil	5998	120.5	130.4
May	5431	6228	123.1	139.2
June	5350	6193	121.4	138.2
July	5557 569	6333	130.0	143.6
Aug	5242	6705	123.8	152.0
Sept	5624 539	6570	130.3	146.5
% Change				
Latest 3 months on				
- previous 3 months	+ 1½	+ 6½	+ 5	+ 8½
- same 3 months				
one year ago	+ 8	+ 6½	+ 5½	+ 11

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

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TRADE IN OIL⁹
(Balance of Payments basis)

seasonally adjusted

	Balance of Payments basis											
	Balance	Exports of Oil					Imports of Oil					
	of	Crude Oil				Rest of	Crude Oil					Rest of
	Trade	Total	[SITC (REV 2) 333.0]			Division	Total	[SITC (REV 2) 333.0]			Division	
in oil					33						33	
	£	£	£	Avg value	£	£	£	£	Avg value	£		
	million	million	million	per tonne	million	million	million	million	per tonne	million	million	
	fob	fob	fob	£ fob	fob	fob	fob	fob	£ fob	fob	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 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	+ 1922	3117	2520	22.8	110.7	597	1195	749	6.8	109.9	445	
Q2	+ 732	1717	1135	18.1	62.8	583	986	559	7.6	73.2	426	
Q3	+ 768	1557	1138	20.0	56.9	419	790	383	7.7	49.5	406	
1986 Jan	+ 949	1378	1133	8.2	138.6	244	428	284	2.1	135.1	144	
Feb	+ 643	1048	859	8.2	104.4	189	405	261	2.5	102.9	143	
Mar	+ 330	692	528	6.4	83.1	164	362	204	2.2	93.7	158	
Apr	+ 252	642	428	6.6	64.6	214	390	228	2.8	80.5	162	
May	+ 201	566	363	6.0	60.7	202	365	225	3.0	75.4	139	
June	+ 279	510	343	5.4	63.1	166	231	106	1.8	58.3	125	
July	+ 281	569	402	7.0	57.7	167	288	158	3.3	47.9	130	
Aug	+ 211	449	335	6.5	51.8	114	239	115	2.4	47.4	124	
Sept	+ 276	539	401	6.6	61.1	138	263	110	2.0	54.6	152	
% Change												
Latest 3 months on												
- previous 3 months	- 9½	+ ½	+ 11	- 9½	- 28	- 20	- 32	+ 1½	- 32	- 4½		
- same 3 months												
one year ago	- 54	- 56	+ 14	- 62	- 48	- 48	- 53	+ 38	- 66	- 41		

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 8 of the standard notes).

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Export

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)		Terms of Trade ^e	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		Exports	Imports	Exports	Imports	Exports	Imports	
1984	- 11321	55515	66837	133.5	136.2	98.0	104.9	128.2	50894	63276	107.6	137.0	
1985	- 10274	62001	72275	141.8	141.8	100.0	110.6	133.0	57710	68730	115.0	142.7	
1985	Q3	- 2340	15339	17679	141.6	139.2	101.7	110.0	132.8	14425	16916	115.4	143.5
	Q4	- 2185	15423	17609	140.6	136.4	103.1	111.2	135.2	14228	16971	114.4	146.7
1986	Q1	- 3381	15086	18468	143.0	139.9	102.2	107.6	134.5	14029	17520	111.4	143.8
	Q2	- 2345	15990	18335	144.2	139.2	103.6	114.7	134.9	14444	17433	115.0	144.9
	Q3	- 3718	15984	19703	145.8	140.8	103.6	114.0	144.8	14866	18818	118.1	155.7
1986	Jan	- 826	4906	5732	141.8	137.3	103.2	105.5	128.3	4544	5475	109.2	137.8
	Feb	- 1021	5140	6162	143.0	140.4	101.8	110.0	134.1	4787	5855	114.1	143.8
	Mar	- 1534	5040	6574	144.2	141.8	101.6	107.2	141.2	4698	6190	111.0	150.0
	Apr	- 545	5375	5919	143.8	140.3	102.5	115.1	128.9	4739	5608	113.4	137.8
	May	- 899	5300	6198	144.0	138.3	104.1	113.1	137.3	4865	5864	115.7	147.3
	June	- 901	5316	6218	144.8	138.9	104.2	115.9	138.5	4840	5962	115.9	149.6
	July	- 869	5420	6289	144.0	139.5	103.2	116.5	139.2	4988	6045	119.4	150.9
	Aug	- 1697	5021	6718	146.7	140.5	104.4	107.4	148.4	4793	6466	113.9	160.3
	Sept	- 1153	5543	6696	146.6	142.3	103.0	118.1	147.0	5085	6307	121.2	156.0
% Change													
Latest 3 months on													
- previous 3 months													
- same 3 months one													
year ago													
		+ 4	+ 11	+ 3	+ 1	+ 2	+ 3½	+ 9	+ 3	+ 11	+ 2½	+ 8½	

^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

SITC (REV 2)	Manufactures excluding erratics ^h														
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
						Total	Total	Chemi- cals	Other	6	7+8	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital
5-8	5+6	5	less	less	less	SNAPS	PS	PS	SNA						
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 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	
Q2	17816	1275	440	1913	13636	12207	4613	2414	2199	7594	347	1375	3333	2538	
Q3	17672	1426	546	1641	13556	12479	4805	2454	2351	7674	361	1474	3396	2444	
1986 July	6033	449	167	600	4637	4219	1599	805	794	2620	99	506	1166	849	
Aug	5505	456	188	472	4229	4025	1533	806	727	2491	142	474	1090	785	
Sept	6134	521	191	569	4691	4236	1673	843	830	2563	119	494	1140	810	
% change Q3/Q2	- 1	+ 12	+ 24	- 14	- 1/2	+ 2	+ 4	+ 1 1/2	+ 7	+ 1	+ 4	+ 7	+ 2	- 3 1/2	

^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 COMMODITY: VOLUME INDICES
(Overseas Trade Statistics basis)

Table 9

INDICES 1980 = 100, seasonally adjusted

SITC (REV 2)	Manufactures excluding erratics ^h														
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
						Total	Total	Chemi- cals	Other	6	7+8	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital
5-8	5+6	5	less	less	less	SNAPS	PS	PS	SNA						
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	
1985 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	88	108	117	103	
Q2	122.0	119	102	170	115	116	120	139	105	113	97	115	118	107	
Q3	124.5	137	127	178	113	117	126	142	112	112	97	122	119	101	
1986 July	127.6	124	120	191	117	120	125	139	114	117	80	129	123	108	
Aug	118.1	134	128	167	106	113	120	140	104	108	115	118	115	96	
Sept	127.9	154	134	175	116	119	131	146	119	111	96	120	119	99	
% change Q3/Q2	+ 2	+ 15	+ 25	+ 4 1/2	- 2	+ 1	+ 4 1/2	+ 2	+ 6 1/2	- 1/2	+ 1/2	+ 6 1/2	+ 1/2	- 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.

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

INDICES 1980 = 100 not seasonally adjusted

SITC (REV 2)	Manufactures excluding erratics ^h													
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver (PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
						Total	Chem- icals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capita	
					5-8	5+6		6	7+8					
	0-9	0+1	2+4	3	5-8	less	less	5	less	less	j	j	j	j
					SNAPS	PS		PS	SNA					
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 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
Q2	134.7	141	124	74	146	147	138	142	134	153	179	156	156	145
Q3	134.6	140	120	62	148	149	137	140	136	156	186	156	160	147
1986 July	133.2	140	119	63	146	147	136	139	134	153	182	155	157	145
Aug	134.8	140	121	58	149	150	138	141	136	157	186	156	162	148
Sept	135.7	141	119	65	149	150	138	140	136	157	191	158	161	148
% change Q3/Q2	-	- ½	- 3	- 16	+ 1½	+ 1½	-	- 1½	+ 1	+ 2	+ 4	+ ½	+ 3	+ 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.

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 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
1985 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
Q2	17816	13768	8254	1713	2919	2536	882	3483	1567	1917	471
Q3	17672	13926	8525	1696	2794	2390	911	3193	1293	1900	357
1986 July	6033	4706	2843	581	977	830	305	1177	532	646	121
Aug	5505	4346	2643	522	894	753	287	1015	364	651	108
Sept	6134	4874	3039	593	922	808	320	1001	397	604	128
% change Q3/Q2	- 1	+ 1	+ 3½	- 1	- 4½	- 6	+ 3½	- 8½	- 17	- 1	- 24

K See paragraph 3 of Notes to Editors.

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IMPORTS BY COMMODITY
(Overseas Trade Statistics basis)

£ million cif seasonally adjusted

SITC (REV 2)	Manufactures excluding erratics ^h													
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
						Total	Chem- icals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capita	
0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5 less PS	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 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	20742	2507	1225	1797	14839	14002	5024	1809	3215	8978	1152	2281	2881	2665
Q2	20461	2416	1213	1523	14904	14078	5003	1789	3214	9075	1150	2413	2992	2520
Q3	21872	2578	1190	1423	16171	15324	5253	1854	3399	10070	1301	2672	3287	2810
1986 July	6995	826	367	514	5158	4920	1678	590	1088	3242	427	863	1058	894
Aug	7409	893	380	426	5541	5310	1774	635	1139	3536	492	916	1156	973
Sept	7468	859	443	483	5471	5093	1802	629	1173	3292	382	894	1073	943
% change Q3/Q2	+ 7	+ 6½	- 2	- 6½	+ 8½	+ 9	+ 5	+ 3½	+ 6	+ 11	+ 13	+ 11	+ 10	+ 12

^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

SITC (REV 2)	Manufactures excluding erratics ^h													
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
						Total	Chem- icals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capit	
0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5 less PS	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 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	125.0	126	105	74	141	155	148	183	133	159	130	145	171	175
Q2	127.1	120	106	86	143	157	149	186	133	162	126	154	182	168
Q3	138.3	126	106	107	154	169	156	194	141	177	144	166	193	186
1986 July	132.9	122	98	117	148	164	150	188	135	172	142	164	191	177
Aug	141.6	131	102	101	158	175	159	200	142	186	166	171	204	192
Sept	140.3	125	119	104	155	168	160	194	145	173	125	163	185	189
% change Q3/Q2	+ 9	+ 5½	+ ½	+ 25	+ 7½	+ 7½	+ 5	+ 4	+ 5½	+ 9	+ 14	+ 7½	+ 6½	+ 11

^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

SITC (REV 2)	Manufactures excluding erratics ^h													
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
						Total	Total	Chemi- cals	Other	6	7+8	Pass- enger Motor Cars	Other Consumer	Inter- mediate
						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	133	139	130	146	152	147	155	134
1985 Q3	139.2	135	124	161	139	139	131	137	128	144	149	145	154	131
Q4	136.3	132	116	155	137	138	130	137	127	143	156	143	148	131
1986 Q1	135.6	134	116	132	140	142	132	141	129	148	165	145	152	138
Q2	130.1	135	113	96	140	142	131	139	128	148	169	144	153	139
Q3	129.3	136	111	78	142	144	132	139	130	152	168	147	160	141
1986 July	128.0	135	111	77	141	142	132	138	129	149	168	145	155	139
Aug	128.7	136	110	75	142	144	133	140	130	152	167	146	162	142
Sept	131.1	137	111	81	144	146	133	140	130	155	170	150	164	143
% change Q3/Q2	- ½	+ ½	- 2½	- 19	+ 2	+ 2	+ ½	+ ½	+ 1	+ 2½	- ½	+ 2½	+ 4½	+ 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 adjusted

	Total K	Developed Countries						Developing Countries			Centrally planned economies
		Total Community	European	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
1985 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	20742	17916	10697	3167	2395	2007	1657	2438	507	1932	424
Q2	20461	17301	10536	2682	2427	2035	1657	2539	461	2077	451
Q3	21872	18601	11484	2889	2471	2110	1757	2640	393	2247	470
1986 July	6995	5990	3675	923	834	711	558	768	151	617	166
Aug	7409	6311	4036	876	819	704	580	917	129	788	170
Sept	7468	6300	3772	1090	818	695	619	955	112	843	134
% change Q3/Q2	+ 7	+ 7½	+ 9	+ 7½	+ 2	+ 3½	+ 6	+ 4	- 15	+ 8	+ 4

K See paragraph 3 Notes to Editors.

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COMMODITY ANALYSIS OF VISIBLE TRADE
(Balance of Payments basis)

£ million, seasonally adjusted

SITC (R2)	Food Beverages and Tobacco			Basic Materials			Fuels		
	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	4931	8523	- 3592	2161	4795	- 2634	16712	10087	+ 6625
1984 Q4	1218	2126	- 908	563	1349	- 786	4180	3297	+ 883
1985 Q1	1185	2156	- 971	585	1315	- 731	4892	3387	+ 1505
Q2	1272	2141	- 869	533	1232	- 699	4513	2541	+ 1971
Q3	1290	2118	- 829	534	1162	- 628	3600	2067	+ 1533
Q4	1185	2108	- 923	509	1086	- 577	3708	2092	+ 1616
1986 Q1	1197	2294	- 1096	515	1102	- 588	3271	1702	+ 1569
Q2	1262	2212	- 949	440	1095	- 655	1861	1389	+ 472
Q3	1416	2356	- 940	548	1073	- 525	1641	1294	+ 347
SITC (R2)	Semi-Manufactures			Finished Manufactures			Total Manufactures		
	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	20043	19958	+ 85	32237	35339	- 3102	52280	55297	- 3017
1984 Q4	4960	4890	+ 69	7797	8771	- 974	12757	13662	- 905
1985 Q1	5017	4836	+ 182	7948	9258	- 1311	12965	14094	- 1129
Q2	5201	5032	+ 169	8216	9046	- 830	13417	14077	- 661
Q3	4852	5124	- 272	7960	8359	- 400	12812	13484	- 672
Q4	4973	4966	+ 7	8114	8676	- 562	13087	13642	- 555
1986 Q1	4847	5303	- 456	7895	8873	- 979	12742	14176	- 1434
Q2	5223	5177	+ 46	8377	9035	- 658	13600	14212	- 612
Q3	5235	5403	- 169	8206	9988	- 1782	13440	15391	- 1951

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

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MONTHLY ECONOMIC BRIEF

Prepared by the CSO on 31 October 1986

Limited information about developments in the third quarter so far available suggest that economic activity increased by about $\frac{1}{2}$ per cent as compared with the previous quarter. The underlying trend rate of growth for GDP is currently thought to be in the range 1-3 per cent per annum.

Unemployment fell sharply between August and September. The current trend is uncertain but unemployment may have reached a turning point with the help of the Restart programme.

Sterling fell to record lows during the month with an ERI of 67.1 on the 8th and DM2.8145 on the 17th. The pound has shown some improvement later on in the month mainly as a result of a stronger US dollar. Market interest rates hardened during the first part of October. On Tuesday 14th base rates were increased by 1 per cent to 11 per cent. More recently, there has been some gentle easing of market rates.

Retail prices rose by 3.0 per cent in the twelve months to September. The increase from the rate of 2.4 per cent in the period to August partly reflects the decline in mortgage rates in September 1985 which drops out of the comparison. Petrol prices also increased sharply between August and September this year. Producer input prices increased in seasonally adjusted terms by 1 per cent in August and $1\frac{3}{4}$ per cent in September, following an almost uninterrupted decline of $15\frac{1}{2}$ per cent from a peak early last year. The latest increases are mainly the result of higher prices of petroleum products and imported materials, in part a reflection of the recent depreciation of sterling.

The PSBR in September was rather less than expected by outside commentators and the cumulative total for the first six months of 1986/7 stood at £6 billion. This compares with £5.6 billion in the corresponding period the previous year. Most of the year's borrowing occurs in the first half of the financial year.

The value of exports recovered strongly in September from the low August figure but imports remained high. Whilst month to month movements have been erratic, the underlying trend of non-oil export volume continues to rise. For imports the trend appears to be sharply upwards. The latest information available suggests that the current account has been in broad balance for the first nine months of this year.

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 second quarter of 1986 was nearly $1\frac{1}{2}$ per cent higher than in the same period a year ago or 1 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 third 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 August was 1 per cent higher than in the same period a year ago; manufacturing was little changed. The assessment of underlying trend for industrial production is that the rate of change currently lies in the range -1 to + 1 per cent per annum. The trend in manufacturing output is in the range 0 to + 2 per cent per annum.

Retail prices rose by 3 per cent in the twelve months to September 1986. It is only possible to provide a useful indicator of trend for about 70 per cent of the RPI, mainly that covering private sector prices and excluding eg. mortgage interest, rent, rates, products produced by nationalised industries, seasonal food and petrol. The current trend for this series is slightly over 4 per cent per annum. In the twelve months to September 1986 this series rose by a little under 4 per cent (not published).

Producer input prices increased in seasonally adjusted terms by 1 per cent in August and one and three-quarters per cent in September, and a further rise of around 1 per cent is expected in October. However, these increases follow an almost uninterrupted decline of $15\frac{1}{2}$ per cent from a peak early last year.

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

Unit wage costs in manufacturing in the three months to August rose by 6 per cent compared with the same period a year ago. The current underlying trend is estimated to be in the range 4-6 per cent per annum.

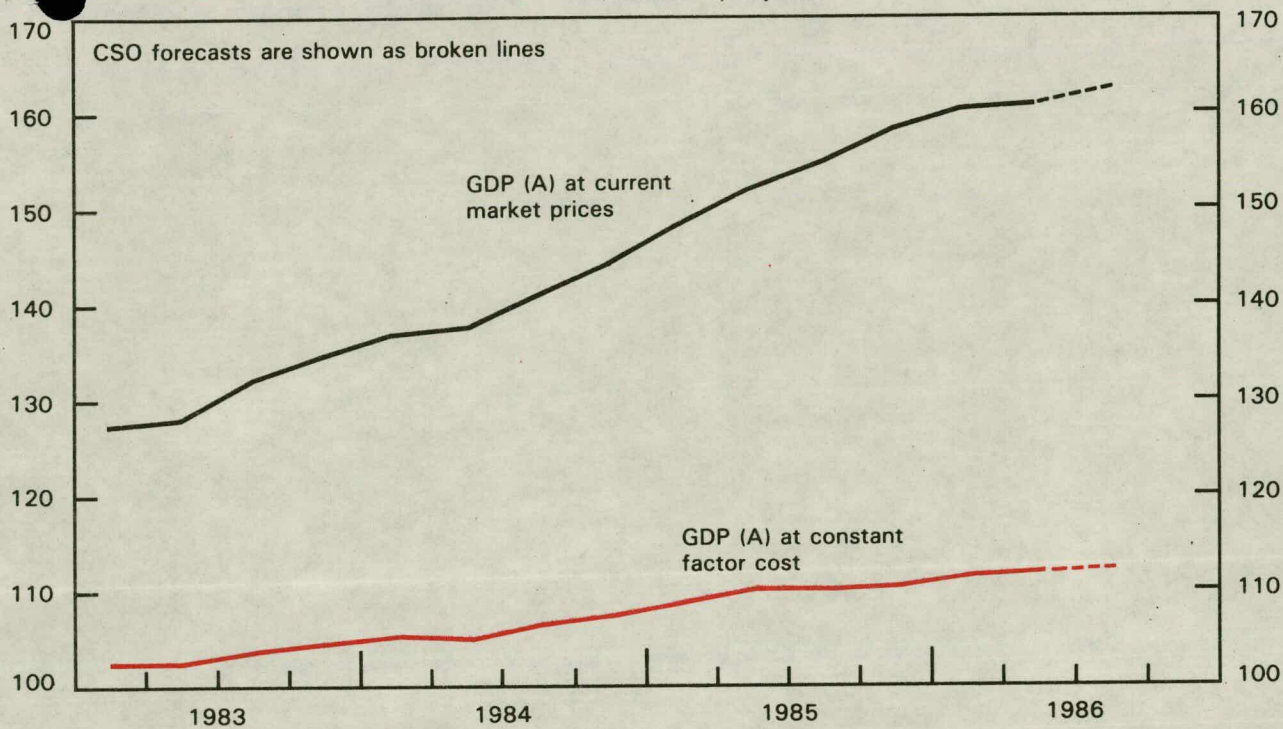
Unemployment (excluding school leavers) in the twelve months to September has been rising on average by 6 thousand per month. In the four months to July it rose by 6 thousand per month on average, but fell in August and September to about the same level as in March. The current trend is uncertain but unemployment may have reached a turning point with the help of the Restart programme.

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).

Gross domestic product (average measure)

CHART 1A

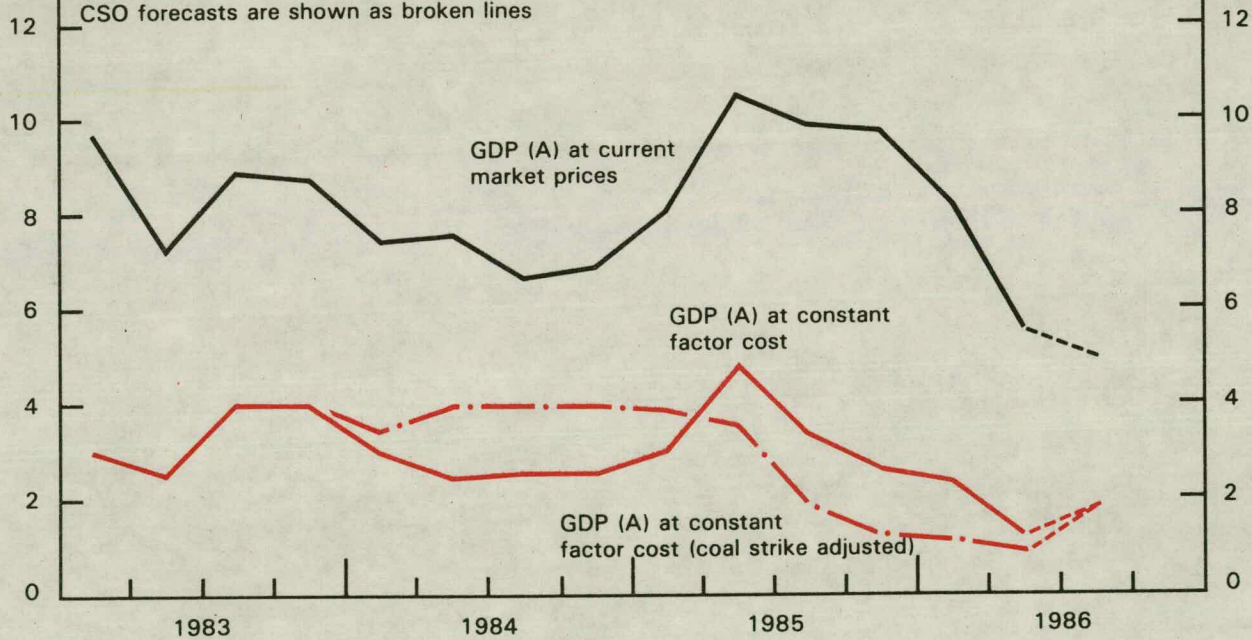
1980 = 100, seasonally adjusted



Gross domestic product (average measure)

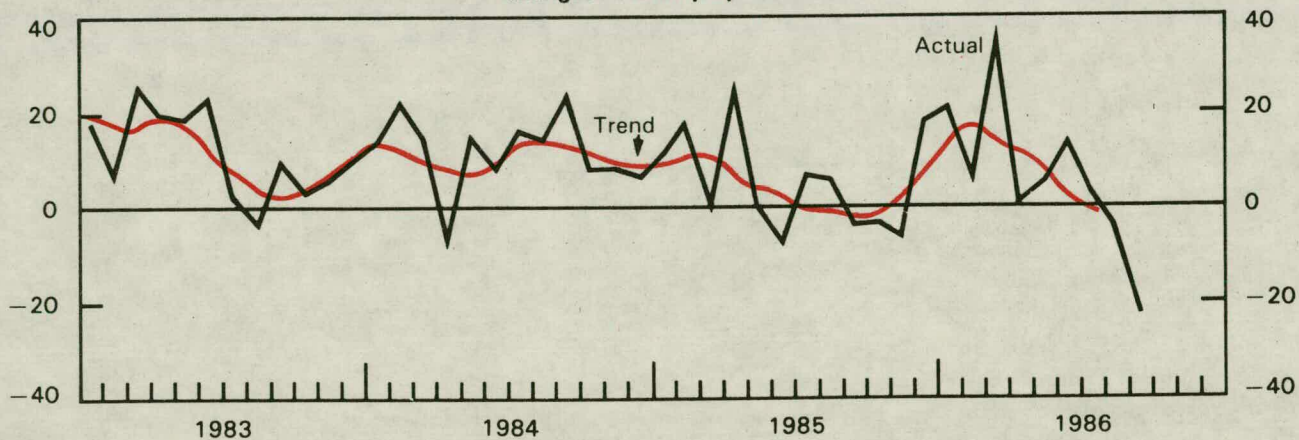
CHART 1B

Percentage change quarter on corresponding quarter of previous year seasonally adjusted
CSO forecasts are shown as broken lines



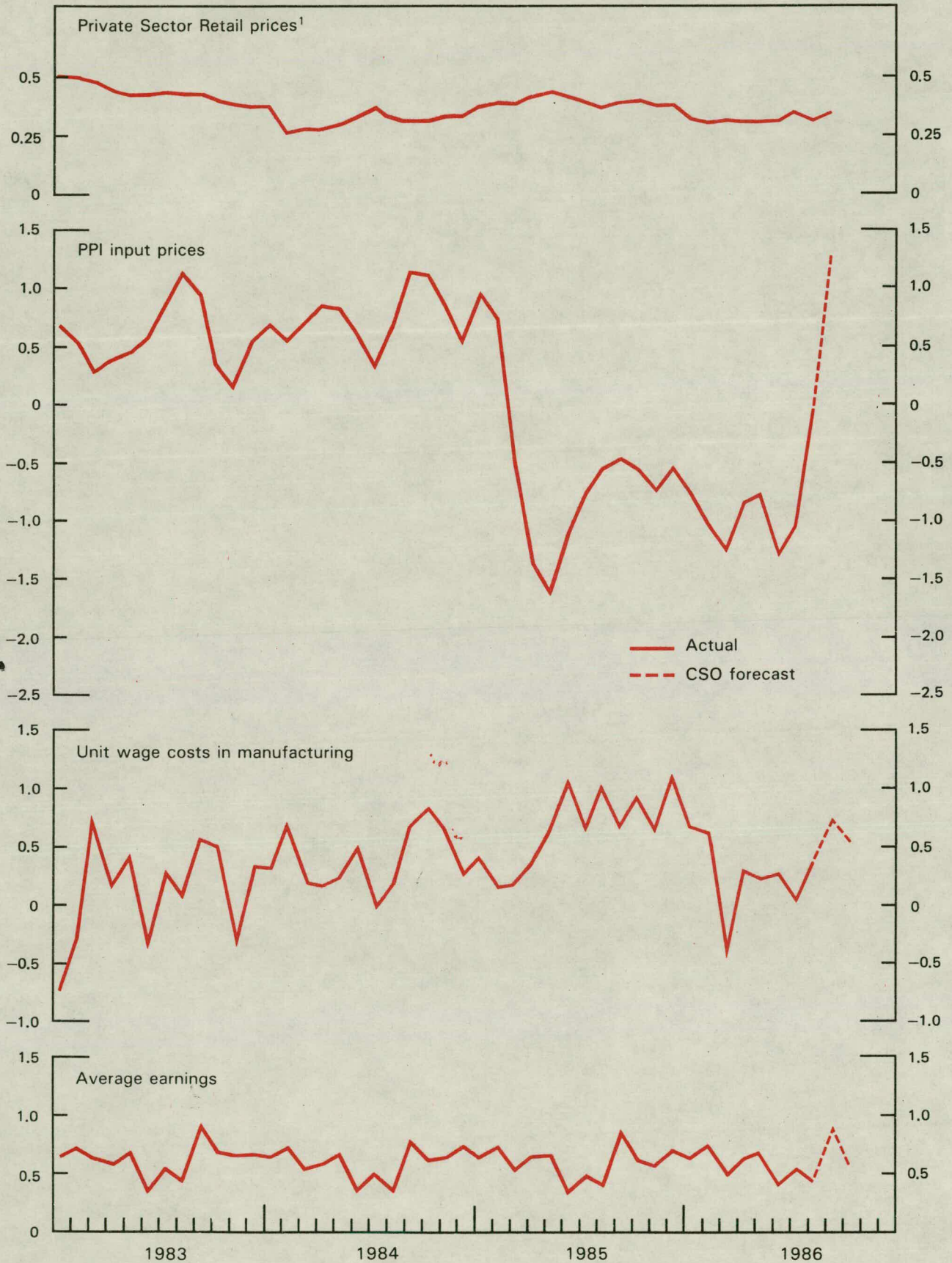
Changes in unemployment

CHART 2



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

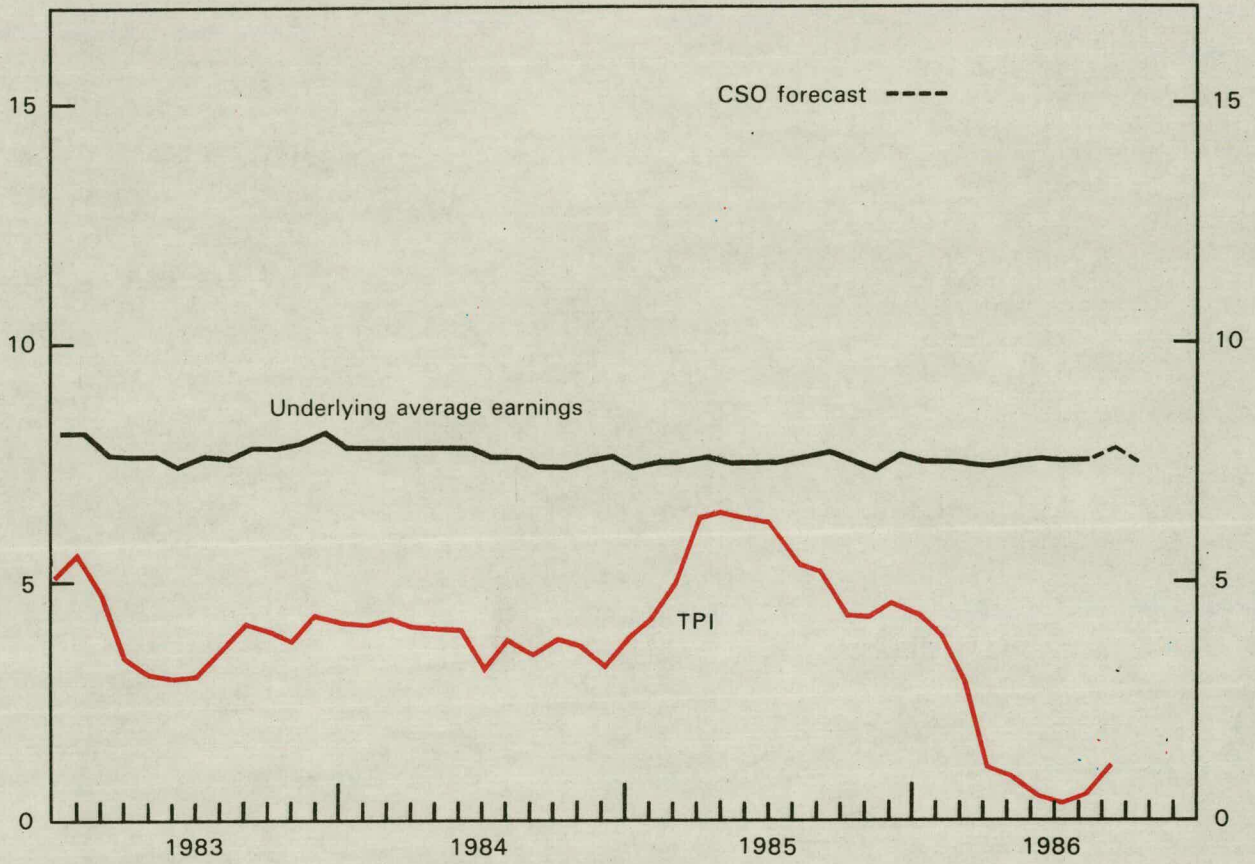
Month to month percentage changes, smoothed and adjusted, for distorting factors where appropriate



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

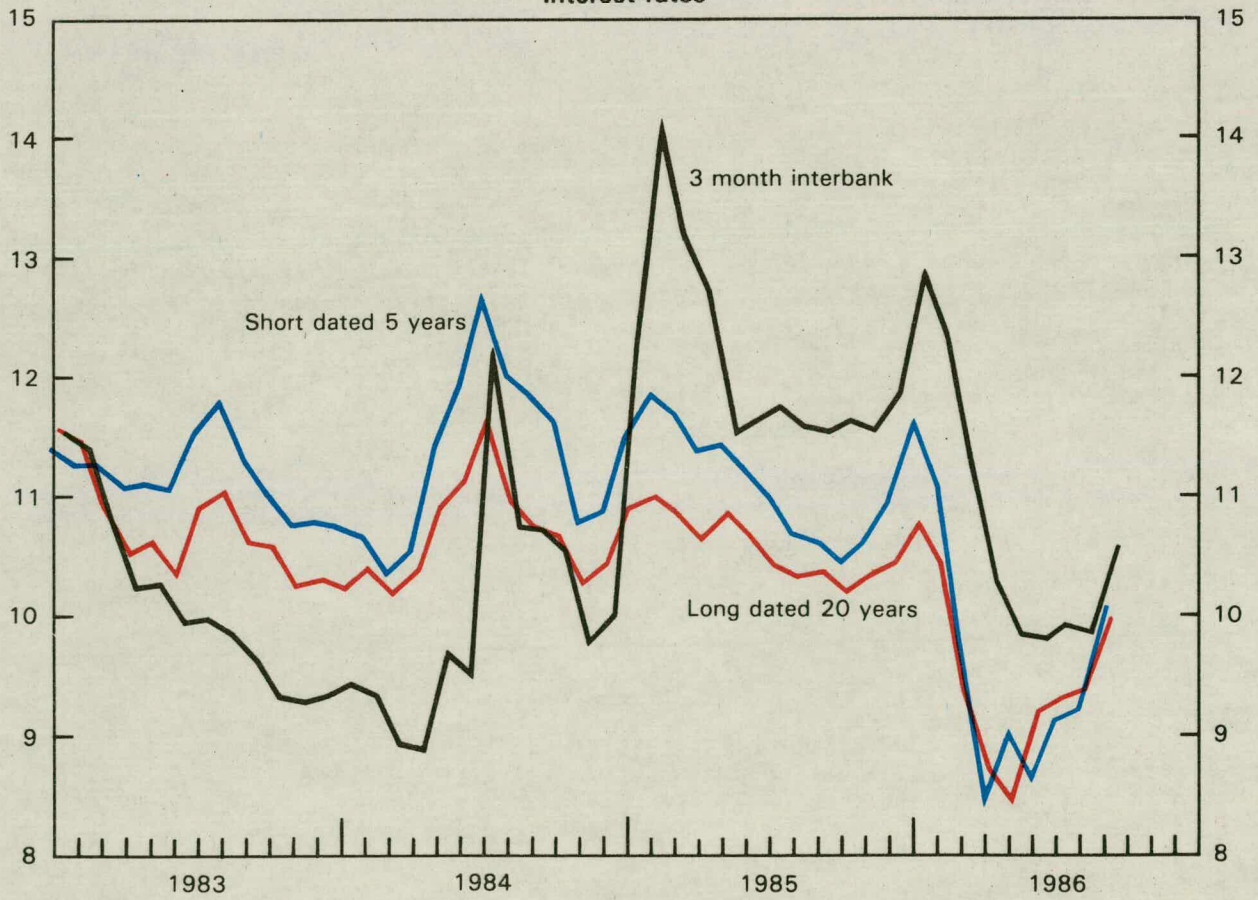
Movements in underlying average earnings and the tax and price index comparisons with 12 months previously

CHART 4



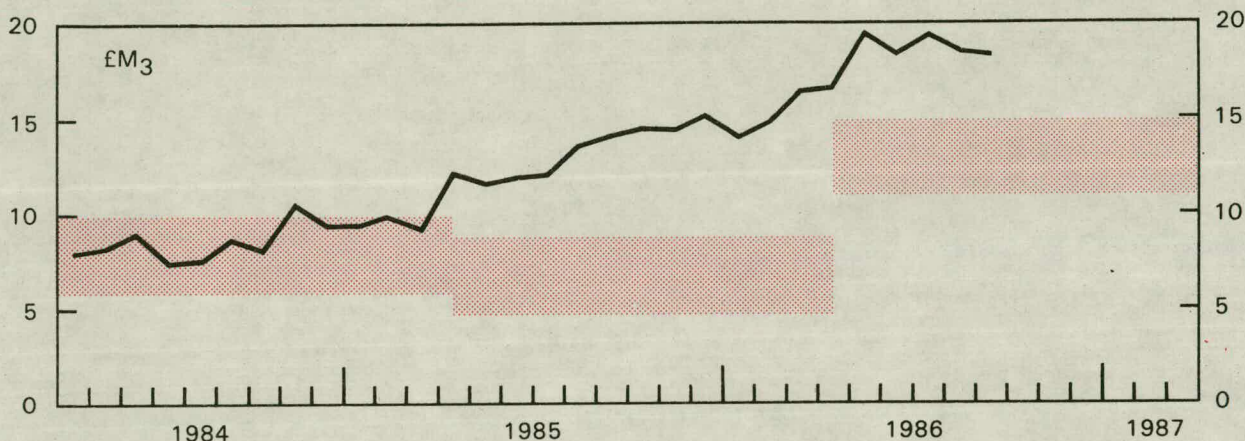
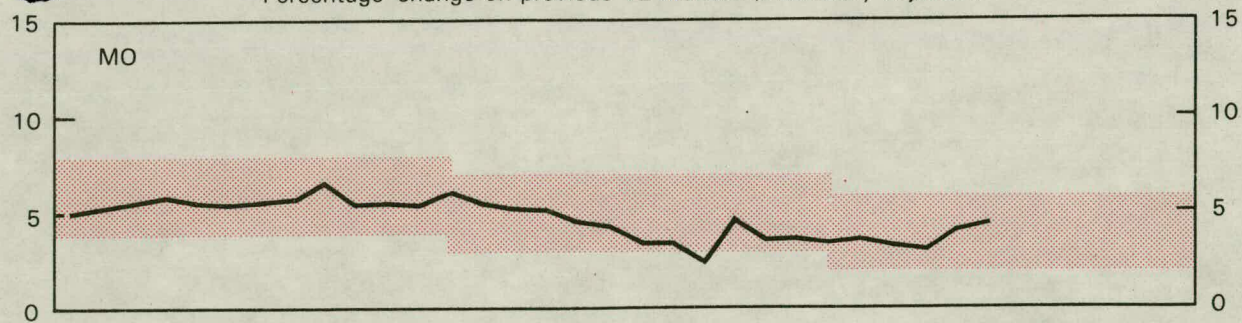
Interest rates

CHART 5



Monetary aggregates

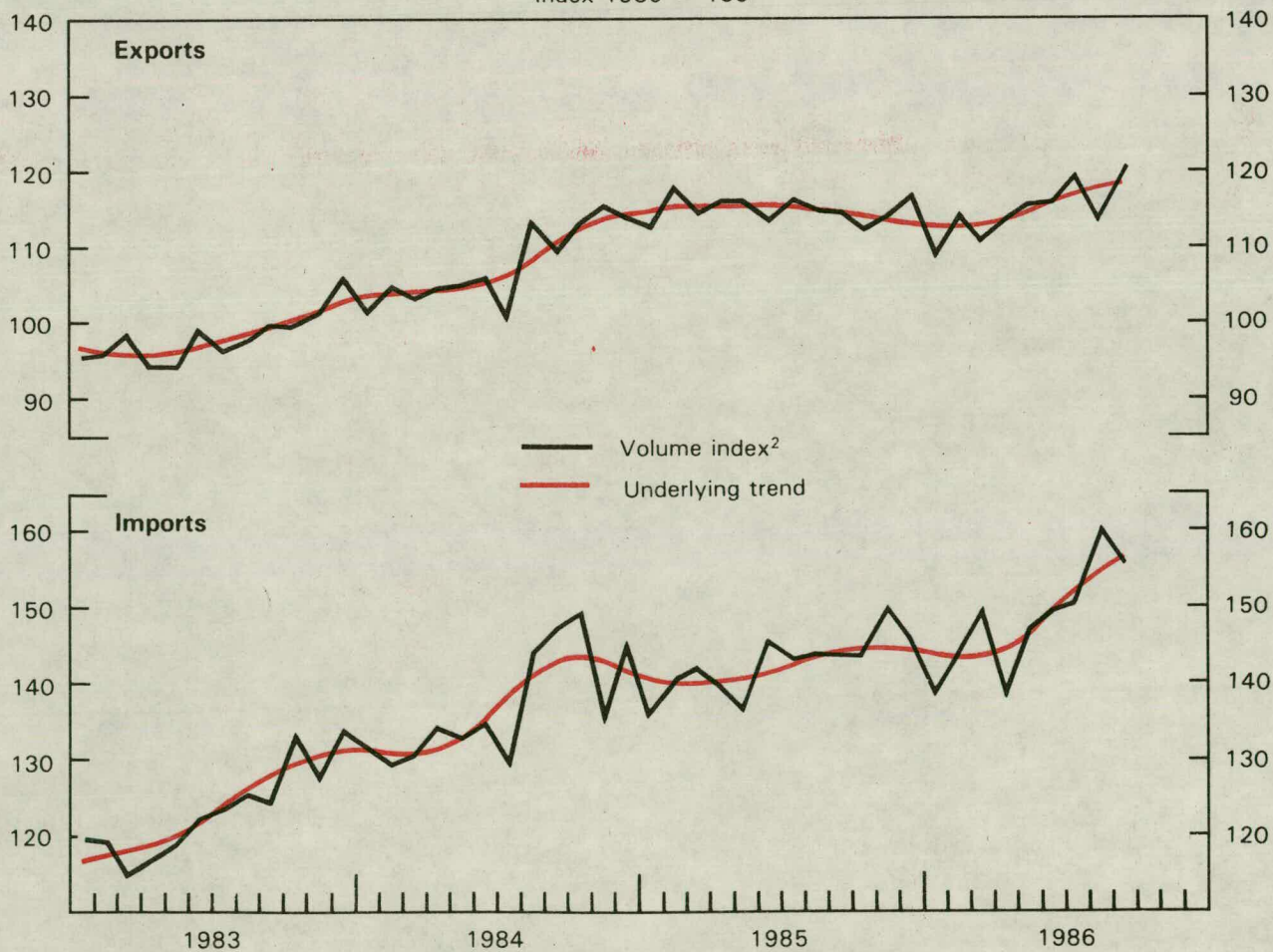
Percentage change on previous 12 months (seasonally adjusted)



Shaded areas represent announced target ranges

Exports and Imports (excluding oil and erratics¹)

Index 1980 = 100



1. Ships, North Sea Installations, Aircraft, Precious Stones and Silver
2. Seasonally adjusted data, Balance of Payments basis

To:
PS/SECRETARY OF STATE

(Circulation list attached)

From:

ROGER NORTON
Head/Branch 3
Room 1.212
Business Statistics Office
NEWPORT, Gwent
GTN: 2411/2069

6 November 1986

RETAIL SALES: FINAL ESTIMATE FOR SEPTEMBER

A Press Notice giving the final estimate for retail sales for September is attached for information.

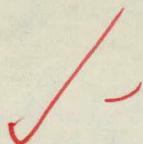
2. The final index of 123.2 (0.4 above the provisional figure) is the highest recorded and provides further evidence of the continued strong growth of sales.

3. This Notice will be published at 11.30 am on Monday 10 November. As usual, the contents should be treated as confidential until then.

R. M. Norton

R M NORTON

b.p.



CONFIDENTIAL
UNTIL 11.30 HOURS
ON DAY OF RELEASE

DTI Press Notice

Department of Trade and Industry

1 Victoria Street SW1H 0ET

Press Office:

Out of hours: 01-215 7877

Ref: 779

November 10 1986

RETAIL SALES IN SEPTEMBER 1986

VOLUME

The final seasonally adjusted index of the volume of retail sales in September was 123.2 (1980=100), above previous levels.

In the three months July to September, the level of sales was nearly 2 per cent higher than in the previous three months, after seasonal adjustment, and over 5 per cent higher than in the corresponding period a year earlier. In the last three months, compared with the previous three months, sales by food retailers changed little; sales by mixed businesses rose by 3½ per cent and sales by non-food retailers rose by 2½ per cent.

VALUE

The non-seasonally adjusted index of the value of retail sales in September was 10 per cent higher than in September 1985.

So far this year, the value of sales has been 8 per cent higher than in the first nine months of last year.

NOTE: The seasonal factors for 1984, 1985 and 1986 have been revised.

VOLUME OF RETAIL SALES SEASONALLY ADJUSTED

Table 1A Index numbers of sales per week (average 1980 prices) 1980=100

(Sales in 1980 - £ million)	All retailers (58,377)	Food retailers (22,859)	Mixed retail busin- esses (10,930)	Non-food retailers			
				Total (24,588)	Clothing and footwear (5,413)	Household goods (9,146)	Other non- food (10,029)
1981	100.2	100.7	100.4	99.7	97	102	99
1982	102.2	101.6	103.9	102.0	100	106	99
1983	107.1	105.8	109.4	107.4	108	115	100
1984	110.7	108.4	113.6	111.5	114	120	102
1985	115.3	112.6	119.3	116.1	122	127	103
1985 2nd quarter	114.9	112.1	119.4	115.4	122	125	103
3rd quarter	116.1	113.6	119.8	116.8	122	128	104
4th quarter	116.7	113.9	120.2	117.9	124	129	105
1986 1st quarter	118.2	115.7	122.3	118.7	125	131	104
2nd quarter	120.0	115.9	123.5	122.2	130	137	105
3rd quarter	122.1	116.1	127.9	125.2	131	142	107
1985 April	113.5	110.7	118.1	114.0	121	123	102
May	115.6	112.9	120.3	116.0	123	125	104
June*	115.4	112.6	119.7	116.0	122	126	103
July	115.9	113.6	118.9	116.7	123	127	103
August	117.0	113.8	123.5	117.0	124	128	103
September*	115.6	113.5	117.5	116.6	119	129	104
October	115.0	113.2	117.6	115.6	118	127	104
November	117.6	114.7	120.4	119.0	129	130	104
December*	117.4	113.7	122.1	118.7	124	130	106
1986 January*	117.3	115.4	122.2	116.9	122	129	103
February	117.5	115.9	121.0	117.5	123	130	103
March*	119.7	116.0	123.3	121.6	131	133	106
April	119.3	116.2	122.2	120.8	127	137	103
May	118.5	114.2	122.6	120.8	129	134	104
June*	121.7	116.9	125.3	124.5	132	139	107
July	120.9	115.5	125.9	123.6	128	140	107
August	122.0	115.9	127.9	125.1	133	141	106
September*	123.2	116.8	129.4	126.6	132	144	108
1986 Apr-Jun	120.0	115.9	123.5	122.2	130	137	105
1986 Jul-Sept	122.1	116.1	127.9	125.2	131	142	107
Percentage Changes:							
Latest 3 months on previous 3 months	+1.8	+0.2	+3.5	+2.4	+1	+4	+2
Latest 6 months on previous 6 months	+3.0	+1.0	+3.7	+4.6	+5	+7	+1

The monthly periods consist of 4 weeks except those marked * which are of 5 weeks. The September 1986 sales period was the 5 weeks from August 31 to October 4. The quarterly indices are the weighted averages of the monthly indices for the months within the quarter, the weights being the number of weeks in each monthly period.

VOLUME OF RETAIL SALES SEASONALLY ADJUSTED (HISTORICAL SERIES)

Table 1B Index numbers of sales per week (average 1980 prices) 1980=100

(Sales in 1980 - £ million)	All retailers (58,377)	Food retailers (22,859)	Mixed retail busin- esses (10,930)	Non-food retailers			
				Total (24,588)	Clothing and footwear (5,413)	Household goods (9,146)	Other non- food (10,029)
1984 1st quarter	108.4	107.1	110.7	108.5	110	117	100
2nd quarter	110.3	108.1	113.3	111.1	114	119	102
3rd quarter	111.2	108.7	114.1	112.2	116	121	102
4th quarter	112.8	109.7	116.4	114.1	118	123	103
1985 1st quarter	113.6	110.8	117.8	114.3	120	124	102
1984 January	107.8	106.8	109.5	107.9	108	117	99
February	109.5	107.6	112.6	109.9	112	118	101
March*	107.9	106.9	110.1	107.8	109	116	100
April	110.3	107.7	113.7	111.1	114	119	102
May	110.5	108.8	112.5	111.1	112	120	102
June*	110.3	108.0	113.6	111.0	114	119	102
July	111.0	108.6	114.8	111.7	116	120	102
August	109.6	108.2	110.8	110.4	110	119	103
September*	112.5	109.1	116.1	114.1	121	123	103
October	112.3	109.2	116.0	113.4	119	122	102
November	111.7	109.4	114.6	112.5	117	121	102
December*	114.1	110.3	118.1	115.8	119	126	105
1985 January	113.6	110.6	117.2	114.9	121	124	103
February	113.1	110.3	118.1	113.5	118	123	102
March*	113.9	111.3	118.2	114.4	120	125	102

VALUE OF RETAIL SALES (NOT SEASONALLY ADJUSTED)

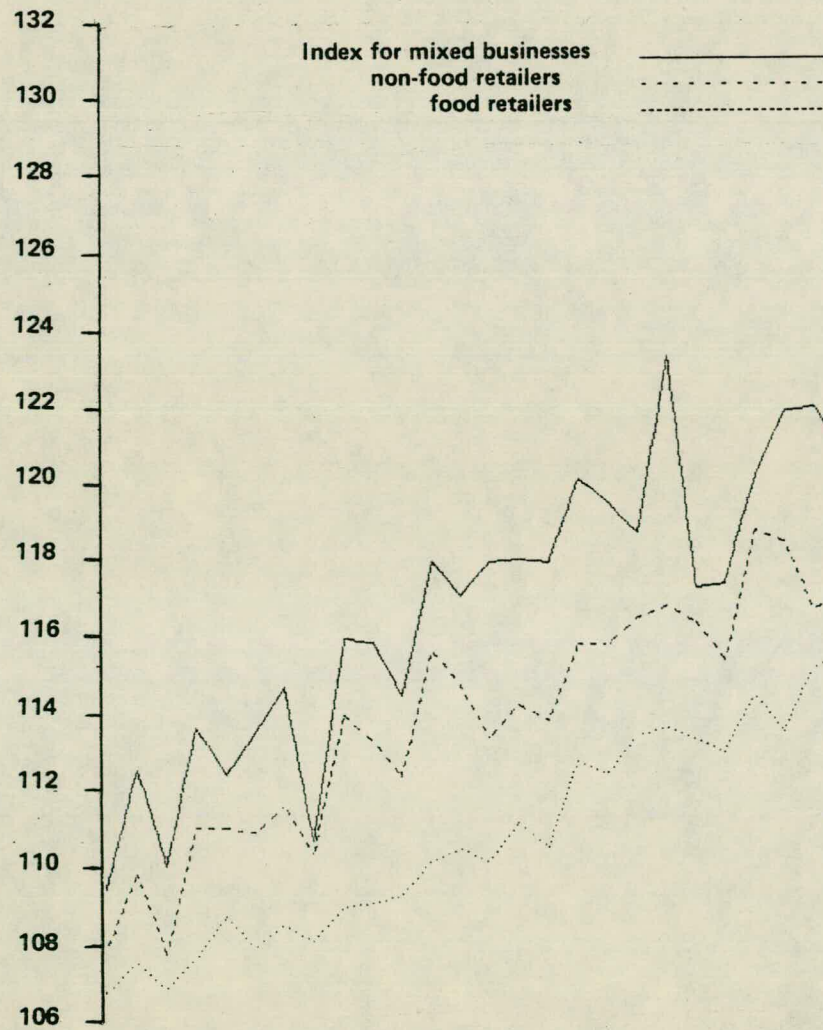
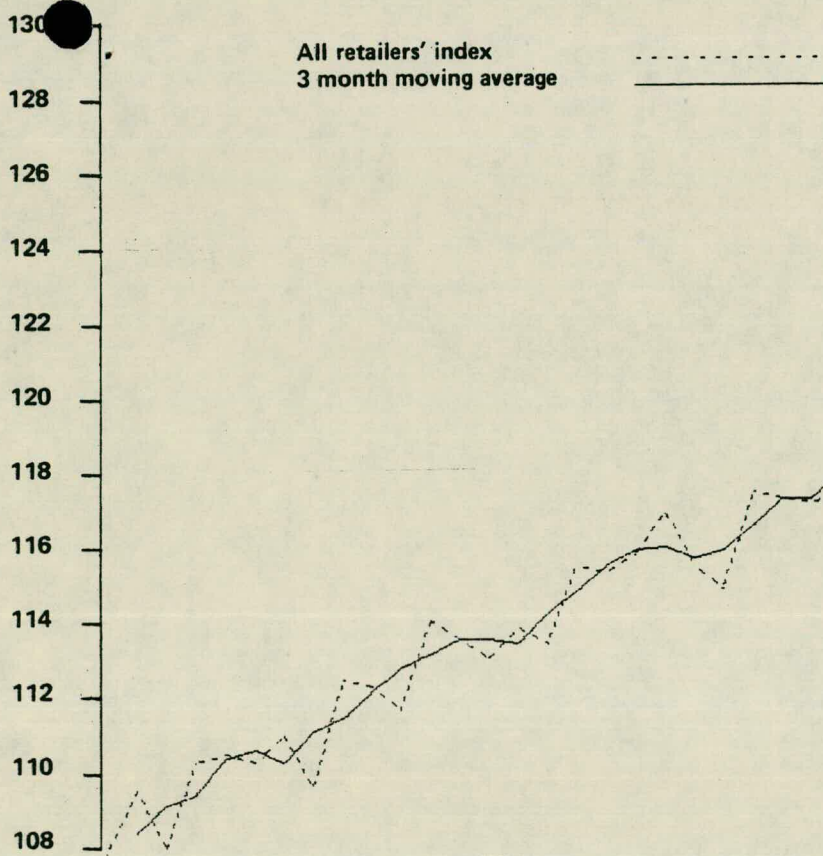
Table 2 Index numbers of value of sales per week (current prices) 1980=100

(Sales in 1980 - £ million)	All retailers (58,377)	Food retailers (22,859)	Mixed retail busin- esses (10,930)	Non-food retailers			
				Total (24,588)	Clothing and footwear (5,413)	Household goods (9,146)	Other non- food (10,029)
1981	108.2	109.7	106.1	107.8	102	107	112
1982	117.1	118.9	115.0	116.4	109	114	122
1983	127.6	128.3	125.8	127.7	121	128	131
1984	137.5	138.5	135.5	137.5	132	137	141
1985	149.5	149.2	149.2	150.0	147	149	152
1985 1st quarter	133.9	139.6	125.3	132.4	118	139	134
2nd quarter	141.4	147.3	133.8	139.1	139	135	143
3rd quarter	145.2	147.0	137.3	147.1	146	146	148
4th quarter	177.7	162.9	200.4	181.5	186	176	184
1986 1st quarter	145.4	151.1	136.3	144.1	129	153	144
2nd quarter	152.7	157.8	143.3	152.1	153	151	153
3rd quarter	157.4	156.4	150.5	161.5	161	164	160
1985 April	140.3	146.5	134.3	137.1	135	135	140
May	141.9	149.5	133.2	138.8	138	135	143
June*	141.8	146.3	133.8	141.1	143	135	145
July	146.9	149.1	138.1	148.8	153	145	150
August	145.4	148.2	137.8	146.2	145	143	150
September*	143.7	144.4	136.3	146.4	142	149	146
October	149.8	147.4	148.7	152.4	148	157	150
November	164.8	155.8	180.1	166.5	168	172	160
December*	210.4	181.0	257.9	216.8	230	194	230
1986 January*	145.6	146.7	142.8	145.9	139	160	136
February	140.9	151.3	125.6	138.2	113	147	143
March*	148.6	155.4	138.2	147.0	132	149	153
April	152.1	158.6	143.9	149.8	147	153	149
May	149.8	155.3	139.9	149.2	149	147	151
June*	155.4	159.0	145.5	156.4	160	152	158
July	158.2	158.0	150.2	161.9	162	162	161
August	155.2	155.7	146.0	158.8	159	158	159
September*	158.7	155.7	154.4	163.4	162	169	159
Percentage Changes:							
Sep '86/Sep '85	+10.4	+7.8	+13.3	+11.6	+14	+13	+9
Year '86/Year '85	+8.2	+7.1	+8.4	+9.2	+9	+11	+7

See footnotes to Table 1.

An index of the seasonally adjusted value of retail sales can be provided on request.

Volume of Retail Sales: seasonally adjusted (1980 = 100)



J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J
 1984 1985 1986 1987

NOTES TO EDITORS

1. The seasonal factors for 1984, 1985 and 1986 have been revised so that the figures in Tables 1A and 1B replace those published previously.
2. The seasonally adjusted volume series includes, where possible, adjustments for the timing of holidays, although there are inevitably problems in adjusting for the effects of Christmas and New Year sales spending.
3. The indices for all retailers, food retailers, mixed retail businesses and total non-food retailers are shown to the first decimal place to help interpretation but should not be regarded as necessarily accurate to the final digit. The best indication of the recent trend is normally obtained by comparing the average seasonally adjusted index for the latest three months with the average for the immediately preceding three months. However, sometimes it is more appropriate to make a two or four month comparison.
4. Within the total, sales are analysed by 'kinds of business' ie the statistics are of sales by particular kinds of retailer rather than of sales of particular commodities. For example, while sales by retailers classified as food retailers are mainly of food, many sell other goods. Similarly some food is sold by retailers classified to other kinds of business.
5. The final index is based on returns from a voluntary panel of over 3,200 retailers. The panel includes a sample of the smaller independent retailers (who account for one-third of all retail sales) and nearly all of the very large retailers.
6. Index numbers for more detailed kinds of business than those shown here are published, at current prices only, in Business Monitor SDM28 available from HM Stationery Office, price £16.50 per annum.
7. The Press Notice giving the provisional estimate of the seasonally adjusted index of the volume of retail sales for October will be published on November 17.
8. Press calls to 01-215-4471/4475. Other calls to 0633-22-2609/2987/2630 or 2600.

Distribution:

PS/Mr Alan Clark
PS/Mr Geoffrey Pattie
PS/Mr Giles Shaw
PS/Lord Lucas
PS/Mr John Butcher
PS/Mr Michael Howard

Sir Brian Hayes

Mr Treadgold GP
Mr Conn GP
Mr Liesner EC
Mr Ward BSO
Mr Whiting EC2
Mr Miner EC2
Miss Lea EC2a
Mr Stibbard S2
Mr Richardson S2
Miss Marson S2

Prime Minister's Office

Chancellor's Office

Sir Terence Burns Treasury
Mr H P Evans Treasury
Miss M O'Mara Treasury
Mr P Allum Treasury

Miss S P Carter CSO
Mr R Clare CSO
Mr E Lomas CSO
Mr R Beedell CSO

Mr M Dicks Bank
Mr J Exeter Bank

FROM: P DAVIS
DATE: 7 NOVEMBER 1986

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

cc : PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr Monck
Mr Culpin
Mr Sedgwick
Mr Gilhooly
Miss O'Mara
Mr Pickford
Mr Brooks
Mr Hacche
Mr Pickering
Mr Hefford
Mr Cropper
Mr Ross Goobey
Mr Tyrie

500 7/11
To bank snr
when? To boy
8/5

PRODUCER PRICES FOR OCTOBER

The Producer Price Indices for October will be published at 11.30 a.m. on Monday 10 November. The level of the output price index rose by 0.1 per cent between September and October, and the twelve month rate of change fell to 4.3 per cent in October from 4.4 per cent in September. In the year to 1986Q3 output prices rose by 4.4 per cent, the lowest annual increase recorded since 1969Q4.

2. Excluding the food, drink, and tobacco industries, the 12 month increase in the output price index to October remained at 4 per cent, as it has since July. (Last month's provisional estimate of a 3.9 per cent increase in the year to September has been revised up to 4 per cent.)

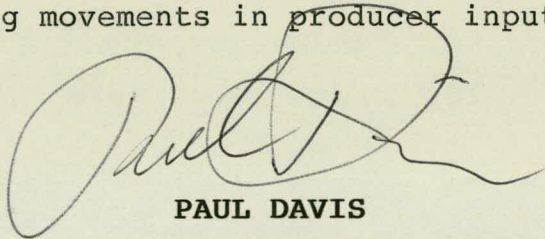
PRODUCER PRICES (PERCENTAGE CHANGE OVER A YEAR EARLIER)

	<u>Output prices</u>		<u>Input Prices</u>		
	All excl		All	All	All excl
	<u>All</u>	<u>FDT*</u>	<u>All</u>	(Seasonally <u>Adjusted</u>)	<u>FDT*</u>
1985 Q2	5.6	6.4	3.4	3.4	6.8
Q3	5.6	6.5	- 0.7	- 0.7	- 1.2
Q4	5.1	5.9	- 5.4	- 5.4	- 5.1
1986 Q1	5.0	5.0	- 9.4	- 9.4	-11.9
Q2	4.5	4.3	- 9.1	- 8.9	-12.4
Q3	4.4	4.0	- 8.9	- 8.8	-13.1
July	4.4	4.0	-10.4	-10.2	-14.3
August	4.4	4.0	- 9.0	- 9.0	-13.2
September	4.4	4.0	- 7.4	- 7.3	-11.6
October	4.3	4.0	- 5.3	- 5.2	- 8.1

* Excluding the food, drink and tobacco industries.

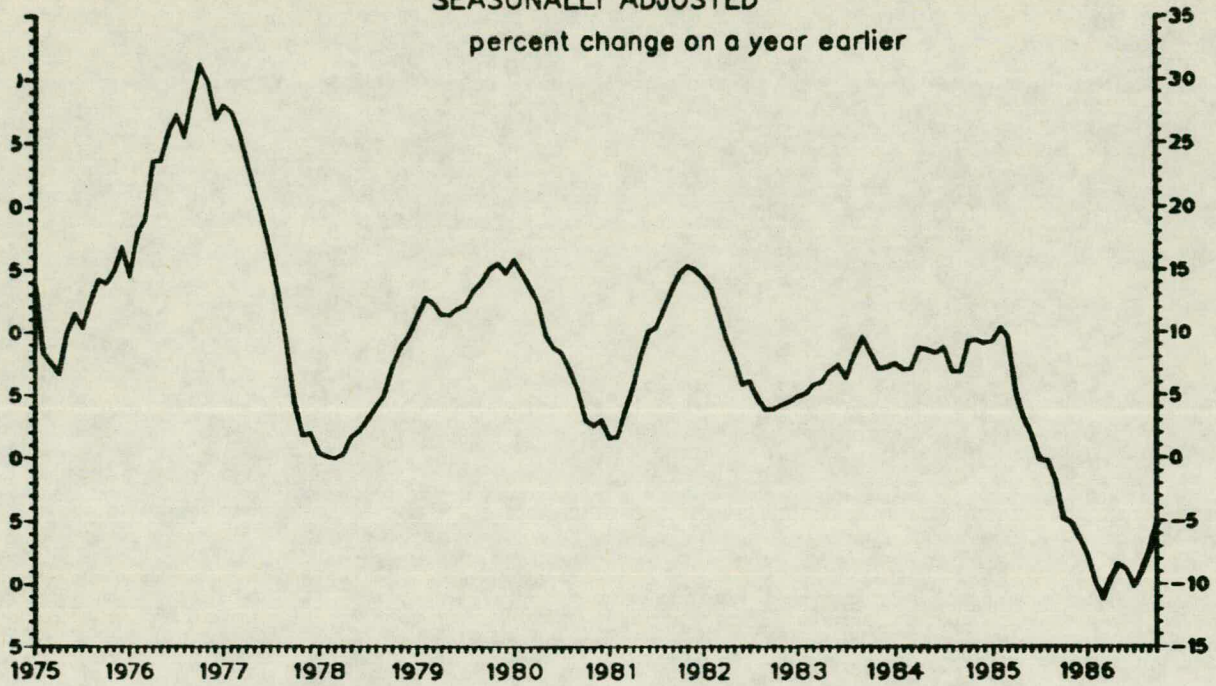
3. The producer price index for materials and food purchased by manufacturing industry increased by 1.1 per cent between September and October and has risen by 3.5 per cent since July. The input price index is now 5.3 per cent below its level of a year ago. Excluding food, drink and tobacco, the producer price input index increased by 1.7 per cent in October over the previous month but was 8.1 per cent below its level in October 1985.

4. I attach two charts showing movements in producer input and output prices since January 1975.



PAUL DAVIS
 EAL DIVISION
 X 3434

MATERIALS AND FUEL PURCHASED BY MANUFACTURING INDUSTRY
SEASONALLY ADJUSTED
percent change on a year earlier



PRODUCER OUTPUT PRICES
percent change on a year earlier



M : TIREE.MANPUR
D : 9-10-86 G : TIREE.DISMANCOM

- 1. MISS O'MARA
- 2. CHANCELLOR

Unknown passage in Q's speech about what was done for this

FROM: G. HACCHE
 DATE: 11 November 1986
 cc Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State
 Sir P Middleton
 Sir T Burns
 Mr Monck
 Mr Sedgwick
 Mr Scholar
 Mr Culpin
 Mr S Davies
 Mr Dyer (+1 for No.10)
 Mr Hudson
 Mr Hunt
 Mr Cropper
 Mr Ross Goobey
 Mr Tyrie
 HB/01

These figures are very encouraging, enabling us to refer explicitly to a downward trend in unemployment. They bear out the more optimistic tone of the references to unemployment in the Industry Act forecast text. Even manufacturing employment seems to have stabilised in the last month.

man 11/11

COMBINED RELEASE OF LABOUR MARKET STATISTICS ON 13 NOVEMBER

Summary Statistics (seasonally adjusted unless otherwise stated)

	Level	Change on previous period	
	Thousands		Ch
<u>Unemployment</u>			
Total (excl. school leavers) October	3,168	-25	① 5(f) overleaf is interesting - and diff from what might be expected (overheats & SE etc) ✓
Total (not seasonally adjusted) October: 'Headline Total'	3,237	-96	
<u>Vacancies</u> October	213	+6	
<u>Employed Labour Force</u> 1986Q2	24,060	+21	
<u>Manufacturing employment</u> September 1986	5,329	-1	
<u>Index of average earnings</u>			
Whole economy September, underlying (actual)	7 1/2 (6.2)		② I have asked for a further amount than max 10 of effects of changes in definitions etc. ✓
<u>Wage and salary costs per unit of output</u>			
Whole economy 1986Q2	6.4		③ Unhelpful that DE have given gross Restart figures of 70,000 - 80,000 to Parliament (para 12). But I still feel giving precise Restart net effect could be counter-productive - may be better to say net effect much smaller than gross and generally play down Restart. ✓
Manufacturing Q3	4.4		
<u>Output per head</u>			
Whole economy 1986Q2	1.0		
Manufacturing Q3	2.7		

(underlying trend etc.)

② I have asked for a further amount than max 10 of effects of changes in definitions etc. ✓

③ Unhelpful that DE have given gross Restart figures of 70,000 - 80,000 to Parliament (para 12). But I still feel giving precise Restart net effect could be counter-productive - may be better to say net effect much smaller than gross and generally play down Restart. ✓

AA

Unemployment

2. Seasonally-adjusted adult unemployment (excluding school leavers) fell sharply again, by 25,000, in October, a similar fall to the previous month, taking the level to 3,168,000, 11.5 per cent of the working population. Over the past six months the seasonally adjusted total has fallen on average by 5,000 a month, and over the last three months it has fallen on average by approaching 19,000 a month.
3. The headline total fell by 96,000 to 3,237,000, 11.7 per cent of the working population. There was a fall of 72,000 among adults, while unemployed school leavers fell by over 23,000.
4. The stock of vacancies at Jobcentres (seasonally adjusted) increased a further 6,000 in September to reach 213,000.
5. Points of interest:
 - (a) Fall over past three months largest 3 monthly fall since 1973.
 - (b) Last month's fall in seasonally adjusted adult unemployment has been revised to 26,000 from 22,000, as a result of changes to the seasonal factors which DE update every month. There was a similar revision last month.
 - (c) Male unemployment (seasonally adjusted, adult) has fallen in each of the last 4 months and has fallen by 32,000 over the last six months taken as a whole. Female unemployment has fallen in the last two months and is broadly unchanged over the last six months.
 - (d) The headline total in November is likely to move broadly in line with seasonally adjusted, adult unemployment.
 - (e) The stock of vacancies is at the highest level since the end of 1979. Notified vacancies and placings have also increased further and are similarly at their highest levels since 1979. Moreover, this is the first month placings have been above their previous peak last December.
 - (f) The recent falls in unemployment have been spread across most regions with the exception of Scotland and particularly Northern Ireland where unemployment still appears to be rising quite strongly. The North and Wales are the only regions to have seen significant falls in unemployment over the last year. They are also among the regions with the largest rise in vacancies over the same period.

✓ good speed material

(g) [UNPUBLISHED, NOT FOR USE; Employment measures are estimated to have reduced the adult count by about 284,000 in October. The estimated effect on the count has been rising by about 5,000 month for more than a year]

(h) [UNPUBLISHED; NOT FOR USE. A broad estimate of long term unemployment for October based on partial information suggests that there may have been a modest fall since July, during a quarter in which the number would normally increase because of seasonal influences. Firm figures will be available late on Thursday and DE are considering whether to publish these figures on Friday, following Thursday's statistics]

Employment figures

6. Manufacturing employment fell by 20,000 in 1986Q3, about half the rate of fall in the first two quarters of the year, and was little changed in September itself.

7. There has been minor revisions to the figures for the whole economy employed labour force. We do not have any new quarterly information but DE now estimate that employment increased by 21,000 in Q2 and by over 1 million (1,003,000) between June 1983 and March 1986. There could be further revisions next month in the light of the 1984 Census of Employment results which are due to be published then.

Assessment

8. DE's view is that we can now refer publicly to a downward trend in unemployment. They estimate that Restart has so far reduced the count by about 30,000 in total, and employment measures excluding Restart have reduced unemployment by about 5,000 extra each month. These estimates suggest that without Restart and employment measures unemployment would, if anything, still have fallen slightly in the last three months.

9. This, together with the continued rise in vacancies and signs of a lessening rate of decline in manufacturing employment, indicates a general improvement in the labour market consistent with the pick up in activity and supports the bullish references to the unemployment outlook in the text of the Industry Act forecast.

10. I gather that yesterday you were enquiring whether we had a clear picture of what had been happening to unemployment once we took account of the various statistical adjustments which have been made to the count since 1979. The seasonally adjusted figures published in the DE press notice are in fact on a consistent basis, taking account of all the statistical changes ^{as} as fully as possible, are the various historical comparisons included in EB's briefing.

11. Availability testing will start to affect the figures in November.

Press Comment

12. There is a danger that the press will ascribe all the recent falls in unemployment to Restart (particularly in the light of recent DE Parliamentary replies which have given gross effects, not taking account of deadweight, of the order of 70-80,000). In order to counter this claim DE officials are consulting their Ministers as to whether the estimated Restart effect of 30,000 should be released. DE press officers have in any case been instructed to point to the pick up in activity and the other more favourable aspects of the labour market and to say that the recent improvement in the trend is not just due to Restart.

13. A DE Minister will be making a statement on the figures as usual and your office may like to check that the tone is appropriate, and particularly what DE are proposing to say about Restart either in the statement or in the text of the press notice itself.

LINES TO TAKE

Positive

On unemployment

Seasonally adjusted adult unemployment fell sharply again in October.

In last three months, has fallen by 56,000 - largest three monthly fall since 1973.

Falls in UK in recent months contrast with rises in e.g France, and Italy.

On vacancies

Stock of vacancies risen in each of last nine months. Now at highest level for seven years.

Inflow of vacancies and placings also at highest levels since 1979.

Defensive

Restart

Recent improvement in trend not just due to Restart.

Restart's aim to help long term unemployed by offering in depth interview leading to offer of job on training or other help. But if some fraudulent claimants ceasing to claim, helpful side effect.

Availability testing

Took affect from beginning of November so no affect on October figures.

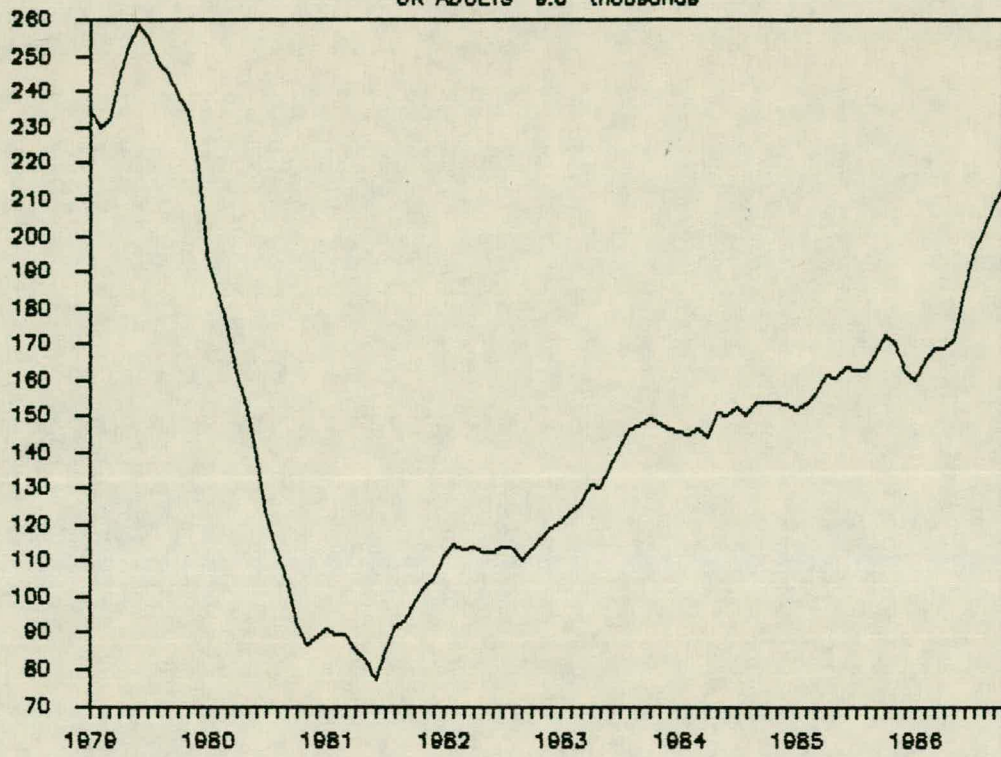
Under long standing rules unemployment benefit only payable to those looking for work. New procedures help unemployment benefit offices to apply these rules and to help steer claimants towards suitable job opportunities.

Gwyn Hacche

GWYN HACCHE

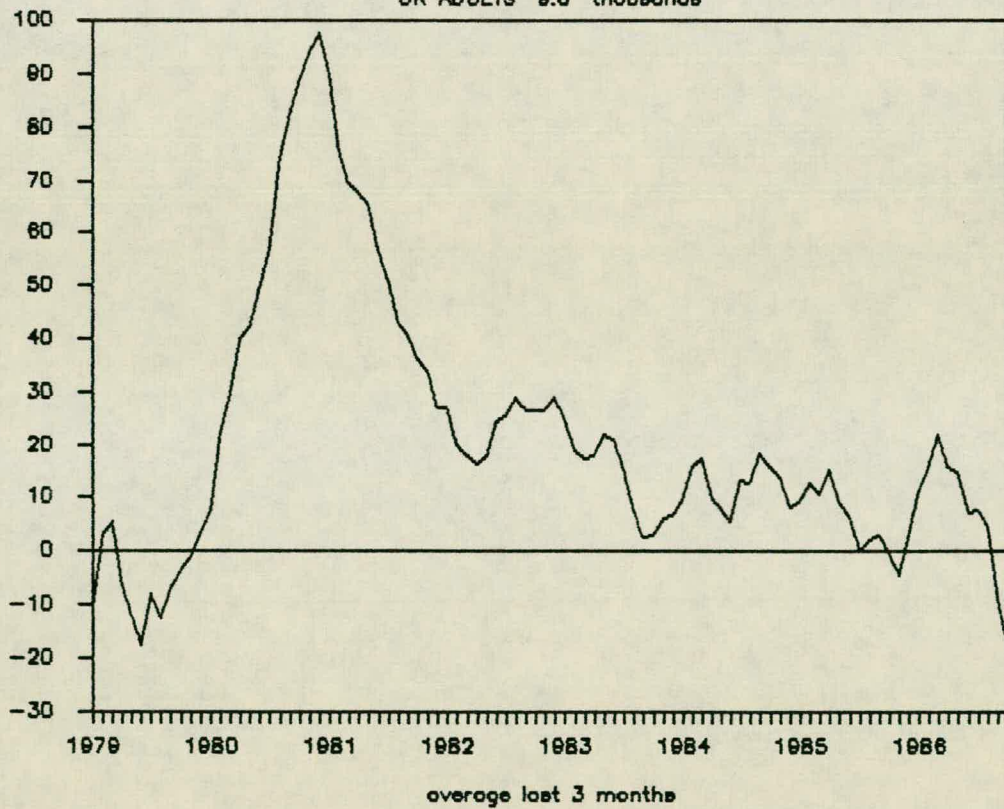
VACANCIES

UK ADULTS s.o thousands



CHANGES IN UNEMPLOYMENT

UK ADULTS s.o thousands



average last 3 months

purp

FROM: R D KERLEY
DATE: 11 NOVEMBER 1986

1. MISS O'MARA

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 Scholar
- Mr Sedgwick
- Mr Shaw
- Mr Culpin
- Mr Davies
- Mr Pickford
- Mr Hacche
- Mr Naisbitt
- Mr Dyer (+1 for No 10)
- Mr Cropper
- Mr Ross Goobey
- Mr Tyrie
- Mr Stirling - CSO
- Mr Kingaby - CSO
- Mr Lang - CSO
- HB/02

More encouraging figures which will give further credibility to our forecast of 4 per cent growth in manufacturing output next year and may help to explain why manufacturing employment is now stabilising.

more "11"

Ch

Will get detailed monthly figs for manufacturing tomorrow (I thought Margaret said Sept was higher than August)

AA

*per check: -1.2
SM
implant*

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - THIRD QUARTER

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

2. The index of production rose by 1.5 per cent in 1986Q3 compared with the previous quarter, and by 2.0 per cent compared with 1985Q3, to reach its highest ever level.

3. Manufacturing output rose by 1.2 per cent in the 1986Q3 compared with the previous quarter, and by 1.0 per cent compared with 1985Q3. The third quarter index is the highest since 1980Q1.

*Ch
Yes, should be +1.2%*

*AA
Thurs*

Recent movements

percentage changes	1985 on 1984	1986Q3 on 1986Q2	1986Q3 on 1985Q3	1986Q3 on 1981Q1 trough	September on August
Index of Production	+4.8	+1.5	+2.0	+16.3	+0.7
within which:					
Manufacturing	+3.2	+1.2	+1.0	+13.1	-1.2
Energy and Water	+9.1	+2.0	+4.5	+24.3	-0.5

really minus

No +1.2

5. The CSO's assessment is that manufacturing output reached at least a temporary peak in 1985Q2 and then declined 1½ per cent by 1986Q1. Since then, however, output has increased significantly and in 1986Q3 was a little higher than in 1985Q2. The underlying output of all production industries in 1985H2 was almost 1 per cent below the level reached in the first half of the year, and remained broadly unchanged (after allowing for weather effects) for the first half of 1986. The third quarter of 1986 has been higher as a result of increased manufacturing output and oil extraction.

6. It is perhaps worth noting that the chemicals and electrical industries, which were the mainstay of manufacturing output growth between the 1981 trough and 1985Q2, and had faltered 1985Q2, have shown strong recent growth. Chemical industry output is up 4 per cent in 1986Q3 on Q2 (and the industry press has reported that exports have improved this year), and electrical engineering output is up 1½ per cent in Q3 over Q2.

7. Although not part of the index of production, figures for second quarter construction output will also be published on 13 November. These will show that output of the construction industry in 1986Q2 rose by 4 per cent compared with 1986Q1, to reach the highest level since 1980Q1.

Lines to take

8.

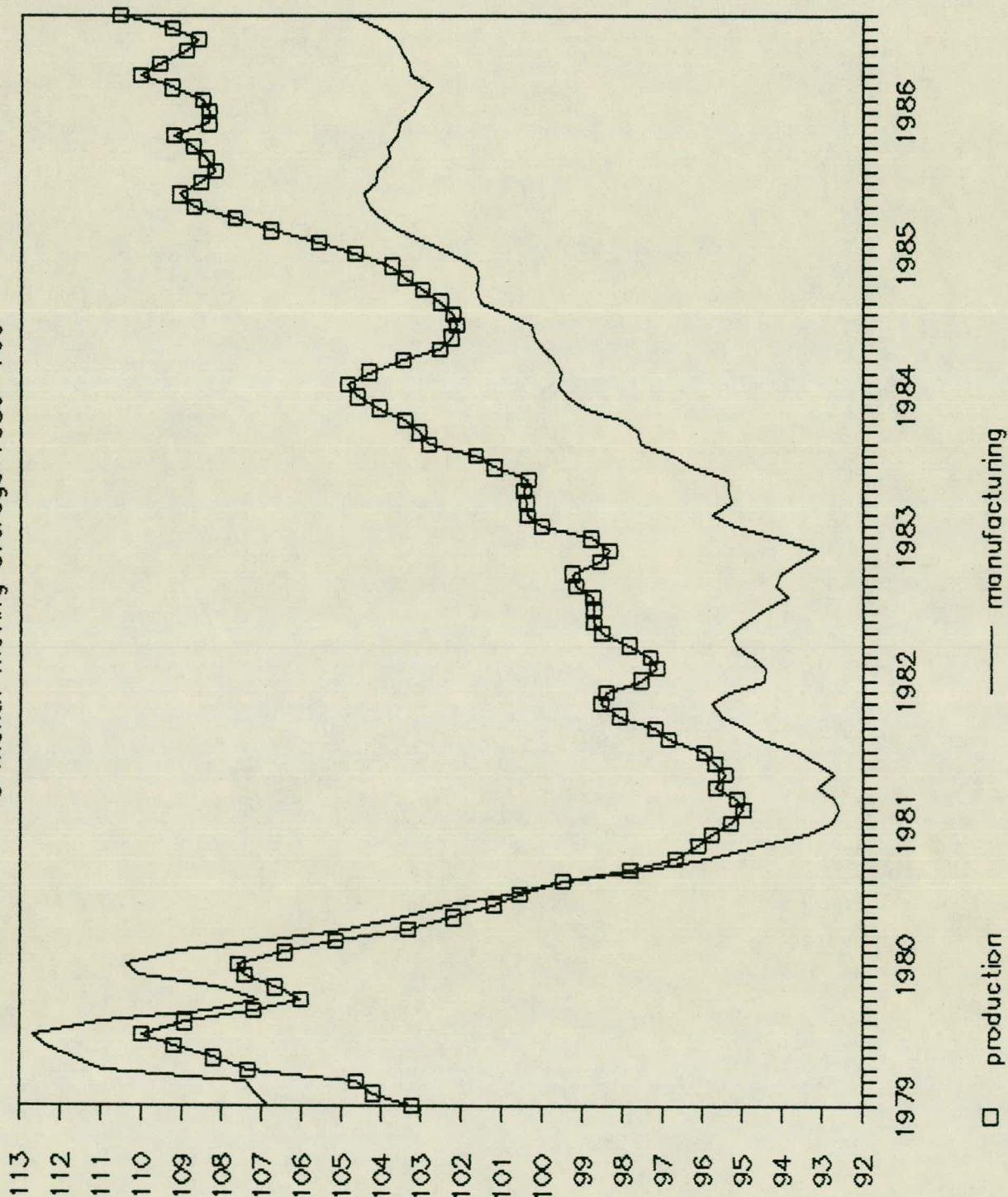
- (i) Total production at highest ever level. In 1986Q3 over 2 per cent above its level in 1985Q3.
- (ii) Pick up in manufacturing output. Up over 1 per cent in Q3 over Q2 and up over 2 per cent since beginning of year to reach highest level since 1980Q1.
- (iii) Construction output at highest level for over six years.

R. Kerley

R D KERLEY

OUTPUT OF THE PRODUCTION INDUSTRIES

3 month moving average 1980=100



CONFIDENTIAL



FROM: A C S ALLAN
DATE: 12 November 1986

MR HACCHE

cc PS/Chief Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Sedgwick
Mr Scholar
Mr Culpin
Mr S Davies
Miss O'Mara
Mr Shaw
Mr Stern
Mr MacAuslan
Mr Hunt
Mr Tyrie

LABOUR MARKET STATISTICS

The Chancellor was grateful for your minute of 11 November (not to all).

2. He thought it was unhelpful that Department of Employment had given gross Restart figures of 70-80,000 to Parliament. But, nonetheless, he felt that giving precise net Restart effects could be counterproductive; it would be better to say the net effect was much smaller than the gross, and generally to play down Restart. I have passed this on to Department of Employment private office.

3. He would be grateful for a Treasury analysis of the underlying trends in unemployment - taking account of the effect of SEMs, Restart etc. In the first instance this would be for internal use only, though - depending on what it showed - it might have wider application as a counter to those who argued that the change in the published trend was wholly due to people being taken out of the count "artificially".

A handwritten signature in dark ink, appearing to read 'ACSA'.

A C S ALLAN

J0337

MR D NORGROVE
Prime Minister's Office

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - SEPTEMBER 1986

The provisional index of the output of the production industries for September 1986 will be published at 11.30 am on Thursday 13 November. A copy of the Press Notice is attached.

Latest figures

The September 1986 index of the output of the production industries - energy (including coal) and manufacturing - is provisionally estimated at 111.3(1980=100, seasonally adjusted), an increase of $\frac{1}{2}$ per cent on August. For manufacturing the index was 105.6, an increase of 1 per cent on August (see also paragraph on bias adjustment below).

In the third quarter of 1986 the output of production industries was $1\frac{1}{2}$ per cent higher than in the previous quarter with manufacturing output 1 per cent higher. Some industry detail is given in the attached Table A.

Assessment

Manufacturing output reached at least a temporary peak in the second quarter of 1985 and then declined $1\frac{1}{2}$ per cent by the first quarter of 1986. However since the first quarter output has increased significantly and in the third quarter had recovered to about the level experienced in the second quarter of last year.

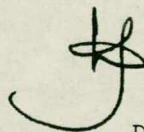
The underlying output (after allowing for weather effects) of all production industries in the second half of 1985 was almost 1 per cent below the level reached in the first half but partially recovered in the first half of 1986. The third quarter was high as a result of increased manufacturing output and oil extraction.

Bias adjustment for manufacturing output

In line with revised procedures 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).

Figures for October 1986

Figures for October 1986 are scheduled for publication on Tuesday 16 December.



D C K Stirling
12 November 1986

Central Statistical Office

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 Geoffrey Pattie
	(Private Secretary to Giles Shaw
	(Private Secretary to John Butcher
	(Sir Brian Hayes (Mr H H Liesner (Mr A Whiting (Mr N Harvey (Mr S W Treadgold
Bank of England	(Mr R Leigh-Pemberton

*pur*FROM: G. HACCHE
DATE: 12 November 1986

1. MISS O'MARA *mom 12/n*
2. CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Monck
Mr Sedgwick
Mr Scholar
Mr Culpin
Mr S Davies
Mr Dyer (+1 for No.10)
Mr Hudson
Mr Hunt
Mr Cropper
Mr Ross Goobey
Mr Tyrrie
HB/01

*[Red handwritten signature]***COMBINED RELEASE OF LABOUR MARKET STATISTICS ON 13 NOVEMBER**

The increase in total employment of over 1 million (1,003,00) in para 7 of my note of yesterday relates to the period June 1983-June 1986 not June 1983-March 1986.

2. This also answers your request of yesterday for the increases in employment since June 1983 (Mr Allan's minute to Mr Hunt).

Gwyn Hacche
GWYN HACCHE



FROM: J J HEYWOOD
DATE: 12 November 1986

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr Monck
Mr Sedgwick
Mr Scholar
Mr Culpin
Mr S Davies
Miss O'Mara
Mr Dyer
Mr Hacche
Mr Hudson
Mr Hunt
Mr Cropper
Mr Ross Goobey
Mr Tyrrie
HB/01

Ch
Lord Young's Mice are fully
on-side on this, though DE will
no doubt be pressed on Restart effort
(but could not volunteer or promise them)
✓ *AA*

COMBINED RELEASE OF LABOUR MARKET STATISTICS ON 13 NOVEMBER

1. The Financial Secretary has read Mr Hacche's note of 11 November, and agrees that the new figures are very encouraging.
2. He is very concerned, however, about the likely thrust of press comments, as reported in Mr Hacche's paragraph 12. He feels that it is extremely important that the presentation of the figures should not allow DE Ministers to claim all the credit for the improving position by highlighting the role of Special Employment Measures and Restart in particular.
3. Emphasis on Restart might well lead commentators to suggest that we are merely observing a one-off shake out of fraudulent long-term claimants. Moreover, the recent improvement in trend is not just due to Restart or SEMs in general and thus it is doubly important to ensure that the contrary impression is not allowed to develop.

J.H.

JEREMY HEYWOOD
Private Secretary

PERSONAL AND CONFIDENTIAL



purp

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213..... 6460

Switchboard 01-213 3000

/

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON SW1

12 November 1986

Dear David

RETAIL PRICE INDEX: OCTOBER 1986

... I enclose a numbered copy of the DE note and draft press release on the Index of Retail Prices due to be released at 11.30 on Friday 14 November.

Numbered copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Timothy Walker (Trade and Industry), Rachel Passmore (CSO), John Footman (Bank of England), Chris Cloke (CO) and Andrew Lansley (Chancellor of the Duchy of Lancaster's Office).

Yours sincerely

Nick Baxter

NICK BAXTER
Private Secretary

PERSONAL AND CONFIDENTIAL

PERSONAL AND CONFIDENTIAL

RETAIL PRICES INDEX : OCTOBER 1986

The annual rate of inflation in October, as measured by the 12-month change in the retail prices index, was 3.0 per cent: the same as that recorded in September.

2. Between September and October the increase in overall level of prices matched that recorded between the corresponding months last year: 0.2 per cent. There were small price increases for a range of goods and services, notably for clothing and draught beer, and seasonal falls in the prices of some fresh fruit.

3. In November the 12-month rate is likely to rise to around 3½ per cent. The recent increases in mortgage interest rates are expected to contribute about ½ per cent out of an overall increase in prices of ¾ per cent. Between October and November last year a rise of 0.3 per cent was recorded.

ugh!

4. In his Autumn Statement last week the Chancellor of the Exchequer forecast that inflation would be 3¼ per cent for the fourth quarter of this year (lower than his Budget forecast of 3½ per cent), and 3¼ per cent for the fourth quarter 1987. He anticipated that the pattern of price increases this year and that expected next year means that the annual rate of inflation may rise slightly in the middle of next year before resuming its downward path towards the end of the year.

Producer Prices

5. The seasonally adjusted price index for materials and fuels purchased by manufacturing industry has shown small increases in August, September and October, largely due to increased prices for imports following the falling value of sterling over the period. Previously there had been an almost uninterrupted decline from early last year and these prices are still more than 5 per cent lower than they were a year ago.

6. The annual increase in the prices for home sales of manufactured products has been just under 4½ per cent over the period from June to October. It has shown a fairly steady decline from around 5 per cent at the beginning of this year and 6 per cent at the beginning of 1985.

PERSONAL AND CONFIDENTIAL

Tax and Price Index

7. The tax and prices index increased by 1.5 per cent in the year to October compared with 1.2 per cent recorded for September. This increase reflects last year's fall in national insurance contributions dropping out of the calculation.

International comparisons

8. The latest 12-month percentage changes in consumer prices in the main OECD countries and the averages for all EEC and OECD countries are as follows:-

	UK	FRANCE	FEDERAL GERMANY	ITALY	NETHER -LANDS	JAPAN	USA	CANADA	OECD Averages	EEC
1985										
Q3	6.3	5.6	2.2	9.1	2.3	2.1	3.4	3.9	4.2	8.3
Q4	5.5	4.8	1.8	8.9	1.7	1.9	3.5	4.2	4.2	7.9
1986										
Q1	4.9	3.6	0.7	7.7	1.2	1.4	3.1	4.2	3.8	4.4
Q2	2.8	2.4	-0.2		0.4	0.8	1.6	3.9	2.5	3.3
Q3	2.6									
July	2.4	2.0	-0.5		-0.7	-0.1	1.6	4.2	2.4	3.0
August	2.4	2.0	-0.4		-0.5	-0.2	1.6	4.3	2.4	3.0
Sept	3.0	2.3	-0.4		-0.6	0.2	1.8	4.1	2.5	3.1
October	3.0									

pwp

FROM: S BROOKS
DATE: 13 NOVEMBER 1986

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

cc : PS/Chief Secretary
PS/Financial Secretary
PS/Economic 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 Odling-Smee
Mr Sedgwick
Mr Scholar
Mr Bottrill
Mr Culpin
Mr Gilhooly
Mr Mowl
Miss Noble
Miss O'Mara
Mr Pickford
Mr Hacche
Mr Halligan
Mr P Davis
Mr Ross Goobey
Mr Cropper
Mr Tyrie

THE OCTOBER RPI (to be published at 11.30 a.m. on Friday 14 November)

The level of the RPI rose by 0.2 per cent between September and October. The twelve month rate of inflation was unchanged at 3.0 per cent. This is as we expected.

2. Excluding mortgage interest payments, the twelve month rate of increase was 3.4 per cent in October, the same as in September.

3. There were few significant changes in individual items between September and October. The largest rises recorded were for beer sold in pubs and for some clothing.

4. The rise in mortgage interest rates effective for most borrowers on 1 November will add about 0.6 per cent to the RPI when fully reflected in the index. We expect the twelve month increase in the all items RPI to rise to around 3½ per cent in November.

5. The RPI figures are better than most City expectations. While Laing and Cruickshank expect an increase of 0.2 per cent in October, Wood Mackenzie and Phillips and Drew are expecting an increase of 0.4 per cent.

S Brooks

S BROOKS
EAL DIVISION
EXT 7946

PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM ON FRIDAY 14 NOVEMBER 1986

264/86

November 14, 1986

INDEX OF RETAIL PRICESOCTOBER 1986

The index of retail prices for all items for October 14, 1986 was 388.4 (January 15, 1974 = 100). This represents an increase of 0.2 per cent on September 1986 (387.8) and an increase of 3.0 per cent on October 1985 (377.1).

The rise in the index between September and October was the result of small price increases for a range of goods and services, notably for clothing and draught beer. There were seasonal falls in the prices of some fresh fruit.

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

Table 1.

	All items			All items except seasonal food			
	Index Jan 15 1974 = 100	Percentage change over			Index Jan 15 1974 = 100	Percentage change over	
		1 month	6 months	12 months		1 month	6 months
1986							
May	386.0	+0.2	+2.0	+2.8	387.3	+0.1	+1.6
June	385.8	-0.1	+1.8	+2.5	387.0	-0.1	+1.5
July	384.7	-0.3	+1.3	+2.4	386.8	-0.1	+1.3
August	385.9	+0.3	+1.3	+2.4	387.9	+0.3	+1.2
September	387.8	+0.5	+1.6	+3.0	390.0	+0.5	+1.7
October	388.4	+0.2	+0.8	+3.0	390.9	+0.2	+1.0

Indices (15 January 1974 = 100)

			Percentage change
	September 9, 1986	October 14, 1986	over the month
All items	387.8	388.4	+0.2
All items excluding food	398.5	399.6	+0.3
Food	348.3	347.6	-0.2
Seasonal food	331.7	324.9	-2.1
Food excluding seasonal	351.8	352.2	+0.1
Alcoholic drink	434.6	436.6	+0.5
Tobacco	598.3	599.9	+0.3
Housing	477.3	478.4	+0.2
Fuel and light	506.7	506.4	-0.1
Durable household goods	263.7	264.7	+0.4
Clothing and footwear	231.5	233.0	+0.6
Transport and vehicles	393.2	393.3	0.0
Miscellaneous goods	411.6	412.5	+0.2
Services	403.2	404.0	+0.2
Meals out	445.3	447.8	+0.6

CONFIDENTIAL

FROM: S BROOKS

DATE: 17 November 1986

MR ALLAN

cc: Sir P Middleton
Sir T Burns
Mr Sedgwick
Mr S Davies

MONTHLY PATH FOR THE RPI

The table below shows our current expected monthly path for RPI inflation, consistent with the judgements made in the Industry Act forecast. We have updated our forecast on receipt of the latest information.

	Expected 12 month rate of inflation	Excluding mortgage interest	to be published on
1986 November	3.4	3.3	13 December 1986
December	3.6	3.4	16 January 1987
1987 January	3.6	3.4	13 February 1987
February	3.6	3.4	20 March 1987
March	3.9	3.7	10 April 1987
April	4.2	3.8	15 May 1987
May	4.3	3.8	12 June 1987
June	4.8	3.8	10 July 1987
July	4.8	3.8	14 August 1987
August	4.8	3.8	11 September 1987
September	4.3	3.3	9 October 1987
October	4.1	3.1	13 November 1987
November	3.7	3.2	11 December 1987
December	3.6	3.3	

Publication dates are provisional at this stage for 1987. However I would be surprised if there were any changes. No date has yet been fixed for the publication of the December 1987 index.

For (→ The most recent published figures when the General Election was fought →)

2. ~~In April 1983 the RPI excluding mortgage interest payments was 4.9 per cent higher than in April 1982; over the same period the all-items RPI increased by 4.0 per cent.~~ The 12 month rate of inflation as measured by the RPI was 4.0 per cent, or 4.9 per cent excluding mortgage interest.

CONFIDENTIAL

3. The table on Public Sector price changes below updates the table attached to Mr Davies' minute of 20 October. We now expect no increase in electricity prices over the next year. The speed with which indirect tax changes feed through into the RPI cannot be calculated with certainty - it depends mainly on the length of time retailers are able or prepared to sell goods at "Pre Budget Prices".

<u>Public Sector price changes in 1987</u>		<u>RPI effect</u>	
January	LRT fares	+4.5% (announced)	+ .04%
	BR fares	+5.7% (forecast)	+ .03%
April	Water Charges	+6.8% (forecast)	+ .05%
	Domestic Rates	+8.6% (forecast)	+ .28%
	LA Rents	+6.0% (forecast)	+ .17%
	Indirect Taxes	+3.6% (forecast)	
	-effect in first month		+ .24%
May	Indirect Taxes		
	- residual effects		+ .10%
November	Postal Charges	+0.5% (forecast)	+ .00%
	Coal Prices	+2.2% (forecast)	+ .02%

S. Brooks

S BROOKS
EAL Division



FROM: A C S ALLAN
DATE: 18 November 1986

CHANCELLOR

RPI

Now the Autumn Statement is out of the way we need to think how to respond to the PM's request.

2. I have got new numbers (below) which show that:

(i) the all items RPI will be over 4 per cent (on this forecast) from April to October (ie the published number will be over 4 per cent from May to November);

(ii) excluding mortgage interest costs, the rate will be below the April 1983 figure for the whole of next year.

3. One real problem is how we handle the Prime Minister's request for "the dates for decision and announcement of those prices which are under the control of the Government or which can be influenced by it". The two things which stand out are indirect taxes and LA rates. We should be able to head off any attempt not to revalorise indirect taxes. But LA rates will be tricky: Mr Ridley is robust, but the Prime Minister might well push for more grant.

4. Do you want to send these figures across in a pretty deadpan way, without comment? Or should we anticipate trouble by stressing how dangerous it would be to try to manipulate the rates figure downwards.

Handwritten notes in red ink:
1. Have
2. You will show that
must be
keep rate down
& when you
interest rate
for worse effect on RPI
AA
A C S ALLAN



To: MINISTER FOR TRADE

Copy No. 3 (27)

From: P. J. STIBBARD
J5/S2
V/260 Ext. 4872

19 November 1986

Ch
Small surplus, mainly thanks
to ↑ invisible surplus.

AA

OVERSEAS TRADE FIGURES FOR OCTOBER

THE CURRENT ACCOUNT

In October, exports were valued at £6.2 billion and imports at £7.0 billion so that visible trade, seasonally adjusted on a balance of payments basis, showed a deficit of £0.8 billion, slightly less than the deficit of £0.9 billion in September.

The Central Statistical Office project a surplus of £0.9 billion for invisibles in October so that the current account is provisionally estimated to have been in surplus by £0.1 billion compared with a deficit of £0.1 billion in September. The CSO have also raised their projection for the invisibles surplus from July onwards. The invisible surplus for the first 10 months of the year now stands at £7.3 billion and the current account now shows a surplus of £0.4 billion for the first 10 months.

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

	Current Account Balance	Visible Total	Trade Oil	Seasonally adjusted Balance of Payments Basis £ million	
				Balances Non-Oil	Invisibles Balance
1984	+1212	-4384	+6937	-11321	+5596
1985	+3602	-2111	+8163	-10274	+5713
1986 May-July	+158A	-1947	+ 722	- 2668	+2105A
Aug-Oct	-733A	-3233	+ 632	- 3865	+2500A
1986 August	-714A	-1514	+ 180	- 1694	+ 800A
Sept	- 85A	- 885	+ 268	- 1152	+ 800A
Oct	+ 65A	- 835	+ 184	- 1019	+ 900A

A = Projection



In the three months ended October there was a deficit on visible trade of £3.2 billion - a surplus on trade in oil of £0.6 billion offset by a deficit on non-oil trade of about £3.9 billion. Between the three months ended July and the latest three months, the deficit on visible trade increased by £1.3 billion - the surplus on oil fell by £0.1 billion and the deficit on non-oil trade increased by £1.2 billion.

EXPORTS

The value of exports in October was £135 million (2 per cent) higher than in September. Exports of oil increased by £91 million between September and October while exports of the erratic items fell by £30 million. Excluding oil and the erratic items, exports rose by 1½ per cent in October.

Between the three months ended July and the latest three months, total export volume showed no change and in the latest three months stood 5½ per cent up on the same period a year earlier. Excluding oil and the erratic items export volume increased by 1½ per cent in the latest three months and the upward underlying trend in non-oil export volume, established earlier in the year, continues.

TABLE 2: EXPORTS BY VALUE AND VOLUME (Tables 1, 4 and 7 of Press Notice)

Bop Basis, Seasonally Adjusted

	VALUE (£m)		VOLUME (1980 = 100)	
	Total	Total Less Oil and erratics	Total	Total less Oil and erratics
1984	70367	50894	112.5	107.6
1985	78051	57710	118.6	115.0
1986 May-July	17718	14687	123.0	117.0
Aug-Oct	17746	15025	122.9	118.5
1986 Aug	5468	4789	117.0	113.7
Sept	6072	5081	126.5	121.1
Oct	6206	5155	125.3	120.8



By value, exports were unchanged in the latest three months but rose by 2½ per cent after excluding oil and the erratic items. Exports to the developed countries increased by 3 per cent with exports to the European Community up 8 per cent and exports to North America down 6 per cent. Exports to the developing countries fell by 12 per cent in the latest three months largely reflecting lower deliveries to the oil-exporting countries.

IMPORTS

The total value of imports in October was £85 million (1 per cent) higher than in September. Imports of the erratic items fell by £76 million but imports of oil rose by £174 million. Excluding oil and the erratic items, imports in October were virtually unchanged compared with September.

Between the three months ended July and the three months ended October, total import volume increased by 6½ per cent to be 14 per cent higher than a year earlier. Excluding oil and the erratic items import volume increased by 5 per cent in the latest three months. In recent months the underlying level of non-oil import volume has risen rapidly but there are now signs that there has been some slackening in that growth.

TABLE 3: IMPORTS BY VALUE AND VOLUME (Tables 1, 4 and 7 of Press Notice)

Bop Basis, Seasonally Adjusted

	VALUE (£m)		VOLUME (1980 = 100)	
	Total	Total less oil and erratics	Total	Total less oil and erratics
1984	74751	63276	121.9	137.0
1985	80162	68730	125.8	142.7
1986 May-July	19665	17866	132.3	148.8
Aug-Oct	20979	19067	141.0	156.1
1986 Aug	6981	6467	142.9	159.4
Sept	6956	6307	139.5	156.0
Oct	7041	6293	140.6	153.1



By value, imports increased by 6½ per cent in the latest three months with imports from the developed countries up 6½ per cent and imports from the developing countries up 17 per cent. Within the total for developed countries, imports from Western Europe grew by 8 per cent with imports from North America up 2 per cent and imports from the other developed countries up by 4 per cent.

TRADE IN MANUFACTURES

Estimates of trade in manufactures on a balance of payments basis will be published in the Monthly Review of External Trade Statistics. On present estimates there was a deficit on trade in manufactures in the three months ended October of £2.2 billion compared with a deficit of £1.0 billion in the previous three months. The cumulative deficit for the first 10 months of the year stands at £4.6 billion compared with a deficit of £3.0 billion for the whole of 1985.

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

	Exports	Imports	£ million Seasonally Adjusted Balance of Payments Basis
1984	46590	50469	- 3879
1985	52280	55297	- 3017
1986 May-July	13604	14588	- 983
Aug-Oct	13516	15688	- 2172
1986 Aug	4203	5286	- 1083
Sept	4641	5203	- 562
Oct	4672	5200	- 528

PUBLICATION

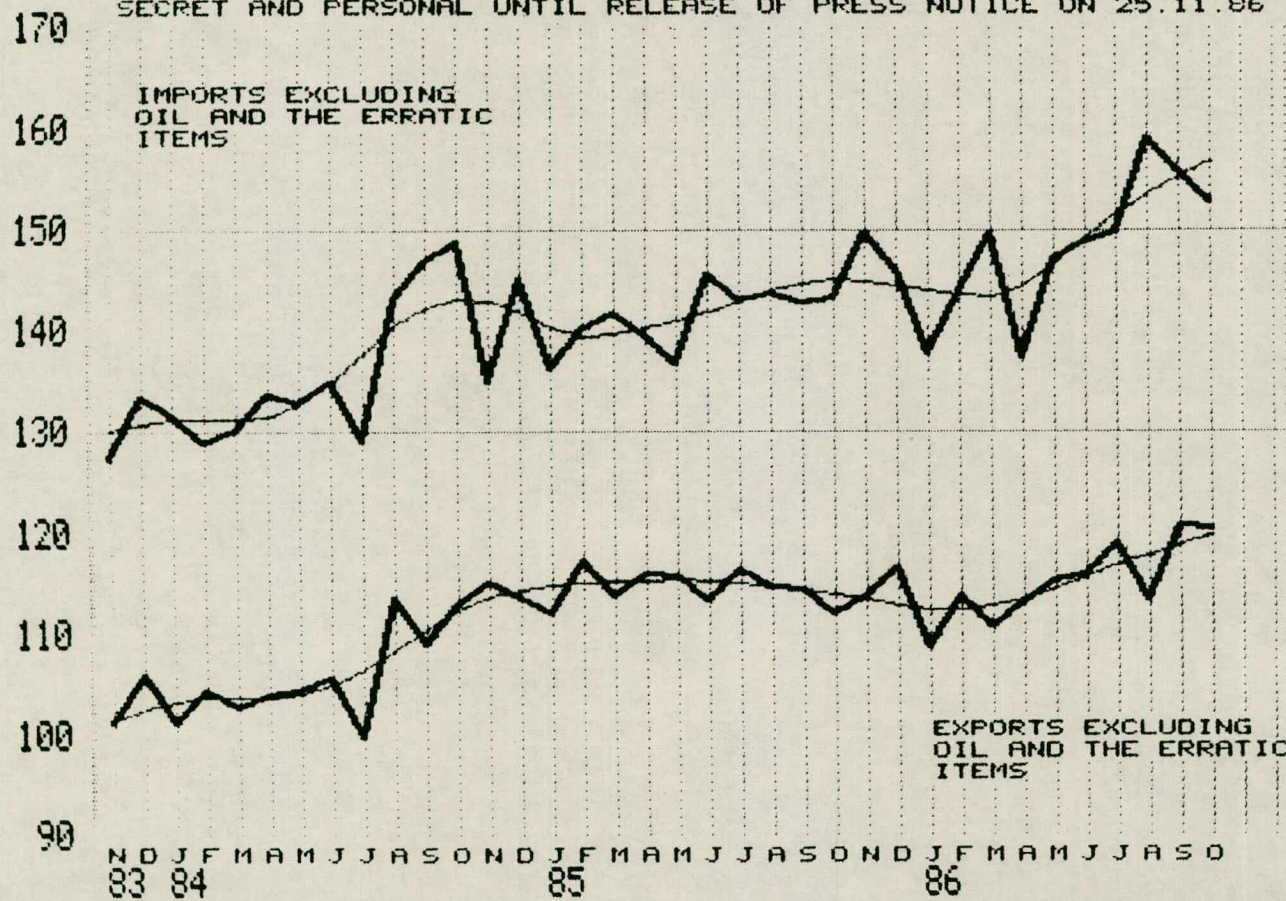
The press notice with the October figures is scheduled for release at 11.30am on Tuesday 25 November 1986.

P J STIBBARD

VOLUME INDICES

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 25.11.86

(26)



— = VOLUME INDEX — = TREND

BALANCE OF PAYMENTS BASIS 1980=100 SEASONALLY ADJUSTED

CIRCULATION LIST

Copy No	1	Minister for Trade	
	2	Prime Minister	
	3	Chancellor of the Exchequer	
	4	Secretary of State for Trade and Industry	
	5	PUSS for Trade and Industry	
	6	Sir Robert Armstrong (Cabinet Office)	
	7	Sir Brian Hayes (Dept of Trade and Industry)	
	8	Sir Peter Middleton (HM Treasury)	
	9	Governor of the Bank of England	
	10	Chairman of the Board of HM Customs & Excise	
	11	Mr J Hibbert (CSO)	
	12	Mr Finlinson (HM Customs & Excise)	
	13	Mr B Buckingham (CSO)	
	14	Mr S King (HM Treasury)	
	15	Mr Barrel (HM Treasury)	
	16	Mr P Sedgewick (HM Treasury)	
	17	Mr D Owen (HM Treasury)	
	18	Mr A McIntyre (CSO)	
	19	Dr P Rice (Dept of Energy)	
	20	Mr H H Liesner)	
	21	Mr P Stibbard)	
	22	Mr W E Boyd)	
	23	Mr E J Wright)	Dept of Trade and
	24	Mr A R Hewer)	Industry
	25	Miss C Siddell)	
	26	Miss H Chapman)	
	27	Mr D Packer)	



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

*C/my apologies.
Earlier letters
below.*

20 November 1986

CR 5/1

The Rt Hon Norman Tebbit MP
Conservative Central Office
32 Smith Square
LONDON
SW1P 3HH

*What I want
has no value - later
for T - that is
a follow up.
m*

Stan Norman

PUBLICATION DATES OF STATISTICS

.. Thank you for your letter of 6 November. I attach a further set of publication dates for economic statistics in 1987. A final few will be sent to you as soon as they are available.

Nigel Lawson

NIGEL LAWSON

*Thanks.
Per letter know
dates for (a) trade figs
(b) manufacturing figs
1987.
m*

ECONOMIC STATISTICS - 1987

PUBLICATION DATES

Taxes and Prices Index. Published the same day as the RPI, ie:

16 January 1987	10 July 1987
13 February 1987	14 August 1987
20 March 1987	11 September 1987
10 April 1987	9 October 1987
15 May 1987	13 November 1987
12 June 1987	11 December 1987

Consumers' Expenditure

Preliminary quarterly figures expected:

22 January 1987
23 April 1987
23 July 1987
22 October 1987

Adjusted final figures expected:

20 March 1987
22 June 1987
21 September 1987
18 December 1987

Cyclical Indicators

Definite 1987 dates:

20 January
19 February
23 March
15 April

Beyond that, dependent on Central Statistical Office, who have been asked to produce dates.

JK
20 Nov 87



Ch

Interesting story from
3 months import volume
comparisons (table 13):

Final manufs	+ 5%
%w cars	+ 3 1/2%
alter consumer	+ 2%
intermediate	+ 1 1/2%
<u>capital</u>	+ 11%

Very interesting.
Share price of banks
2. The overall
figs show the
AA was
rec'd by the
market.



Ch

Jan - Sept

	<u>Previous</u>	<u>Now</u>
Visible	-6020	-6050
Invisible	+5810	+6410
Current ac	-210	+360

Balances

Sept

Oct

Change

Goods excl oil & erratics	-1226	-1138	+88
Erratics	+74	+119	+45
Oil	+268	+184	-84
Invisible	+800	+900	+100
Current balance	-85	+65	+150

AA

COVERING SECRET AND PERSONAL



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 4887
GTN 215
(Switchboard) 01-215 7877

Mr A Allan
Principal Private Secretary
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON
SW1 3AG

20 November 1986

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

Publication is set for Tuesday 25 November at 11.30 am and I should be grateful if you would arrange for the Notice to be cleared by 12.00 noon Monday 24 November and to inform me accordingly.

A copy of this letter and draft Press Notice is being sent to Sir Peter Middleton and Mr King, H M Treasury.

Yours sincerely

W. E. Boyd

W E BOYD

Ch
Unstable over last 3 months:

	<u>Value</u>	<u>Unit Value</u>	<u>Volume</u>
		140.4	159.4
Aug	6717	142.2	158.0
Sep	6691	144.5	153.1
Oct	6602		

Non-oil imports

COVERING SECRET AND PERSONAL

ie value not much changed, with ↑ price & ↓ volume offsets and

THE CURRENT ACCOUNT OF THE
UNITED KINGDOM BALANCE OF PAYMENTS

OCTOBER 1986

The current account for October is estimated to have been in surplus by £ 65 million compared with a deficit of £ 85 million in September. In October, exports were valued at £6206 million and imports at £7041 million so that trade in goods was in deficit by £835 million.

The balance on invisibles in October is projected to be in surplus by £ 900 million, a large surplus on the transactions of the private sector and public corporations being partly offset by a deficit on Government transactions.

AUGUST TO OCTOBER 1986

In the three months ended October, the current account showed a deficit of £ 0.7 billion compared with a surplus of £ 0.2 billion in the previous three months. There was a deficit on visible trade of £ 3.2 billion compared with a deficit of £ 1.9 billion in the three months ended July. The surplus on invisibles in the latest three months is projected at £ 2.5 billion. (see footnote b)

CURRENT ACCOUNT

TABLE 1

£ million, Seasonally adjusted

	Current Balance	Visible Trade		Invisibles Balance ^a	
		Balance	Exports fob		Imports fob
1984	+ 1212	- 4384	70367	74751	+ 5596
1985	+ 3602	- 2111	78051	80162	+ 5713
1985 Q3	+ 1447	- 440	18749	19188	+ 1886
Q4	+ 612	- 292	19006	19299	+ 904
1986 Q1	+ 619	- 1437	18122	19560	+ 2056
Q2	+ 379	- 1579	17789	19368	+ 1958
Q3	- 634 b	- 3034	17517	20551	+ 2400 b
1986 May	- 29	- 681	5890	6571	+ 652
June	+ 23	- 630	5850	6480	+ 653
July	+ 164 b	- 636	5978	6614	+ 800 b
Aug	- 714 b	- 1514	5468	6981	+ 800 b
Sept	- 85 b	- 885	6072	6956	+ 800 b
Oct	+ 65 b	- 835	6206	7041	+ 900 b
May-July 1986	+ 159 b	- 1947	17718	19665	+ 2105 b
Aug-Oct 1986	- 733 b	- 3233	17746	20979	+ 2500 b
Jan-Oct 1986	+ 429 b	- 6886	59635	66520	+ 7314 b

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

b Invisibles for July to September are estimates based on partial information and are subject to revision when balance of payments estimates for the third quarter of 1986 are published on 4 December. The invisibles balance for October is a projection and is subject to revision as information for the fourth quarter becomes available.

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VISIBLE TRADE IN OCTOBER 1986

There was a deficit on visible trade in October of £835 million compared with a deficit of £885 million in September. The surplus on oil at £184 million was £83 million lower than in September while the deficit on non-oil trade fell by £133 million.

At £6206 million, exports in October were 2 per cent higher than in September. Exports of oil increased by £91 million between September and October while exports of the erratic items fell by £30 million. Excluding oil and the erratic items, exports rose by 1½ per cent in October.

Total imports were valued at £7041 million which was 1 per cent higher than in September. Imports of the erratic items fell by £76 million but imports of oil rose by £174 million. Excluding oil and the erratic items, imports in October were virtually unchanged compared with September.

RECENT TRENDS

Visible balance

In the three months ended October there was a deficit on visible trade of £3.2 billion - a surplus on trade in oil of £0.6 billion offset by a deficit on trade in non-oil goods of about £3.9 billion. Between the three months ended July and the latest three months, the deficit on visible trade increased by £1.3 billion - the surplus on oil fell by £0.1 billion and the deficit on non-oil trade increased by £1.2 billion.

Exports

Exports amounted to £17.7 billion in the three months ended October, the same as in the previous three months. Exports of oil fell by £0.1 billion between the two periods and exports of the erratic items fell by £0.2 billion. Excluding oil and the erratic items exports rose by $2\frac{1}{2}$ per cent in the latest three months. Exports of food and of basic materials grew strongly; exports of manufactures (excluding the erratic items) were 1 per cent up in the latest three months.

By volume, exports were unchanged in the latest three months at a level $5\frac{1}{2}$ per cent up on the same period a year earlier. Excluding oil and the erratic items export volume increased by $1\frac{1}{2}$ per cent in the latest three months and the upward trend in non-oil export volume established earlier in the year continues.

Imports

Total imports were valued at £21.0 billion in the three months ended October, £1.3 billion ($6\frac{1}{2}$ per cent) higher than in the previous three months. Imports of the erratic items increased by £0.1 billion while imports of oil were unchanged. Excluding oil and the erratic items, imports were $6\frac{1}{2}$ per cent up on the three months ended July.

By volume, imports increased by $6\frac{1}{2}$ per cent in the latest three months to be 14 per cent higher than a year earlier. Excluding oil and the erratic items, the volume of imports increased by 5 per cent to be $8\frac{1}{2}$ per cent higher than a year earlier. In recent months, the underlying level of non-oil import volume has risen rapidly but there are now signs of some slackening in that growth.

Terms of trade and unit values

The terms of trade index remained unchanged in the latest three months with both the export unit value index and the import unit value index increasing by $1\frac{1}{2}$ per cent. Compared with the same period last year, the export unit value index has fallen by about $3\frac{1}{2}$ per cent and the import unit value index by $5\frac{1}{2}$ per cent. As a result, the terms of trade is now about 2 per cent higher than a year ago.

Export unit values for fuels fell by 5 per cent in the latest three months while the unit value index for non-oil exports increased by 2 per cent. Within the total for non-oil exports, the unit values for finished manufactures grew by 3 per cent. Those for semi-manufactures were up 1 per cent while outside manufacturing there was virtually no change.

The import unit values for fuels fell by $8\frac{1}{2}$ per cent in the latest three months while the unit value index for non-oil imports grew by $2\frac{1}{2}$ per cent. Import unit values for food, beverages and tobacco and for semi-manufactures were up by $1\frac{1}{2}$ per cent in the

latest three months but those for finished manufactures (up 4½ per cent) showed the strongest growth.

Analysis by area

Exports to the developed countries increased by 3 per cent between the three months ended July and the latest three months with exports to the European Community up by 8 per cent and exports to North America down 6 per cent. Exports to the developing countries fell by 12 per cent in the latest three months largely reflecting lower deliveries to the oil exporting countries.

Imports from the developed countries rose by 6½ per cent in the latest three months and imports from the developing countries by 17 per cent. Within the total for developed countries, imports from Western Europe grew by 8 per cent. Import from North America were up by 2 per cent and imports from the other developed countries by 4 per cent.

NOTES TO EDITORS

4 STANDARD NOTES

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

5 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 comparisons. The Monthly Review is available from the Department of Trade and Industry at the address given below for an annual subscription of £38 or £3 per copy.

3 AREA (tables 11 and 15)

Low value consignments ie items of an individual value less than £475, are not analysed by country and are therefore excluded from the area data in tables 11 and 15.

In addition the method of seasonal adjustment leads to further differences between the sum of areas and figures for total trade.

2 SPAIN/PORTUGAL

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

1 REVISIONS

Data for the first nine months of 1986 have been revised due to later information becoming available.

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.

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Table 2

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

£ million seasonally adjusted

	Current Balance	Visible Trade					Invisible Balance ^a
		Exports fob	Imports fob	Visible Balance	of which		
					Oil	Non-Oil	
1984	+ 1212	70367	74751	- 4384	+ 6937	- 11321	+ 5596
1985	+ 3602	78051	80162	- 2111	+ 8163	- 10274	+ 5713
1985 Q3	+ 1447	18749	19188	- 440	+ 1900	- 2340	+ 1886
Q4	+ 612	19006	19299	- 292	+ 1893	- 2185	+ 904
1986 Q1	+ 619	18122	19560	- 1437	+ 1929	- 3367	+ 2056
Q2	+ 379	17789	19368	- 1579	+ 750	- 2328	+ 1958
Q3	- 634 ^b	17517	20551	- 3034	+ 688	- 3722	+ 2400 ^b
1986 Feb	+ 185	6188	6542	- 354	+ 666	- 1019	+ 539
Mar	- 642	5732	6913	- 1181	+ 365	- 1546	+ 539
Apr	+ 385	6049	6317	- 268	+ 268	- 536	+ 653
May	- 29	5890	6571	- 681	+ 215	- 895	+ 652
June	+ 23	5850	6480	- 630	+ 267	- 897	+ 653
July	+ 164 ^b	5978	6614	- 636	+ 240	- 876	+ 800 ^b
Aug	- 714 ^b	5468	6981	- 1514	+ 180	- 1694	+ 800 ^b
Sept	- 85 ^b	6072	6956	- 885	+ 268	- 1152	+ 800 ^b
Oct	+ 65 ^b	6206	7041	- 835	+ 184	- 1019	+ 900 ^b
Aug-Oct 1985	+ 1260	18677	18919	- 243	+ 2069	- 2311	+ 1503
May-July 1986	- 159 ^b	17718	19665	- 1947	+ 722	- 2668	+ 2105 ^b
Aug-Oct 1986	- 733 ^b	17746	20979	- 3233	+ 632	- 3865	+ 2500 ^b
% Change							
Latest 3 months							
on previous 3		-	+ 6½				
months/same 3							
months one year		-5	+ 11				
ago							

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

b Invisibles for July to September are estimates based on partial information and are subject to revision when balance of payments estimates for the third quarter of 1986 are published on 4 December. The invisibles balance for October is a projection and is subject to revision as information for the fourth quarter becomes available.

Table 3

INVISIBLES

£ million seasonally adjusted

	All Sectors						Private Sector and Public Corporations ^d		
	Credits	Debits	Balance	of which			Credits	Debits	Balance
				Services	Interest Profits Dividends	Transfers			
1983	65224	61255	+ 3969	+ 3652	+ 2421	- 2104	60599	52903	+ 7696
1984	76737	71141	+ 5596	+ 3744	+ 4157	- 2305	71859	62054	+ 9805
1985	80608	74895	+ 5713	+ 5812	+ 3400	- 3499	76241	64791	+ 11450
1984 Q3	19613	18248	+ 1365	+ 949	+ 1177	- 761	18641	16030	+ 2611
Q4	21529	19489	+ 2040	+ 953	+ 1322	- 235	19850	17118	+ 2732
1985 Q1	21780	20542	+ 1238	+ 1202	+ 1051	- 1015	20612	17817	+ 2795
Q2	20324	18639	+ 1685	+ 1621	+ 817	- 753	19362	16376	+ 2986
Q3	19518	17632	+ 1886	+ 1600	+ 1217	- 931	18352	14939	+ 3413
Q4	18986	18082	+ 904	+ 1389	+ 315	- 800	17915	15659	+ 2256
1986 Q1	18954	16898	+ 2056	+ 1233	+ 1038	- 215	17793	14883	+ 2910
Q2	18606	16648	+ 1958	+ 1408	+ 1147	- 597	17375	14234	+ 3141

^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	98.9	118.6	125.8
1985 Q3	141.7	141.4	100.2	116.3	124.1
Q4	140.5	138.2	101.6	118.9	127.9
1986 Q1	139.0	137.6	101.0	116.9	125.7
Q2	134.8	131.5	102.5	121.8	128.6
Q3	134.7	130.4	103.3	123.3	139.1
1986 Feb	138.7	137.8	100.7	120.6	125.8
Mar	137.5	136.6	100.6	113.0	131.6
Apr	135.3	132.9	101.8	122.6	123.7
May	134.3	131.5	102.1	121.1	131.6
June	134.9	130.1	103.7	121.6	130.5
July	133.3	129.0	103.3	126.3	134.9
Aug	134.9	129.7	104.0	117.0	142.9
Sept	135.8	132.4	102.5	126.5	139.5
Oct	138.1	135.2	102.2	125.3	140.6
Aug-Oct 1985	141.1	139.9	100.8	116.6	123.8
May-July 1986	134.2	130.2	103.1	123.0	132.3
Aug-Oct 1986	136.3	132.4	102.9	122.9	141.0
% Change					
Latest 3 months on	+ 1½	+ 1½	-	-	+ 6½
- previous 3 months					
- same 3 months					
one year ago	- 3½	- 5½	+ 2	+ 5½	+ 14

^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
(Balance of Payments basis)

Table 5

	Value £ million fob		Volume Index 1980 = 100	
	Exports	Imports	Exports	Imports
1984	65746	71191	115.4	128.8
1985	73760	76617	123.0	133.4
1985 Q3	17835	18425	121.5	132.3
Q4	17811	18661	122.3	137.1
1986 Q1	17065	18612	121.0	132.8
Q2	16243	18466	122.7	136.5
Q3	16394	19676	127.6	148.0
1986 Feb	5835	6235	125.1	133.3
Mar	5390	6528	116.8	138.1
Apr	5413	6005	121.7	130.7
May	5455	6236	124.1	139.6
June	5375	6225	122.4	139.3
July	5546	6373	129.6	144.6
Aug	5233	6732	123.4	152.8
Sept	5614	6572	129.9	146.6
Oct	5779	6733	128.8	149.6
Aug-Oct 1985	17749	18289	121.7	132.7
May-July 1986	16376	18833	125.4	141.1
Aug-Oct 1986	16627	20036	127.4	149.7
% Change				
Latest 3 months on	+ 1½	+ 6½	+ 1½	+ 6
- previous 3 months				
- same 3 months	- 6½	+ 9½	+ 4½	+ 13
one year ago				

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

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TRADE IN OIL⁹
(Balance of Payments basis)

seasonally adjusted

	Balance of Trade in oil	Exports of Oil					Imports of Oil									
		£ million	£ million	Crude Oil		Rest of Division 33	£ million	£ million	Crude Oil		Rest of Division 33	£ million				
				£ million	£ million				[SITC (REV 2) 333.0]				£ million	£ million	[SITC (REV 2) 333.0]	
									£ million	£ million					Avg value per tonne £ fob	£ million
fob	fob	fob	tonnes	£ fob	fob	fob	fob	tonnes	£ fob	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 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	+ 1929	3036	2439	22.2	109.9	597	1106	693	6.5	107.3	413					
Q2	+ 750	1799	1216	18.6	65.3	583	1049	585	8.0	72.9	465					
Q3	+ 688	1541	1125	19.7	57.3	416	853	431	9.7	44.6	422					
1986 Feb	+ 666	1048	859	8.2	104.4	189	382	261	2.5	102.9	121					
Mar	+ 365	692	528	6.4	83.1	164	327	169	2.0	86.7	158					
Apr	+ 268	673	459	6.8	67.2	214	405	228	2.8	80.5	176					
May	+ 215	592	389	6.2	63.0	202	377	225	3.0	75.4	152					
June	+ 267	534	368	5.6	65.6	166	267	131	2.2	59.7	137					
July	+ 240	564	398	6.9	57.9	166	323	189	4.3	43.9	134					
Aug	+ 180	445	331	6.4	52.1	114	265	135	3.2	42.6	130					
Sept	+ 268	533	396	6.4	61.5	137	265	107	2.2	48.7	158					
Oct	+ 184	624	508	7.1	71.7	116	440	219	3.4	64.0	221					
Aug-Oct 85	+ 2069	3563	2841	19.4	146.5	721	1494	836	5.8	143.0	658					
May-July 86	+ 722	1690	1155	18.7	61.9	535	968	545	9.5	57.5	423					
Aug-Oct 86	+ 632	1601	1235	19.9	62.1	366	969	461	8.8	52.5	509					
% Change																
Latest 3 months on																
- previous 3 months		-5	+7	+6½	+½	-31	-	-15	-7½	-8½	+20					
- same 3 months																
one year ago		-55	-57	+2½	-58	-49	-35	-45	+50	-63	-23					

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 8 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	- 11321	55515	66837	133.5	136.2	98.0	104.9	128.2	50894	63276	107.6	137.0	
1985	- 10274	62001	72275	141.8	141.8	100.0	110.6	133.0	57710	68730	115.0	142.7	
1985 Q3	- 2340	15339	17679	141.6	139.2	101.7	110.0	132.8	14425	16916	115.4	143.5	
1985 Q4	- 2185	15423	17609	140.6	136.4	103.1	111.2	135.2	14228	16971	114.4	146.7	
1986 Q1	- 3367	15087	18453	143.0	140.0	102.1	107.6	134.8	14029	17056	111.4	144.1	
1986 Q2	- 2328	15990	18319	144.2	139.0	103.7	114.7	134.8	14444	17417	115.1	144.7	
1986 Q3	- 3722	15976	19698	145.7	140.6	103.6	113.9	144.2	14853	18823	118.0	155.1	
1986 Feb	- 1019	5140	6159	143.0	140.6	101.7	110.0	134.4	4787	5853	114.1	144.2	
1986 Mar	- 1546	5040	6586	144.2	142.0	101.5	107.2	141.3	4698	6202	111.0	150.1	
1986 Apr	- 536	5376	5912	143.8	140.2	102.6	115.2	128.9	4740	5601	113.5	137.7	
1986 May	- 895	5298	6193	144.0	138.2	104.2	113.1	137.3	4864	5859	115.7	147.3	
1986 June	- 897	5316	6213	144.8	138.8	104.3	115.9	138.1	4840	5958	116.2	149.2	
1986 July	- 876	5414	6291	144.0	139.3	103.3	116.3	138.4	4983	6049	119.3	150.0	
1986 Aug	- 1694	5023	6717	146.6	140.4	104.4	107.4	147.5	4789	6467	113.7	159.4	
1986 Sept	- 1152	5539	6691	146.6	142.2	103.0	118.0	146.9	5081	6307	121.1	156.0	
1986 Oct	- 1019	5583	6602	148.1	144.5	102.5	117.5	142.3	5155	6293	120.8	153.1	
Aug-Oct 85	- 2311	15114	17425	141.3	138.1	102.3	108.9	132.2	14186	16795	114.0	143.6	
May-July 86	- 2668	16029	18697	144.2	138.8	104.0	115.1	137.9	14687	17866	117.0	148.8	
Aug-Oct 86	- 3865	16144	20010	147.1	142.4	103.3	114.3	145.6	15025	19067	118.5	156.1	
% Change													
Latest 3 months on - previous 3 months		+ ½	+ 7	+2	+2½	- ½	- ½	+ 5½	+2½	+ 6½	+1½	+5	
- same 3 months one year ago		+7	+15	+4	+3	+1	+5	+10	+6	+14	+4	+8½	

^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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SITC (REV 2)	Food					Manufactures excluding erratics ^h									
	Total	bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Total	Semi-manufactures excluding precious stones & silver(PS)				Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
						Total	Total	Chemi- cals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital	
						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 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	
Q2	17816	1275	440	1913	13636	12207	4613	2414	2199	7594	347	1375	3333	2538	
Q3	17672	1426	546	1641	13556	12479	4805	2454	2351	7674	361	1474	3396	2444	
1986 Aug	5505	456	188	472	4229	4025	1533	806	727	2491	142	474	1090	785	
Sept	6134	521	191	569	4691	4236	1673	843	830	2563	119	494	1140	810	
Oct	6260	535	175	658	4721	4302	1654	851	803	2647	129	463	1177	877	
May-July	17820	1305	448	1810	13696	12423	4715	2431	2284	7708	320	1422	3417	2549	
Aug-Oct	17899	1512	554	1699	13640	12562	4860	2500	2360	7702	391	1431	3407	2472	
% change															
	+½	+16	+24	-6	-½	+1	+3	+3	+3½	-	+22	+½	-½	-3	

^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

SITC (REV 2)	Food					Manufactures excluding erratics ^h									
	Total	bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Total	Semi-manufactures excluding precious stones & silver(PS)				Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
						Total	Total	Chemi- cals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital	
						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	
1985 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	88	108	117	103	
Q2	122.0	119	102	170	115	116	120	139	105	113	97	115	118	107	
Q3	124.5	137	127	178	113	117	126	142	112	112	97	122	119	101	
1986 Aug	118.1	134	128	167	106	113	120	140	104	108	115	118	115	96	
Sept	127.9	153	134	175	116	119	131	146	119	111	96	120	119	99	
Oct	126.5	149	116	179	116	119	128	146	113	114	100	111	122	108	
May-July	123.8	121	106	174	116	118	123	140	109	115	88	120	121	108	
Aug-Oct	124.1	145	126	174	113	117	126	144	112	111	104	116	118	101	
% change	+½	+20	+19	-½	-2½	-½	+3	+3½	+2½	-3	+18	-3	-2½	-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.

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

INDICES 1980 = 100 not seasonally adjusted

SITC (REV 2)	Manufactures excluding erratics ^h													
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures Finished manufactures excluding ships, excluding precious North Sea installations and aircraft stones & silver(PS) (SNA)								
						Total	Chem- icals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capita	
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 Q3	141.6	134	136	142	143	143	135	140	132	147	161	148	150	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
Q2	134.7	141	124	74	146	147	138	142	134	153	179	156	156	145
Q3	134.6	140	120	62	148	149	137	140	136	156	186	156	160	147
1986 Aug	134.8	140	121	58	149	150	138	141	136	157	186	156	162	148
Sept	135.7	141	119	65	149	150	138	140	136	157	191	158	161	148
Oct	138.0	141	123	72	150	151	139	141	137	158	197	160	161	149
May-July	134.1	141	121	69	146	147	137	141	135	153	182	155	156	145
Aug-Oct	136.2	140	121	65	150	150	138	141	136	157	191	158	162	148
% change	+1½	-	-	-5	+2	+2	+1	-	+1½	+3	+5	+2	+3½	+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 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	70488	55364	33127	7132	11416	10159	3688	13356	5806	7550	1630
1985	78331	62722	38200	7420	13310	11499	3792	13880	5957	7924	1587
1985 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
Q2	17816	13768	8254	1713	2919	2536	882	3483	1567	1917	471
Q3	17672	13926	8525	1696	2794	2390	911	3193	1293	1900	357
1986 Aug	5505	4346	2643	522	894	753	287	1015	364	651	108
Sept	6134	4874	3039	593	922	808	320	1001	397	604	128
Oct	6260	5049	3244	556	935	779	314	1064	407	657	122
May-July	17820	13855	8264	1774	2924	2509	893	3489	1532	1956	448
Aug-Oct	17899	14269	8926	1671	2751	2340	920	3080	1168	1912	359
% change	+½	+3	+8	-6	-6	-6½	+3	-12	-24	-2½	-20

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

SITC (REV 2)	Food, Beverages and tobacco, Basic Materials, Fuels					Manufactures excluding erratics ^h									
	Total	Total	Total	Total	Total	Semi-manufactures excluding precious stones & silver (PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
						Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Inter-mediate	Capital		
0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j		
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 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	20742	2507	1225	1797	14839	14002	5024	1809	3215	8978	1152	2281	2881	2665	
Q2	20486	2416	1213	1548	14904	14078	5003	1789	3214	9075	1150	2413	2992	2520	
Q3	21938	2578	1190	1489	16171	15324	5253	1854	3399	10070	1301	2672	3287	2810	
1986 Aug	7435	893	380	452	5541	5310	1774	635	1139	3536	492	916	1156	973	
Sept	7468	859	443	483	5471	5093	1802	629	1173	3292	382	894	1073	943	
Oct	7577	811	418	656	5446	5174	1790	629	1161	3384	424	866	1112	982	
May-July	20829	2473	1190	1486	15312	14537	5066	1797	3269	9471	1251	2501	3118	2601	
Aug-Oct	22480	2563	1240	1590	16458	15578	5366	1893	3473	10212	1298	2675	3340	2899	
% change	+ 8	+ 3½	+ 4	+ 7	+ 7½	+ 7	+ 6	+ 5½	+ 6	+ 8	+ 3½	+ 7	+ 7	+ 11	

^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

SITC (REV 2)	Food, Beverages and tobacco, Basic Materials, Fuels					Manufactures excluding erratics ^h									
	Total	Total	Total	Total	Total	Semi-manufactures excluding precious stones & silver (PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
						Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Inter-mediate	Capital		
0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j		
Weights	1000	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 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	179	192	
1986 Q1	125.0	126	105	74	141	154	148	183	133	159	130	145	171	175	
Q2	127.2	120	106	87	143	157	149	186	133	162	126	154	182	168	
Q3	138.7	126	106	112	154	169	156	194	141	177	144	166	193	186	
1986 Aug	142.1	131	102	107	158	175	159	200	142	186	166	171	204	192	
Sept	140.3	125	119	104	155	168	159	194	145	173	125	163	185	189	
Oct	141.5	116	110	142	152	167	156	191	141	175	137	154	191	195	
May-July	130.9	122	105	99	147	162	151	190	135	169	138	160	190	173	
Aug-Oct	141.3	124	110	118	155	170	158	195	143	178	143	163	193	192	
% change	+ 8	+ 2	+ 5	+ 19	+ 5½	+ 5	+ 4½	+ 2½	+ 5½	+ 5	+ 3½	+ 2	+ 1½	+ 11	

^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

SITC (REV 2)	Manufactures excluding erratics ^h													
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures Finished manufactures excluding ships, excluding precious North Sea installations and aircraft stones & silver (PS) (SNA)								
						Total	Chemi- cals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital	
														5-8 less SNAPS
0-9	0+1	2+4	3	5-8	5-8	5+6	5	6	7+8	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	133	139	130	146	152	147	155	134
1985 Q3	139.2	135	124	161	139	139	131	137	128	144	149	145	154	131
Q4	136.3	132	116	155	137	137	130	137	127	143	156	143	148	131
1986 Q1	135.6	134	116	132	140	141	132	140	128	148	165	145	152	138
Q2	130.1	135	113	96	140	142	131	139	128	148	169	144	153	139
Q3	129.3	136	111	78	142	144	132	139	130	152	168	147	160	141
1986 Aug	128.7	136	110	75	142	144	133	140	130	152	167	146	162	142
Sept	131.1	137	111	81	144	146	133	140	130	155	170	150	164	143
Oct	133.9	138	113	85	147	148	135	142	132	157	173	154	165	145
May-July	128.9	135	112	88	140	142	131	138	129	148	169	143	154	139
Aug-Oct	131.3	137	111	80	145	146	133	141	130	155	170	150	164	143
% change	+ 2	+ 1½	- ½	- 8½	+ 3	+ 3½	+ 1½	+ 2½	+ 1½	+ 4½	+ 1	+ 4½	+ 6½	+ 3

^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

	Total K	Developed Countries						Developing Countries			Centrally planned economies
		Total	European Community	Rest of W Europe	North America		Other	Total	Oil exporting countries	Other	
					Total	USA					
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 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	20742	17916	10697	3167	2395	2007	1657	2438	507	1932	424
Q2	20486	17331	10536	2711	2427	2035	1657	2539	461	2077	451
Q3	21938	18649	11484	2938	2471	2110	1757	2659	412	2247	470
1986 Aug	7435	6344	4036	909	819	704	580	917	129	788	170
Sept	7468	6300	3772	1090	818	695	619	955	112	843	134
Oct	7577	6324	3829	1021	857	710	616	996	146	849	199
May-July	20829	17774	10874	2709	2446	2064	1745	2450	479	1971	465
Aug-Oct	22480	18968	11638	3020	2494	2109	1816	2868	388	2480	503
% change	+ 8	+ 6½	+ 7	+ 11	+ 2	+ 2	+ 4	+ 17	- 19	+ 26	+ 8

K See paragraph 3 Notes to Editors.

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COMMODITY ANALYSIS OF VISIBLE TRADE
(Balance of Payments basis)

£ million, seasonally adjusted

SITC (R2)	Food Beverages and Tobacco			Basic Materials			Fuels		
	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	4931	8523	- 3592	2161	4795	- 2634	16712	10087	+ 6625
1984 Q4	1218	2126	- 908	563	1349	- 786	4180	3297	+ 883
1985 Q1	1185	2156	- 971	585	1315	- 731	4892	3387	+ 1505
Q2	1272	2141	- 869	533	1232	- 699	4513	2541	+ 1971
Q3	1290	2118	- 829	534	1162	- 628	3600	2067	+ 1533
Q4	1185	2108	- 923	509	1086	- 577	3708	2092	+ 1616
1986 Q1	1197	2255	- 1058	515	1103	- 588	3189	1609	+ 1580
Q2	1262	2208	- 946	440	1077	- 637	1942	1449	+ 493
Q3	1414	2387	- 973	547	1018	- 471	1621	1361	+ 261
SITC (R2)	Semi-Manufactures			Finished Manufactures			Total Manufactures		
	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	20043	19958	+ 85	32237	35339	- 3102	52280	55297	- 3017
1984 Q4	4960	4890	+ 69	7797	8771	- 974	12757	13662	- 905
1985 Q1	5017	4836	+ 182	7948	9258	- 1311	12965	14094	- 1129
Q2	5201	5032	+ 169	8216	9046	- 830	13417	14077	- 661
Q3	4852	5124	- 272	7960	8359	- 400	12812	13484	- 672
Q4	4973	4966	+ 7	8114	8676	- 562	13087	13642	- 555
1986 Q1	4847	5307	- 460	7895	8897	- 1002	12742	14203	- 1462
Q2	5223	5162	+ 61	8377	9059	- 682	13600	14221	- 621
Q3	5229	5408	- 179	8209	9972	- 1763	13438	15380	- 1942

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



Ch

Is X what you
wanted?

AA

Thanks: Yes, to be updated
a sub to me each week.
Don't stop the answer: 1
So no case for class
the 'hangover' effects of the OAS -
if self-employed work with no
Gov. subsidy @ all - so
classified among some adj. accounts.
no.

Man's habits. Per the no limit (to be table) ...

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Paper process for Alex

FROM: L C HUNT
DATE: 20 NOVEMBER 1986

- 1. MR S J DAVIES
- 2. PS/CHANCELLOR OF THE EXCHEQUER

- cc PS/Chief Secretary
- Sir P Middleton
- Sir T Burns
- Mr Monck
- Mr Sedgwick
- Mr Scholar
- Mr Culpin
- Miss O'Mara
- Mr Shaw
- Mr Deaton
- Mr Haache
- Mr MacAuslan
- Mr Tyrie

ch
Table shows deceleration to flattish trend now excluding all SEMs, YTS & Restart effects.

But worrying thought at very end that there may be something to fault seasonal adjustment
AA

LABOUR MARKET STATISTICS

You asked for an analysis of trends in unemployment taking account of the effect of SEMs and Restart.

2. The special employment measures that are currently affecting the unemployment count are given below, along with our estimate of their direct effect on the October adult unemployment count:

Job Release Scheme (JRS)	28,000
Job Start (JOB)	1,000
New Workers Scheme (NWS)	5,000
Community Programme (CP)	225,000
Community Industry (CI)	4,000
Enterprise Allowance Scheme (EAS)	29,000
Young Workers Scheme (YWS)	1,000
Total	293,000

(This total is slightly higher than the 284,000 quoted by the Department of Employment in their regular internal monthly briefing since we allow for "hangover" effects for the Enterprise Allowance Scheme (EAS); even though the allowances granted under the scheme are temporary, they have a long lasting effect on unemployment, as a result of the survival of a proportion of the new businesses created as a result of the allowances.)

but this should not be considered a SEM effect!

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3. In addition to these measures there is the Youth Training Scheme (YTS) which is regarded as a training measure rather than an employment measure by the Department of Employment. However the provisional estimated effect of YTS on adult unemployment in October 1986 is 119,000 making such allowances as we can for seasonal factors. Although the YTS is targeted at school leavers it has an effect on adult unemployment for 3 reasons:

- (i) a proportion of the participants will reach the age of 18 while on the scheme thus reducing adult unemployment;
- (ii) a number of school leavers who find jobs but then become unemployed before they are 18 are included in the adult unemployment count. Thus an estimate of those on YTS who would have fallen into this category and their effect on the adult count is made;
- (iii) a number of adults are employed to supervise the YTS.

4. Annex table A gives the monthly changes in the individual schemes over the last 18 months. It shows that of the employment measures it has been the Community Programme that has contributed the most to reducing unemployment over recent months. In addition the YTS has made a big contribution recently as the two-year scheme has been introduced. (Some schemes have been running down over the recent past such as JRS and YWS - the positive figure in the columns relating to these schemes reflect their declining impact on the unemployment count.)

5. As you are aware, the effect of the measures on the unemployment count is less than the number of participants on the schemes. The main reasons for this are:

- (i) the behaviour of some participants is exactly the same as it would have been in the absence of the scheme (deadweight);
- (ii) the existence of a scheme may reduce employment elsewhere in the economy and so increase unemployment (displacement);
- (iii) someone leaving the unemployment count as a result of a scheme may do so at the expense of some other person who would have left the count in the absence of the scheme (substitution).

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The estimates for these effects are obtained primarily from surveys of sponsors of and participants in the schemes. All schemes which are in place are, as a matter of course, assessed for their first year effect on the count. These surveys directly provide reasonable estimates of deadweight and substitution. Estimates of displacement cannot be obtained directly but are obtained from consideration of survey data and other information. For new schemes estimates of deadweight etc are derived from the most closely analogous past scheme, or preliminary estimates from pilot schemes as with Restart. Thus any estimates are of course subject to some margin of error.

6. For Restart our own tentative estimate of the effect on the count in October is very similar to the Department of Employment's latest estimate of 30,000. Our own estimate will remain provisional until further analysis is conducted following discussions between Treasury and Department of Employment officials on the Evaluation Report of the initial pilot schemes.

7. Annex table B attached shows monthly changes in adult unemployment, total SEMS including YTS and Restart. The table below shows the trends in adult unemployment before and after SEMS, YTS and Restart. Estimates are given to the nearest thousand; but it should be clear that they cannot be regarded as accurate to the nearest thousand.

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Unemployment Trend (000s)

	Average change in UK adult unemployment	Average change excluding SEMS and YTS	Average change excluding SEMS, YTS and Restart
	<u>Over 3 months ended:</u>		
1985 NOVEMBER	-5	1	1
DECEMBER	3	9	9
1986 JANUARY	11	17	17
FEBRUARY	16	22	22
MARCH	22	28	28
APRIL	16	23	23
MAY	15	21	21
JUNE	7	14	14
JULY	8	14	14
AUGUST	5	14	17
SEPTEMBER	-9	1	7
OCTOBER	-19	-9	1

Over 6 months ended:

1985 NOVEMBER	-1	3	3
DECEMBER	3	8	8
1986 JANUARY	5	11	11
FEBRUARY	6	12	12
MARCH	13	19	19
APRIL	13	20	20
MAY	15	21	21
JUNE	15	21	21
JULY	12	19	19
AUGUST	10	18	19
SEPTEMBER	-1	7	10
OCTOBER	-5	3	8

It can be seen that on this analysis the trend excluding SEMS, YTS and Restart has declined markedly in recent months; and is roughly flat calculating over

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the 3 months ended October. This analysis does, however, depend crucially on the estimated effect of the Restart scheme and the seasonal adjustment of YTS. Moreover there was an improvement in the trend at a similar time last year which was not sustained: this may indicate some problems with the seasonal adjustment of the unemployment figures.

lester Hunt

LESTER HUNT
EA1

Annex Table A

Estimated Monthly Change in Effect of Employment and Training Measures
on Adult Unemployment
(000s, YTS seasonally adjusted)

		JRS	JOB	NWS	YWS	CI	CP	EAS	YTS	TOTAL
1985	May	4	0	0	1	0	-3	-2	0	-1
	June	1	0	0	0	0	-4	-1	0	-2
	July	2	0	0	0	0	-5	-1	0	-4
	August	2	0	0	0	0	-6	0	0	-6
	September	2	0	0	-1	0	-7	0	0	-4
	October	2	0	0	0	0	-7	-1	0	-7
	November	3	0	0	-1	0	-9	0	0	-7
	December	1	0	0	0	0	-5	-1	0	-5
1986	January	2	0	0	0	0	-8	0	0	-6
	February	1	0	0	1	0	-9	0	0	-6
	March	1	0	0	0	0	-8	-1	0	-9
	April	3	0	0	1	0	-7	-1	0	-4
	May	2	0	0	1	0	-9	-1	0	-7
	June	0	0	0	1	0	-5	0	-5	-8
	July	2	0	-2	1	0	-5	-1	-6	-12
	August	2	-1	-1	0	0	-4	-1	-5	-9
	September	1	0	-2	1	0	-3	0	-5	-10

Note:

1. These figures refer to the end of each month so it is assumed that the effect is on the following months count.
2. A negative sign reflects an increasing impact of a scheme on the unemployment count and a positive sign a declining impact of a scheme on the unemployment count.
3. Columns may not add up to totals due to rounding.

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Annex Table B

Monthly Changes in Adult Unemployment, Employment
and Training Measures and Restart
(O00s, seasonally adjusted)

	UK adult unemployment	SEMS and YTS effect on adult unemployment+	<i>Underlying</i>	RESTART* effect on adult unemployment	<i>Total underlying</i>
1985 May	1	-1	2	0	
June	-7	-2	-5	0	
July	7	-4	13	0	
August	6	-6	102	0	
September	-4	-4	-0	0	
October	-6	-7	-13	0	
November	-6	-7	-13	0	
December	19	-5	24	0	
1986 January	21	-6	27	0	
February	8	-6	14	0	
March	38	-9	47	0	
April	2	-4	-6	0	
May	5	-7	12	0	
June	14	-8	22	0	
July	4	-12	168	0	
August	-4	-9	-5	-8	13
September	-26	-10	-16	-11	-5
October	-25	? -10	-15	-12	-3

+These figures refer to the end of each month so it is assumed that the effect is on the following months count.

*It is assumed that all of the effect of Restart is on adult unemployment. However a small proportion may in fact affect school leavers.

FROM: S D KING

DATE: 21 November 1986

ARAB 21/11
Buzby OK
as
NS figs in Table on the page don't add up. In the vertical column on horizontal numbers on the right.

1. MR POTTRILL
 2. CHANCELLOR OF THE EXCHEQUER
- cc: see attached list

CL
A few amendments to press briefing AA

OCTOBER TRADE FIGURES

The October trade figures will be released at 11.30 am on Tuesday 25 November. They will show a deficit on visible trade of £835 million. Combined with a projected surplus on invisibles of £900 million, they give a current account surplus of £65 million, compared with a revised estimated deficit of £85 million in September.

Main points

2. Current Account

£ million

	<u>1985</u>		<u>1986</u>				Jan- Oct
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Sept</u>	<u>Oct</u>	
Oil	816	1929	750	688	268	184	3551
Non-oil	-10274	-3367	-2328	-3722	-1152	-1019	-10436
Visibles o.w	-2111	-1437	-1579	-3034	-885	-835	-6885
Manufactures	-3017	-1462	-621	-1942	-562	-528	-4553
Invisibles	5713	2056	1958	2400*	800*	900**	7314**
Current balance	3602	619	379	-634	-85	65	428

* estimate

** projection

3. The value of exports rose by £134 million in October to £6.2 billion. The value of imports rose by £85 million to £7.0 billion. The combined effect was to give a visible trade deficit of £0.8 billion (compared with £0.9 billion in September). The movement into current account surplus in October is partly explained by a slight improvement on the visibles balance, but is also due to a £900 million surplus on invisibles projected by the Central Statistical Office.

4. The increase in the projected invisibles surplus in October follows an upward revision to the projected surplus in Q3 from £1.8 billion to £2.4 billion based on partial information now available.* This means that the current account deficit for 1986Q3 has been revised down from a projected £1.2 billion to an estimated £0.6 billion. The cumulative current account for the first ten months of 1986 shows a surplus of £0.4 billion.

5. Exports

percentage change

3 mths to October
on same period
previous year

	<u>October on September</u>	<u>3 mths to October on previous 3 mths</u>	<u>3 mths to October on same period previous year</u>
Total value	2	0	-5
Total volume	-1	0	5½
Total volume excl. oil and erratics	0	1½	4
Manufactures volume (excl. erratics OTS basis)	0	-½	3
Fuels volume	2½	-½	3

6. Export volumes, excluding oil and erratics, were unchanged in October from the high level reached in September. The level of total manufactured exports was also unchanged. The volume of fuel

*[NOT FOR PUBLIC USE: present information suggests the upward revision to the invisible surplus reflects higher than expected surpluses on the insurance and IPD, only partially offset by higher than expected net EC payments]

exports rose, whilst falls were recorded in basic materials and food, drink and tobacco. Although there was no overall rise in the latest month in the volume of exports, the upward trend established earlier in the year continues; volumes rose by 1½ per cent in the latest three months on the previous three months to a level 4 per cent higher than in the same period a year earlier.

7. Imports

percentage change

	<u>October on September</u>	<u>3 mths to October on previous 3 mths</u>	<u>3 mths to October on same period previous year</u>
Total value	1	6½	11
Total volume	1	6½	14
Total volume excl. oil and erratics	-2	5	8½
Manufactures volume (excl.erratics, OTS basis)	-½	5	10
Fuels volume	36½	19	53½

8. Import volumes, excluding oil and erratics, fell by 2 per cent in October compared with September, and are now 4 per cent below the August peak. DTI have tentatively suggested that the underlying rate of growth may have slowed a little. Food, drink and tobacco, and basic materials, showed quite large falls (by 7 and 7½ per cent respectively) but manufactures were more or less unchanged. Within the total, however, imports of investment goods rose relatively strongly. The behaviour of the fuel imports volume index over the last few months has been puzzling, being both unusually high and showing very erratic movements. DTI and DEn are looking into this.

Geographical area

9. By geographical area, there were sharp increases in the value of exports to France, Italy and Germany, although there was a slight fall in exports to the US. Exports to oil exporters rose for the second month in succession, although in the three months to October they were 24 per cent below the level of the previous three months.

10. Trade prices

	percentage change			
	<u>Import prices (OTS)</u>		<u>Export prices (OTS)</u>	
	<u>Oct on Sept</u>	<u>3 mths to Oct on previous 3 mths</u>	<u>Oct on Sept</u>	<u>3 mths to Oct on previous 3 mths</u>
Manufactures	2	3	$\frac{1}{2}$	2
Food, drink, tobacco	$\frac{1}{2}$	$1\frac{1}{2}$	0	0
Basic materials	2	$-\frac{1}{2}$	$3\frac{1}{2}$	0
Fuel	5	$-8\frac{1}{2}$	11	-5
Total (BOP basis)	2	$1\frac{1}{2}$	$1\frac{1}{2}$	$1\frac{1}{2}$
Non-oil (BOP basis)	$1\frac{1}{2}$	$2\frac{1}{2}$	1	2

11. The overall terms of trade, as measured by unit value indices, deteriorated by $\frac{1}{2}$ per cent in October on the previous month, but was unchanged in the latest three months on the previous three months. The non-oil terms of trade also deteriorated by $\frac{1}{2}$ per cent in October, and by $\frac{1}{2}$ per cent in the latest three months on the previous three months. [N.B. the published series are unit value indices, which can present a misleading picture, due to their use of 1980 weights. In particular, oil should now have a larger weight than it does, because production is now higher than it was in 1980.]

Comparison with forecast

12. [NOT FOR PUBLIC USE: The revised third quarter current account deficit of £0.6 billion compares with a deficit of just under £0.8 billion underlying the Autumn Statement forecast. The October surplus of just under £0.1 billion compares with a monthly average current account deficit of £0.1 billion for the fourth quarter of 1986].

Assessment

13. The return to surplus in October and the revised deficit in the third quarter of 1986 reflect changes in estimates and

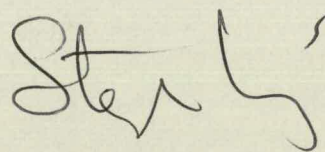
projection of the invisible balance by the CSO. There has been no significant improvement in the visible balance in October compared with September, although with rising domestic demand this is perhaps not surprising. However, there are some encouraging signs. Imports in underlying terms have fallen in the last two months, and domestic manufacturing output is picking up. Furthermore, most of the increase in the latest three months in finished manufactures has been in capital goods (up 11 per cent over the previous three months) compared with a rise of only 2-3 per cent in consumer goods.

Market expectations

14. The market expectation is for a visible deficit of £0.8 billion and a current account deficit of just under £0.2 billion. The invisible projection of £0.9 billion a month for the fourth quarter and the current account surplus of £0.1 billion in October may come as something of a surprise.

Press briefing

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



S D KING

DRAFT BRIEFING FOR IDT

Positive

1. Current account in ^{small} surplus in October, and in first ten months of year.
2. Exports continue to rise [in underlying terms] Excluding oil and erratics, up by 1½ per cent in three months to October on previous three months.

Defensive

1. Visible trade balance remains in substantial deficit, despite improvement on current balance.

Visible trade will benefit from recent fall in exchange rate. But if UK is to remain competitive in international markets, it is vital that pay settlements [be more realistic] are lower than the lower rate.

2. Invisibles surplus revised upwards simply to ensure that Industry Act forecast for current balance in 1986 turns out to be correct.

[Invisibles for July to September are estimates based on partial information and are subject to revision when balance of payments estimates for 1986Q3 are published on 4 December. Invisibles balance for October is a projection and is subject to revision as information for the fourth quarter becomes available (refer any further questions to CSO press office).]

3. Imports continue to show strong growth.

Growth appears to be slowing [in underlying terms] slightly.

4. Growth in imports due to high consumer expenditure.

~~No.~~ In latest three months, consumer goods only 2-3 per cent higher than previous three months. Capital goods up 11 per cent over same period.

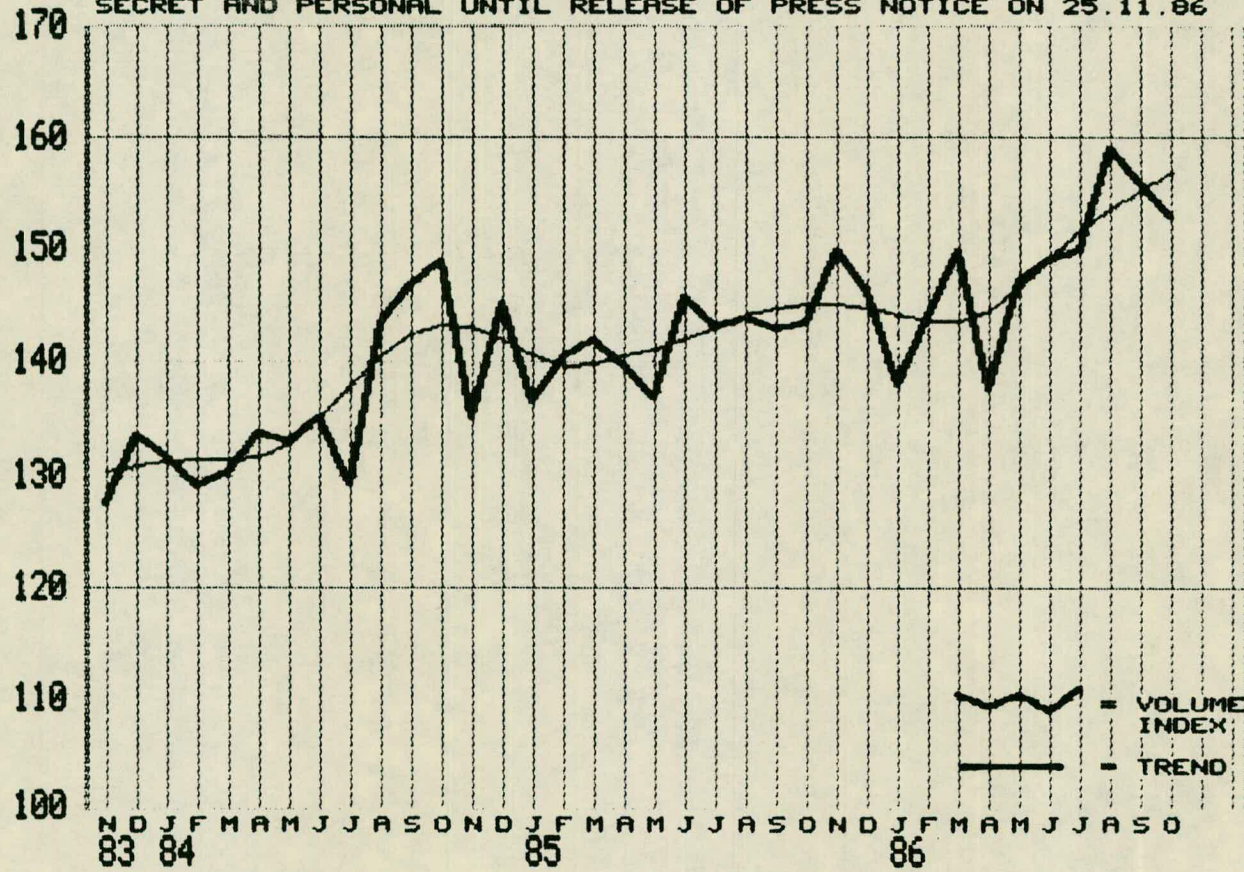
(Nonsense. Done by CSO statisticians. Long history of upwards revisions to early estimates. Treasury forecasts took that into account. ✓)

IMPORTS LESS OIL & ERRATICS

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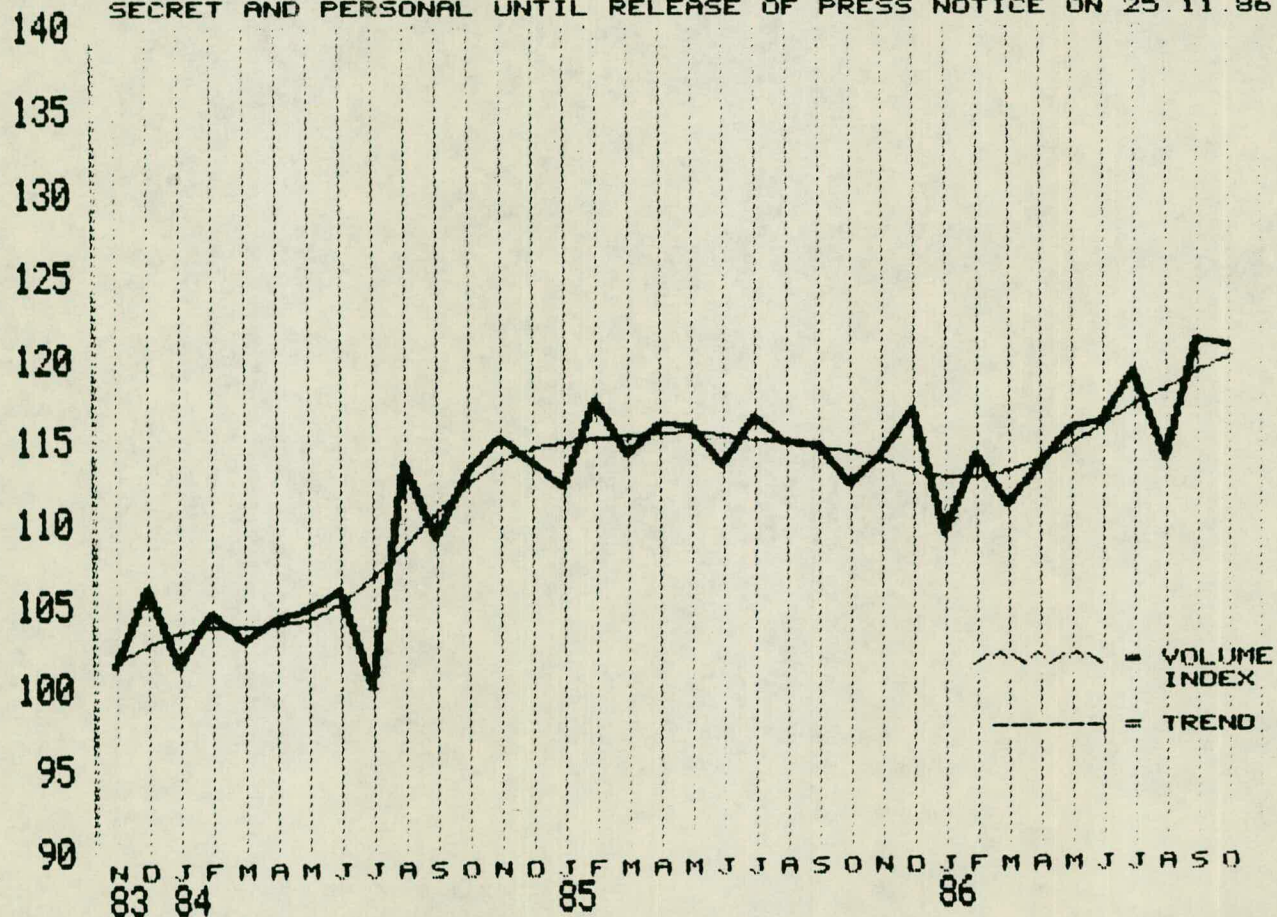
BALANCE OF PAYMENTS BASIS 1980=100 SEASONALLY ADJUSTED

EXPORTS LESS OIL & ERRATICS

COPY NO

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SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 25.11.86



BALANCE OF PAYMENTS BASIS 1980=100 SEASONALLY ADJUSTED

TRADE FIGURES FOR OCTOBER 1986

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Chief Secretary	
Economic Secretary	Miss O'Mara
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Sir G Littler	Mr Barrell
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Mr Sedgwick	

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Financial Secretary
Minister of State
Mr Matthews
Mr Shaw
Mr Hacche
Mr Tyrie
Mr Ross Goobey
Miss Roche (No. 10)

pwp

FROM: A C S ALLAN

DATE: 21 November 1986

MR S KING

cc Sir P Middleton
 Sir T Burns
 Mr Sedgwick
 Mr Bottrill
 Mr Culpin

CURRENT ACCOUNT IN OCTOBER

The Chancellor has seen the DTI material on the October current account figures.

2. One point he noted was that the latest 3 month volume changes in imports of finished manufactures show the following breakdown

Cars	+ 3½%
Other Consumer Goods	+ 2 %
Intermediate Goods	+ 1½%
Capital Goods	+11 %
<hr/>	
Total	+ 5 %

He thought this should be part of the background press briefing.

3. In general, he thinks the overall figures should be well received by the markets.

ACSA

A C S ALLAN



FROM: A C S ALLAN
DATE: 24 November 1986

MR S D KING

cc PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Cassell
Mr H P Evans
Mr Sedgwick
Mr Peretz
Mr Bottrill
Mr Culpin
Miss O'Mara
Mr Barrell
Mr Owen

OCTOBER TRADE FIGURES

The Chancellor was content with the draft press briefing for IDT, subject to the following points:

- (i) At the end of Defensive 1 replace "it is vital that pay settlements be more realistic" with "it is vital that pay settlements are lower than they have been".
- (ii) Replace the answer to Defensive 2 with "Nonsense. Done by CSO statisticians. Long history of upward revisions to early estimates. Treasury forecasts took that into account."
- (iii) Delete "No" from the beginning of Defensive 4.

ACSA

A C S ALLAN

CONFIDENTIAL

*prof*FROM: A C S ALLAN
DATE: 24 November 1986

MR L C HUNT

cc PS/Chief Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Sedgwick
Mr Scholar
Mr Culpin
Mr S J Davies
Miss O'Mara
Mr Shaw
Mr Deaton
Mr Haache
Mr MacAuslan
Mr Tyrie**LABOUR MARKET STATISTICS**

The Chancellor was most grateful for your note of 20 November. He would be most grateful if this could be updated and sent to him each month. It would be helpful if this could cover the monthly changes (ie your annex table B) as well as the three month and six month trends.

2. There is one amendment he would like made: he sees no case for classifying the "hangover" effect of the EAS - self employed working with no Government subsidy at all - being classified among SEMs. I should be grateful if you would leave this effect out of the tables in the future.

ACSA

A C S ALLAN

Plus

FROM: MISS M O'MARA
DATE: 24 NOVEMBER 1986

MRS RYDING (PERSONAL)

cc Mr Pickering) without attachment
CA/01)

TREASURY WEEKLY BRIEF

As I mentioned to you, we have been giving considerable thought to the Chancellor's request that we should slim the size of the TWB dramatically. Unfortunately, as you know, the TWB is used for a variety of purposes and there is a strong likelihood that any time we gained from producing a much shorter version would be far outweighed by, for instance, an increase in the number of ad hoc requests we received.

2. Meanwhile, we have cut this week's edition by around 15 per cent. I attach a copy for your own use in answering any telephone queries put to you. Meanwhile, until we resolve the problems which the Chancellor's request has posed, I attach for him a copy of the first three sections of the Brief. You will be able to tell from the covering note to the full document whether there are any new items falling outside this section which you want to show him. I myself doubt whether you need to do so.

MOM

MISS M O'MARA

CONFIDENTIAL

A23/1

COPY NO

44

MONTHLY ECONOMIC BRIEF

Prepared by the CSO on 27 November 1986

The published preliminary estimate of GDP(O) in the third quarter shows a rise in economic activity of 1 per cent compared with the previous quarter. The underlying trend rate of growth for GDP(A) is currently thought to be in the range of 1-3 per cent per annum, though the growth in the output measure, which is often the better indicator in the short-term, is towards the upper end of this range.

Unemployment fell sharply again between September and October. This was the third consecutive monthly fall and whilst part of the improvement can be attributed to the effects arising from the Restart programme, there has been some general improvement in the labour market. Vacancies have continued to rise and there are signs of a lessening rate of decline in manufacturing employment.

Retail prices rose by 3.0 per cent in the twelve months to October, the same as the increase in the period to September. Recent increases in mortgage interest rates are expected to contribute about $\frac{1}{2}$ per cent to the RPI in November.

The cumulative total for the PSBR in the first seven months of 1986-87 stood at £5.7 billion. This compares with £5.3 billion in the corresponding period the previous year. The forecast for 1986-87, announced in the Autumn Statement, is £7 billion.

The value of both exports and imports increased a little in October leaving the deficit on visible trade little changed at £0.8 billion. The upward trend in non-oil export volume, established earlier in the year, continues. While month to month movements have been erratic, there are now some signs of slackening in the growth of non-oil import volume. The latest information suggests that there was a modest surplus on the current account for the first ten months of the year.

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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 second quarter of 1986 was nearly $1\frac{1}{2}$ per cent higher than in the same period a year ago or $\frac{1}{2}$ 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 third quarter of 1986 is that the rate of increase lies in the range 1-3 per cent per annum.

Industrial production in the third quarter of 1986 was 2 per cent higher than in the same period a year ago; manufacturing output was 1 per cent higher. The assessment of underlying trend for industrial production is that the rate of change currently lies in the range 0 to 2 per cent per annum. The trend in manufacturing output is in the range 1 to 3 per cent per annum.

Retail prices rose by 3 per cent in the twelve months to October 1986. It is only possible to provide a useful indicator of trend for about 70 per cent of the RPI, mainly that covering private sector prices and excluding eg mortgage interest, rent, rates, products produced by nationalised industries, seasonal food and petrol. The current trend for this series is slightly over 4 per cent per annum. In the twelve months to October 1986 this series rose by a little under 4 per cent (not published).

Producer input prices increased in seasonally adjusted terms by 1 per cent in October, after having risen by one and three-quarters per cent in September and 1 per cent in August. A further increase of about $\frac{1}{2}$ per cent is expected in November, but the index should still be about $11\frac{1}{2}$ per cent below its peak early last year.

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

Unit wage costs in manufacturing in the three months to September rose by $4\frac{1}{2}$ per cent compared with the same period a year ago. The current underlying trend is estimated to be in the range 3-5 per cent per annum.

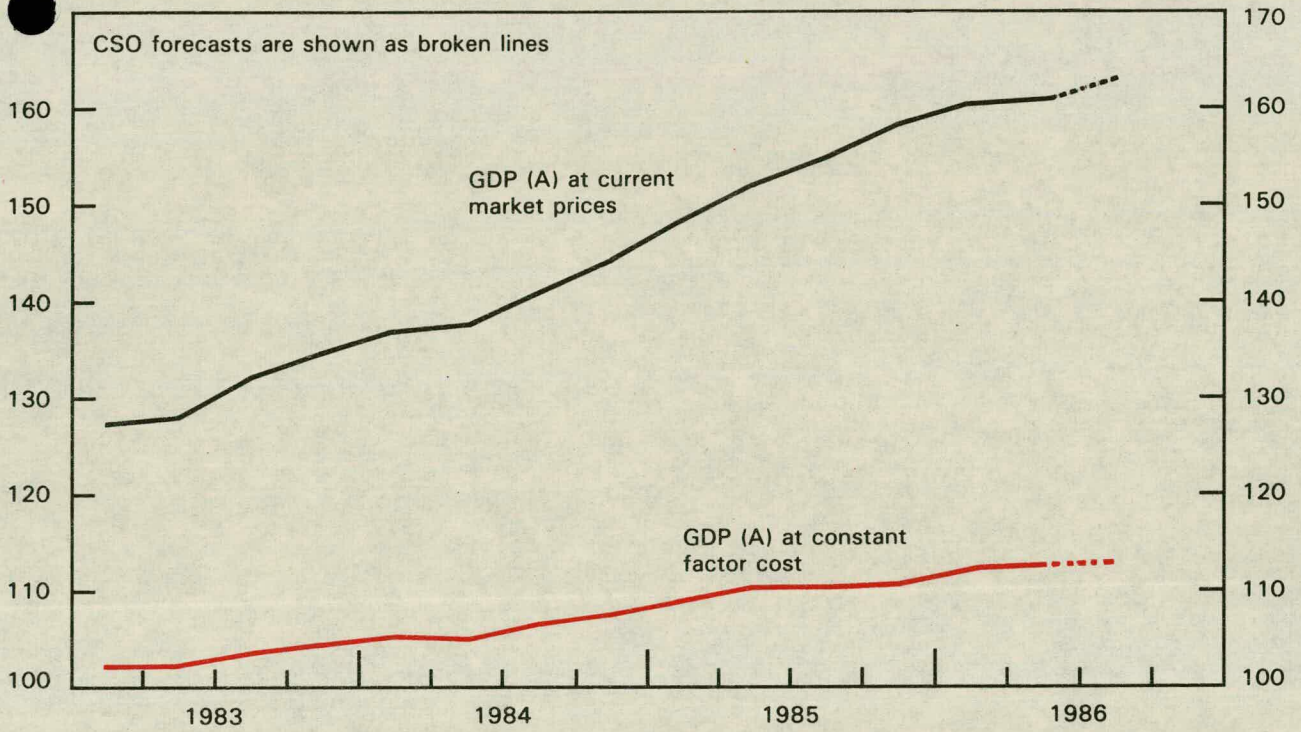
Unemployment (excluding school leavers) in the twelve months to October has risen on average by 4 thousand per month. In the three months to October there was an average fall of nearly 19,000 per month following a rise of nearly 8,000 per month over the previous three months to July. With the help of the Restart programme the current trend is downward but cannot be quantified precisely at this stage.

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).

Gross domestic product (average measure)

CHART 1A

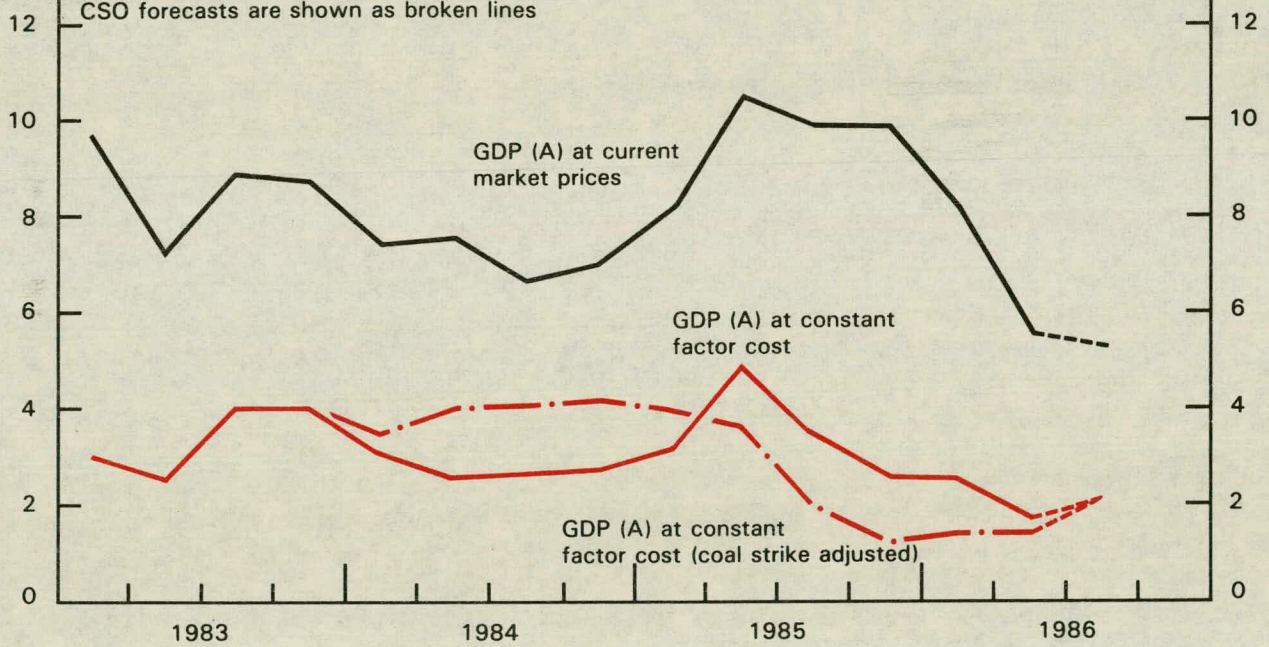
1980 = 100, seasonally adjusted



Gross domestic product (average measure)

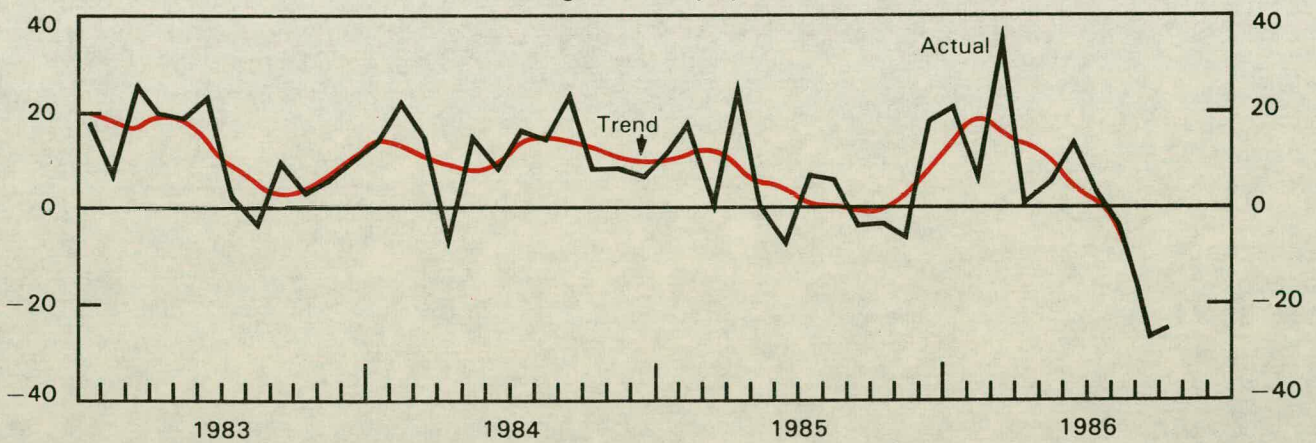
CHART 1B

Percentage change quarter on corresponding quarter of previous year seasonally adjusted
CSO forecasts are shown as broken lines



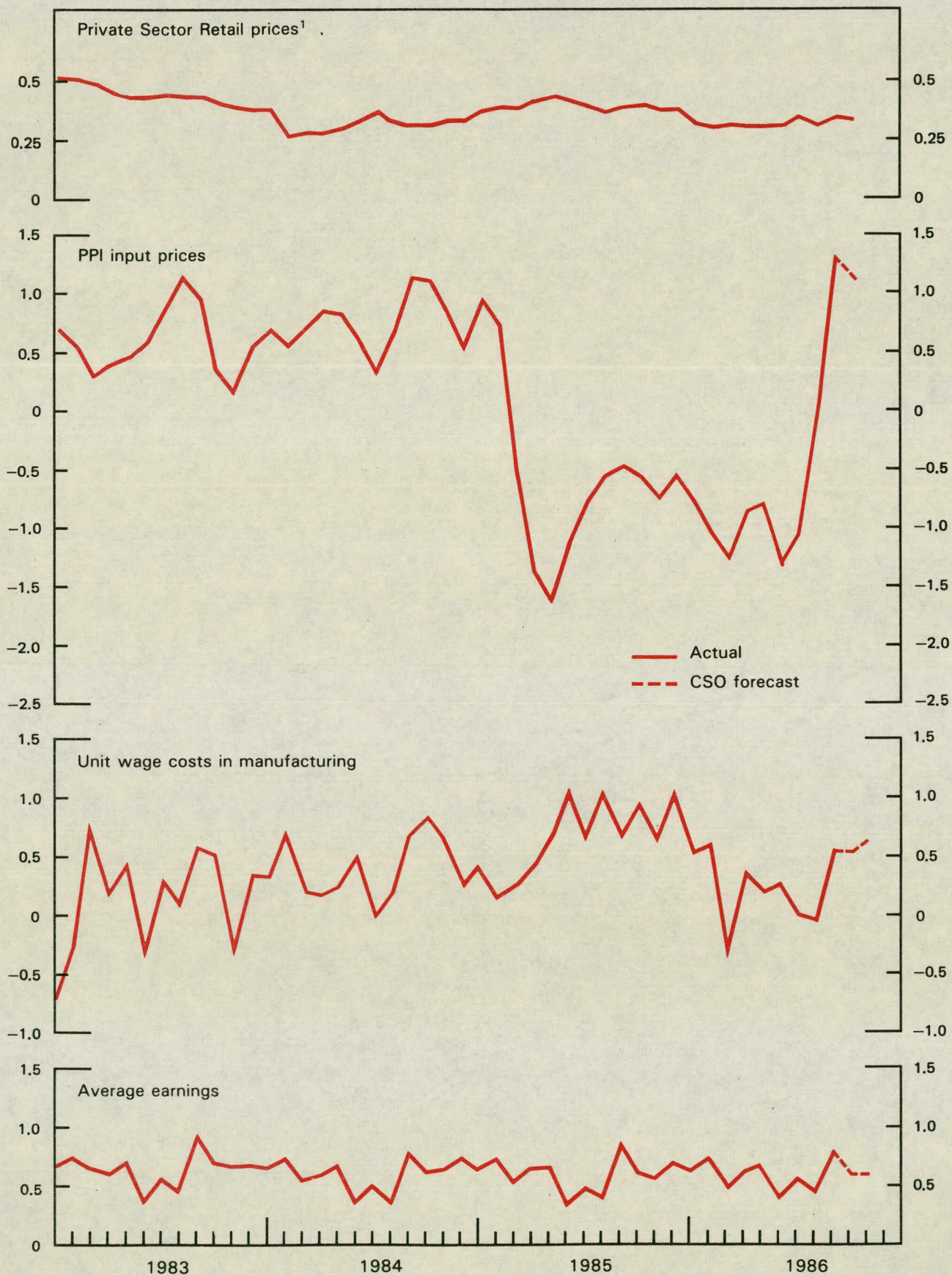
Changes in unemployment

CHART 2



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

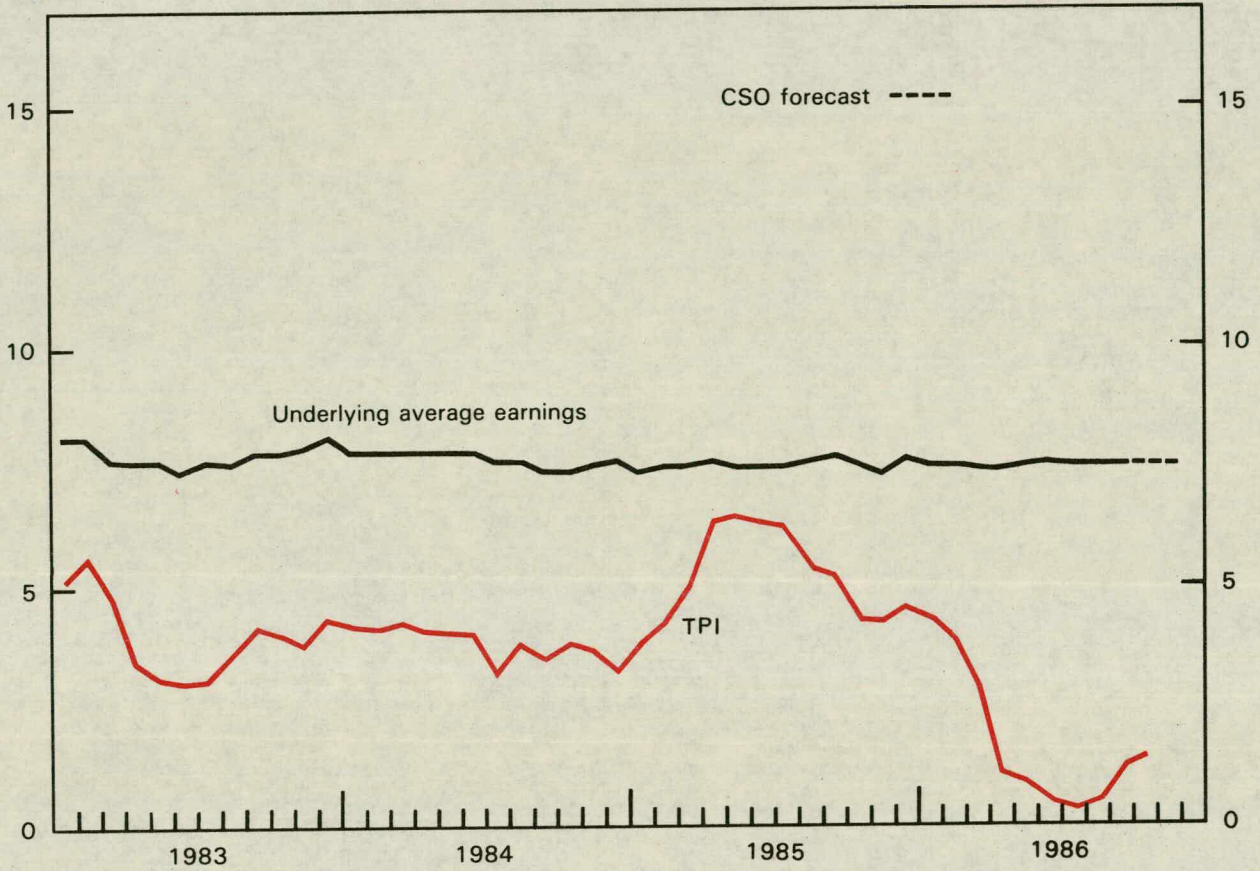
Month to month percentage changes, smoothed and adjusted for distorting factors where appropriate



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

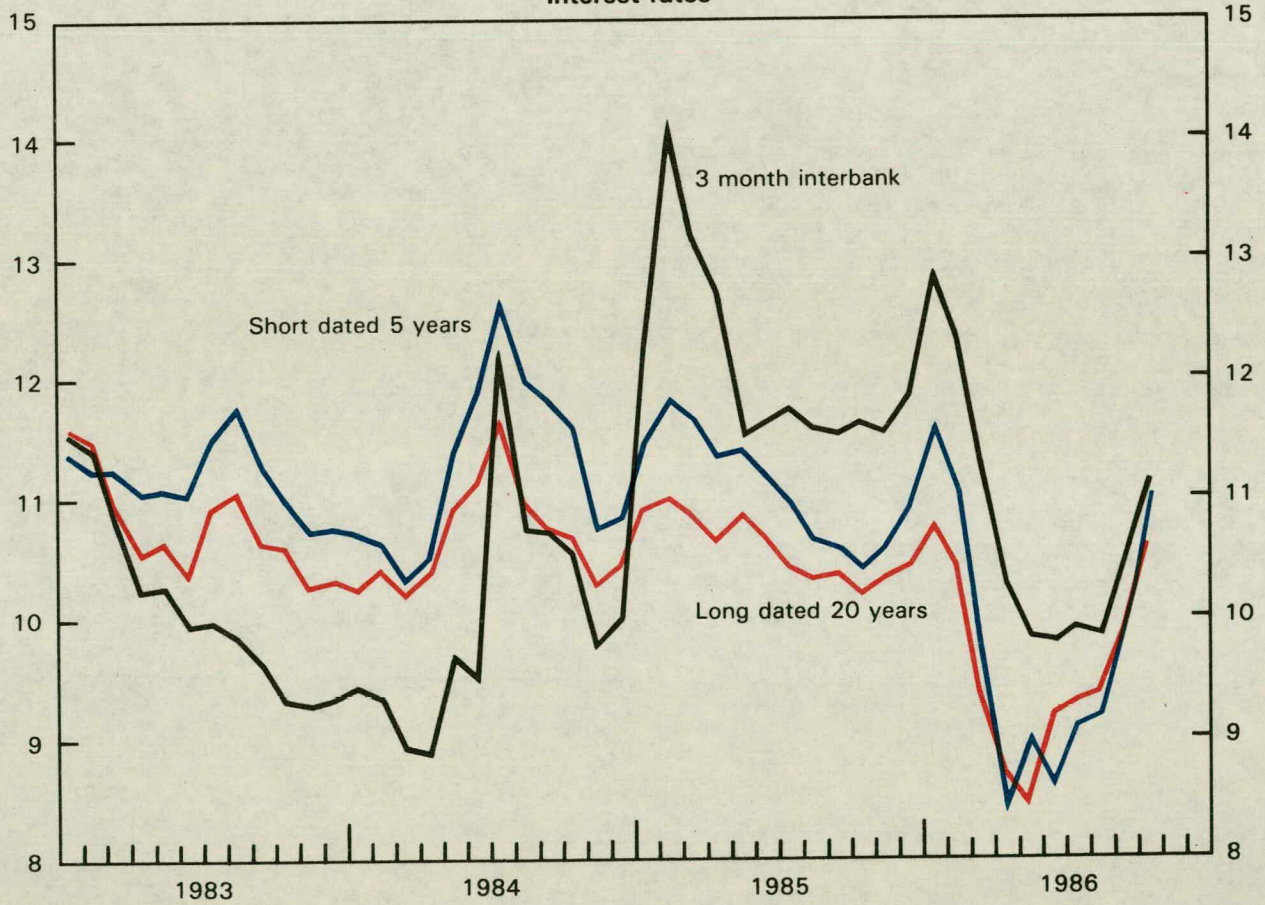
Movements in underlying average earnings and the tax and price index comparisons with 12 months previously

CHART 4



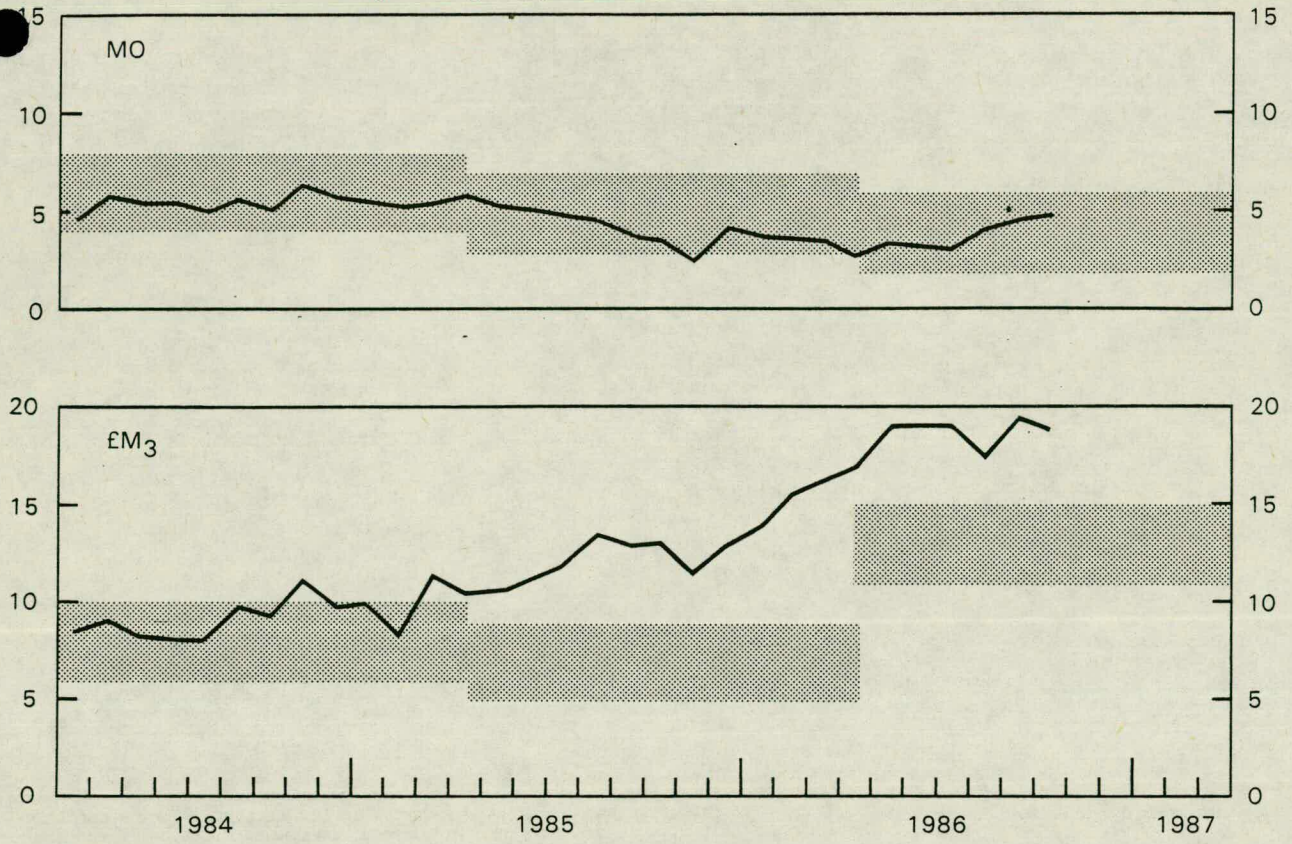
Interest rates

CHART 5



Monetary aggregates

Percentage change on previous 12 months (seasonally adjusted)

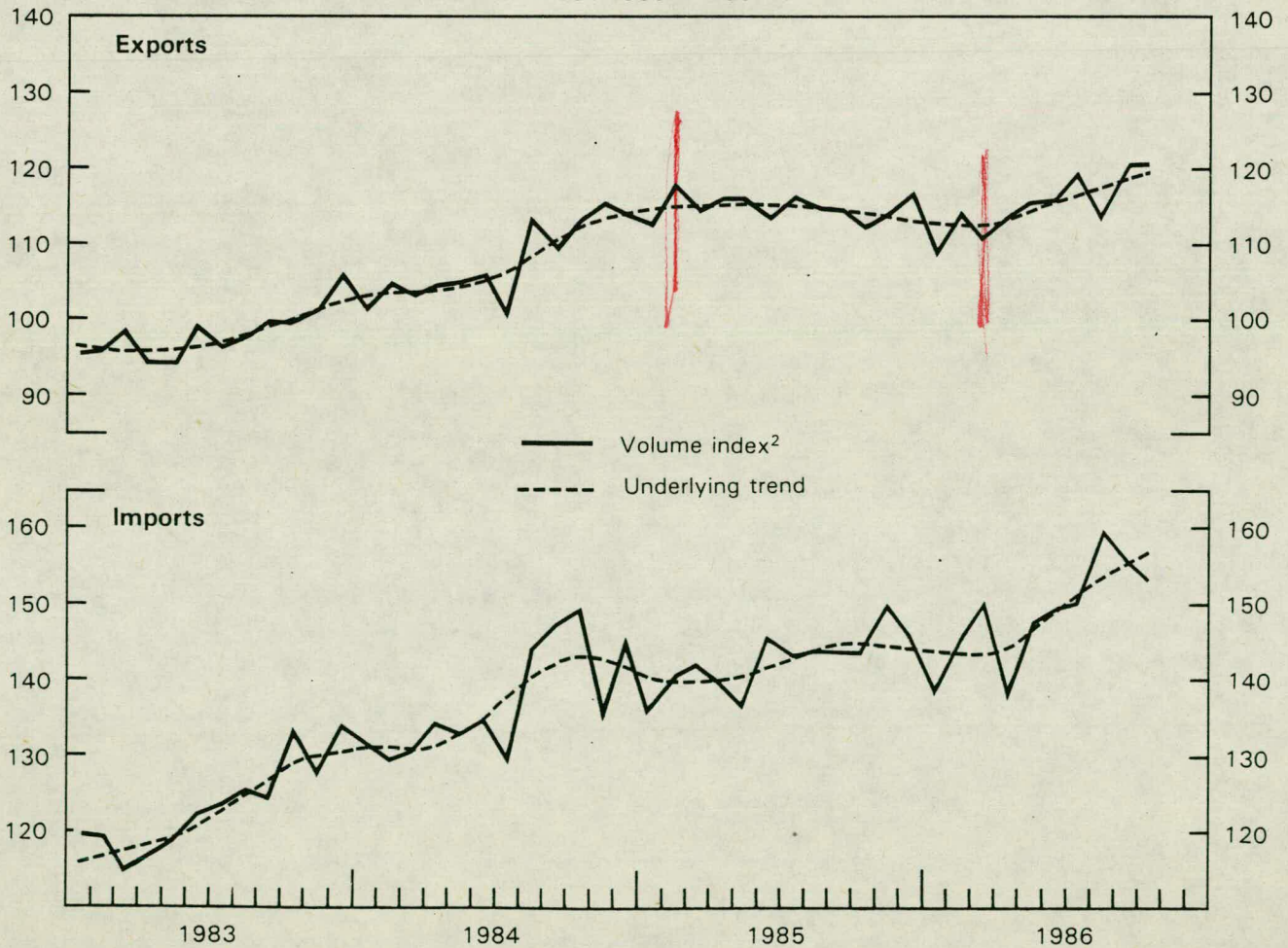


Shaded areas represent announced target ranges

CHART 7

Exports and Imports (excluding oil and erratics¹)

Index 1980 = 100



1. Ships, North Sea Installations, Aircraft, Precious Stones and Silver
 2. Seasonally adjusted data, Balance of Payments basis

MONTHLY ECONOMIC BRIEF

DETAILED ASSESSMENTS SUPPLEMENT

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A ECONOMIC ACTIVITYA1 Total gross domestic product (in real terms)

A1.1 The latest projection of the average measure of GDP, GDP(A), for the third quarter of 1986 suggests a rise in GDP of nearly $\frac{1}{2}$ per cent compared with the previous quarter, and a growth of 2 per cent compared with the third quarter of 1985, which is faster than the annual rate of growth in previous quarters (after allowing for the effects of the coal dispute). But this reflects some hesitation of growth in 1985 (the base period of the comparison used here) and some erratic movements in GDP(E). GDP(O), the preferred measure of short-term change, has shown growth of $\frac{1}{2}$ -1 per cent per quarter over the last four quarters.

A1.2 Third quarter estimates of the three individual measures of GDP have a firmer basis at this stage, although certain elements of GDP(E) like capital formation are still very tentative and GDP(I) components are very largely projections. Both GDP(E) and GDP(I) were flat between the second and third quarters of 1986.

A1.3 There is more complete information available for GDP(O) components at present and a preliminary third quarter estimate has been published. This is showing a 1 per cent growth between the second and third quarters, attributable to growth in industrial production (particularly oil and gas extraction) as well as the service sector.

A1.4 Giving equal weight to all three individual measures of GDP the assessment of the current underlying trend in GDP(A) is that it lies in the range of 1-3 per cent per annum. (Based on the output measure the trend growth rate lies towards the upper end of this range.)

A2 Money GDP

A2.1 The latest projection of money GDP in the third quarter of 1986 suggests it rose $1\frac{1}{2}$ per cent compared with the second quarter to a level 5 per cent higher than in the third quarter of 1985. Money GDP in the non-North Sea sector is growing at around 7-9 per cent per annum, but the effect of falling oil prices up to the middle of the third quarter reduces the growth of money GDP as a whole.

A3 Cyclical indicators

A3.1 As well as the usual monthly information, the November Press Notice included the third quarter preliminary estimate of GDP(O) in the coincident index and CBI survey information through to October in both the two leading indices and the coincident. It remains difficult however to assess either current or expected cyclical developments in the UK economy.

A3.2 The decline in the published version of the coincident index since May 1985 is consistent with a period of a weaker underlying rate of economic growth lasting about twelve months. If allowance is made, where possible, for the effect of the coal strike in 1984 and 1985, the period of weaker growth is seen to have begun slightly earlier - around the beginning of 1985. The later estimates for the coincident index are still provisional but they suggest that the coincident index has flattened out and may be starting to rise modestly, indicating that the earlier period of weakness in growth was only a temporary development. There continues to be no supportive evidence from the leading indices to help assess likely developments in the coincident index over the coming months. The addition of the early estimates of GDP in the third quarter to the calculation of the coincident index have a depressive, though not marked, effect on the recent profile of the series.

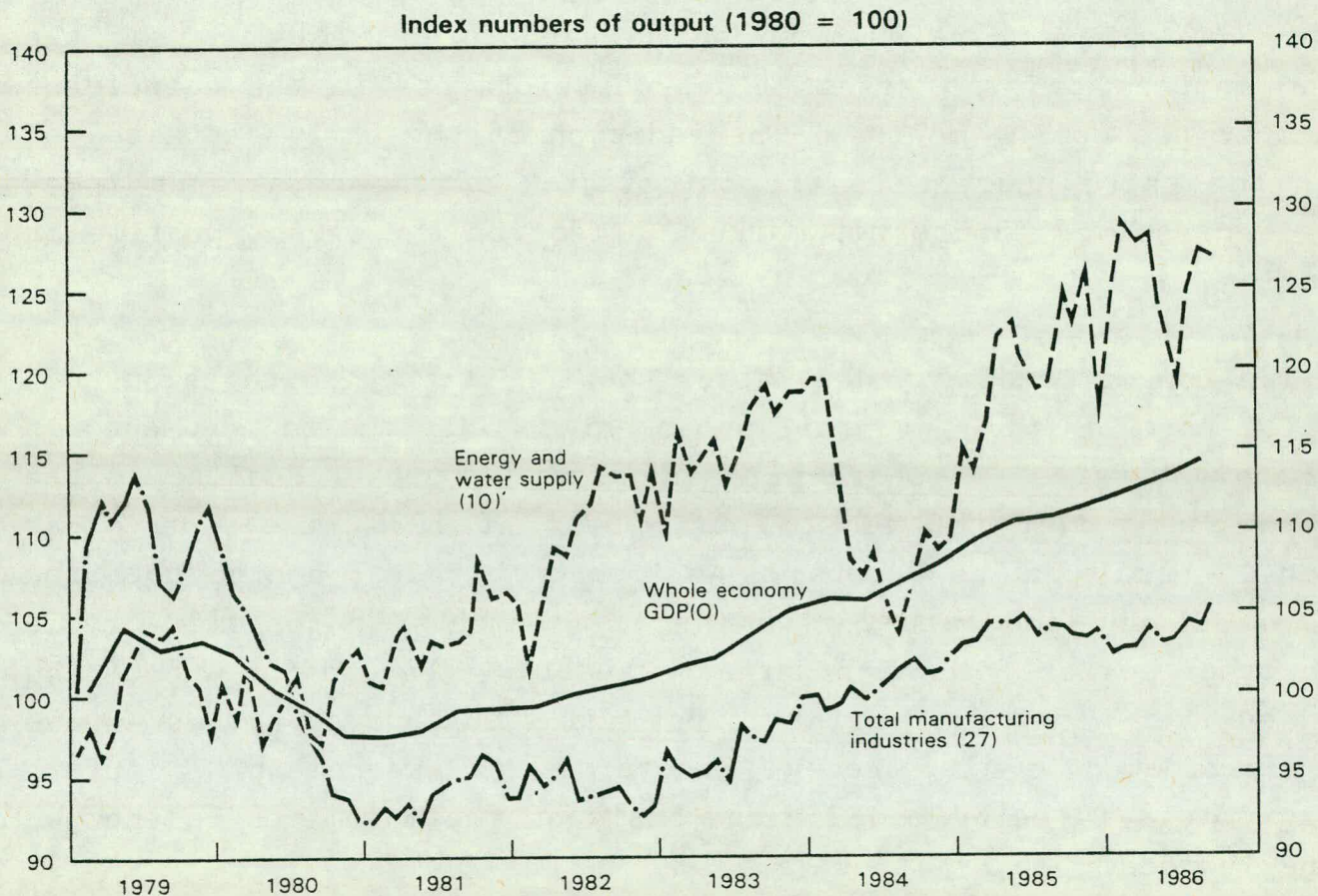
A3.3 The longer leading index, after showing strong growth throughout the first part of 1986, has fallen back since July due to movements in both interest rates and share prices. After a further decline in the shorter leader over the first four months of 1986, the series has recovered sharply up to October. An important factor behind both the earlier fall and the latest rise is the movements in consumer credit though other series for which data are available beyond the end of the second quarter - new car registrations and 2 CBI survey series - have also contributed to the recent recovery. No assessment of future turning points is being made on the basis of the movements in the two leading indices.

A3.4 Share prices continue to fluctuate. Although they have been rising again most recently after falling back earlier on in the month, it is likely that the longer leader will fall further when November is published in next month's Press Notice.

A4 Output measures

A4.1 Manufacturing output reached a temporary peak in the second quarter of 1985 and then declined 1½ per cent by the first quarter of 1986. However since the first quarter output has increased significantly and in the third quarter had recovered to about the level experienced in the second quarter of last year. Manufacturing output in the third quarter was 1 per cent higher than in the second quarter.

A4.2 The CBI Trends Survey of output expectations points to moderate growth, though in recent surveys the expectations balance has exceeded the outturn.



Note: Figures in brackets represent percentage of GDP(O) by weight in base year 1980

A4.3 Most components of the energy sector have seen a decline in recent months which has been particularly marked in coal production and gas supply. There have been suggestions that gas supply has been losing its competitive edge compared with low priced petroleum products. There has not been any compensating increase in domestic production of petroleum products. However oil extraction was high - for the time of year - in the third quarter.

A4.4 The underlying output (after allowing for weather effects) of all production industries in the second half of 1985 was almost 1 per cent below the level reached in the first half but partially recovered in the first half of 1986. The third quarter was high as a result of increased manufacturing output and oil extraction. With lower oil extraction and a decline from what is probably an erratically high manufacturing figure, the index of production is expected to be between $109\frac{1}{2}$ and 110 for October and November (September was 111.3).

A4.5 Preliminary estimates suggest that the output measure of GDP grew by about 1 per cent between the second and third quarters of 1986. Output of the production industries rose by about $1\frac{1}{2}$ per cent, as a result of increased manufacturing output and oil and gas extraction. Output of the service industries grew by around per cent, with a further 2 per cent increase in distribution. In the third quarter, GDP(0) stood some 3 per cent above its level of a year earlier, mainly resulting from growth in the service industries.

B THE LABOUR MARKET

B1 Unemployment and Vacancies

B1.1 The seasonally adjusted level of unemployment (UK, excluding school leavers) fell by 25,000 between September and October to 3,168 million, or 11.5 per cent of the working population.

B1.2 This sharp fall follows a similar fall of 26,000 in September, and a smaller fall in the month to August. Over the past six months on average the seasonally adjusted level has fallen by 5,000 per month. Within this period, over the past three months there has been an average fall of nearly 19,000 per month (12,000 among men and nearly 7,000 among women), following a rise of nearly 8,000 per month over the previous three months to July.

B1.3 It remains difficult to quantify the current trend though it now appears to be downward. Part of the improvement in the trend is due to the Restart Programme. It is not currently possible to quantify the effects of this and employment measures with any precision, but it seems likely that even without them, unemployment would have changed very little over the past three months.

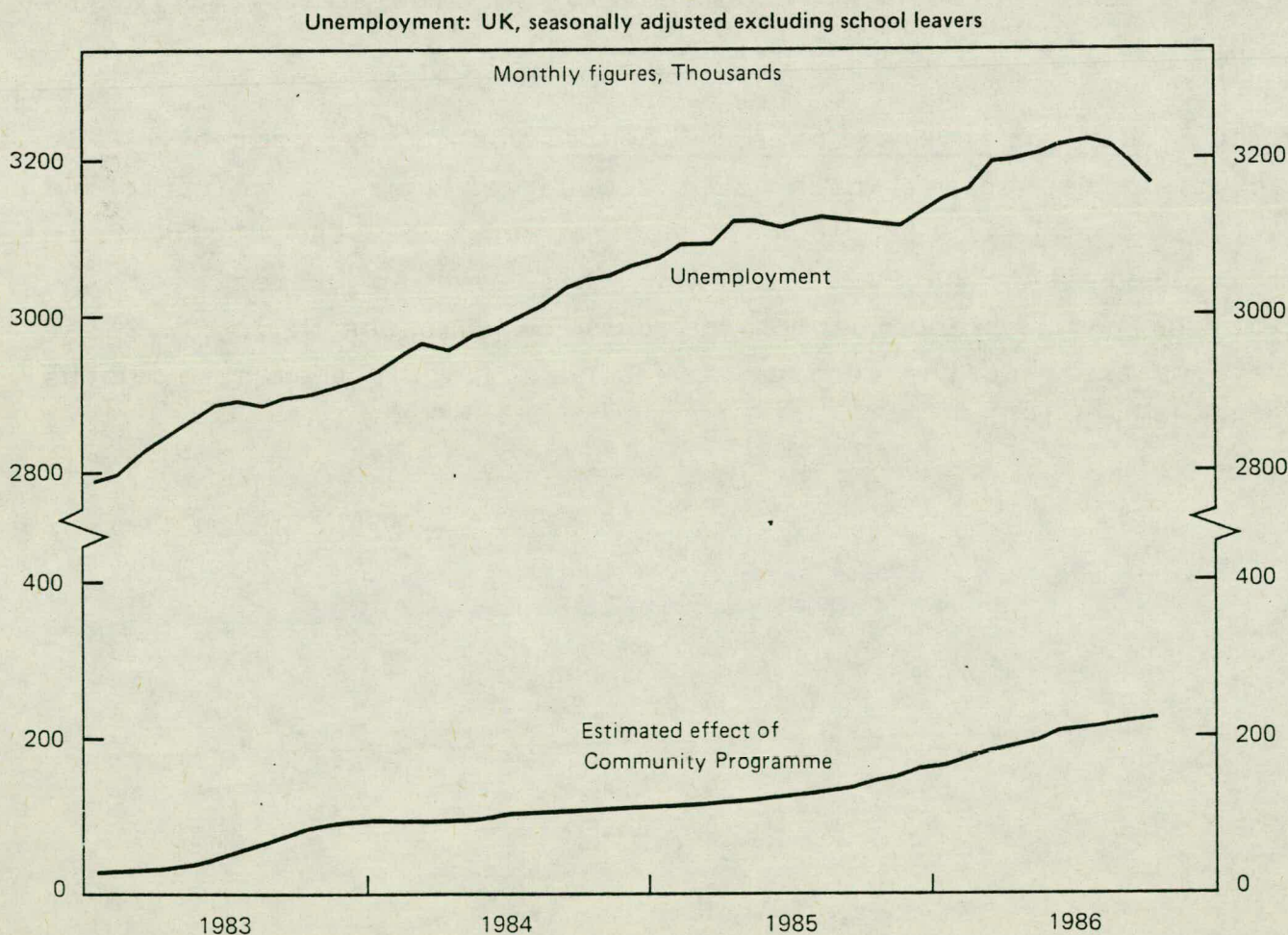
B1.4 Our best estimate is that Restart has so far reduced the claimant count by the order of 30,000 between its introduction in July and the October count. Employment measures, particularly the Community Programme, have also had a continuing favourable impact and have been reducing unemployment by up to around 5,000 extra per month.

B1.5 Long term unemployment (those unemployed for more than a year) showed a small fall of 7,000 since July (to 1.341 million) during a quarter in which the number would normally increase because of seasonal influences. Without Restart we would have expected a rise of up to 20,000. This is consistent with our broad estimate of the effects of the Restart programme so far.

B1. The recent falls in unemployment have been spread across most regions, with the exception of Scotland, and particularly Northern Ireland where unemployment still appears to be rising quite strongly.

B1.7 The October 'headline' total (unadjusted) was 3.237 million, 11.7 per cent of the working population. This included some 117,000 school leavers aged under 18, somewhat lower than in October last year.

B1.8 The stock of unfilled vacancies at jobcentres (seasonally adjusted and excluding Community Programme vacancies) increased further by over 6,000 in the month to October to nearly 213,000, the highest level since the end of 1979. Flows of notified vacancies and placings have also increased further and are similarly at their highest levels since 1979.



B2 Employment and hours

B2.1 The number of employees in employment in manufacturing industries in Great Britain decreased by 1,000 in September 1986 (seasonally adjusted) and there was an average monthly decrease for the three months ending September of 7,000. Whilst there are fluctuations from month to month, there are signs of a lessening rate of decline in the figures in the recent past.

B2.2 Overtime working by operatives in manufacturing industries was 11.76 million hours a week in September and the average over the three months ending September was 11.59 million hours a week. Although still high, the average level of overtime has been 11.5 million hours per week so far this year, compared with the peak level of around 12 million hours a week maintained for most of 1985. Short-time working resulted in the loss of 0.38 million hours a week in manufacturing industries in September 1986 which made an average of 0.36 million per week lost for the three months ending September. This compares with an average of 0.50 million hours per week lost in the three months ending June and represents a continuation of the historically low level which has been in evidence since late in 1983.

B2.3 The index of average weekly hours worked by operatives in manufacturing industries (which takes account of hours of overtime and short-time as well as normal basic hours) was estimated at 102.9 in September 1986 (seasonally adjusted). This gave an average for the three months ending September of 102.8 which compares with 102.7 for the previous three months (ending June) and 103.2 for the three months ending September 1985.

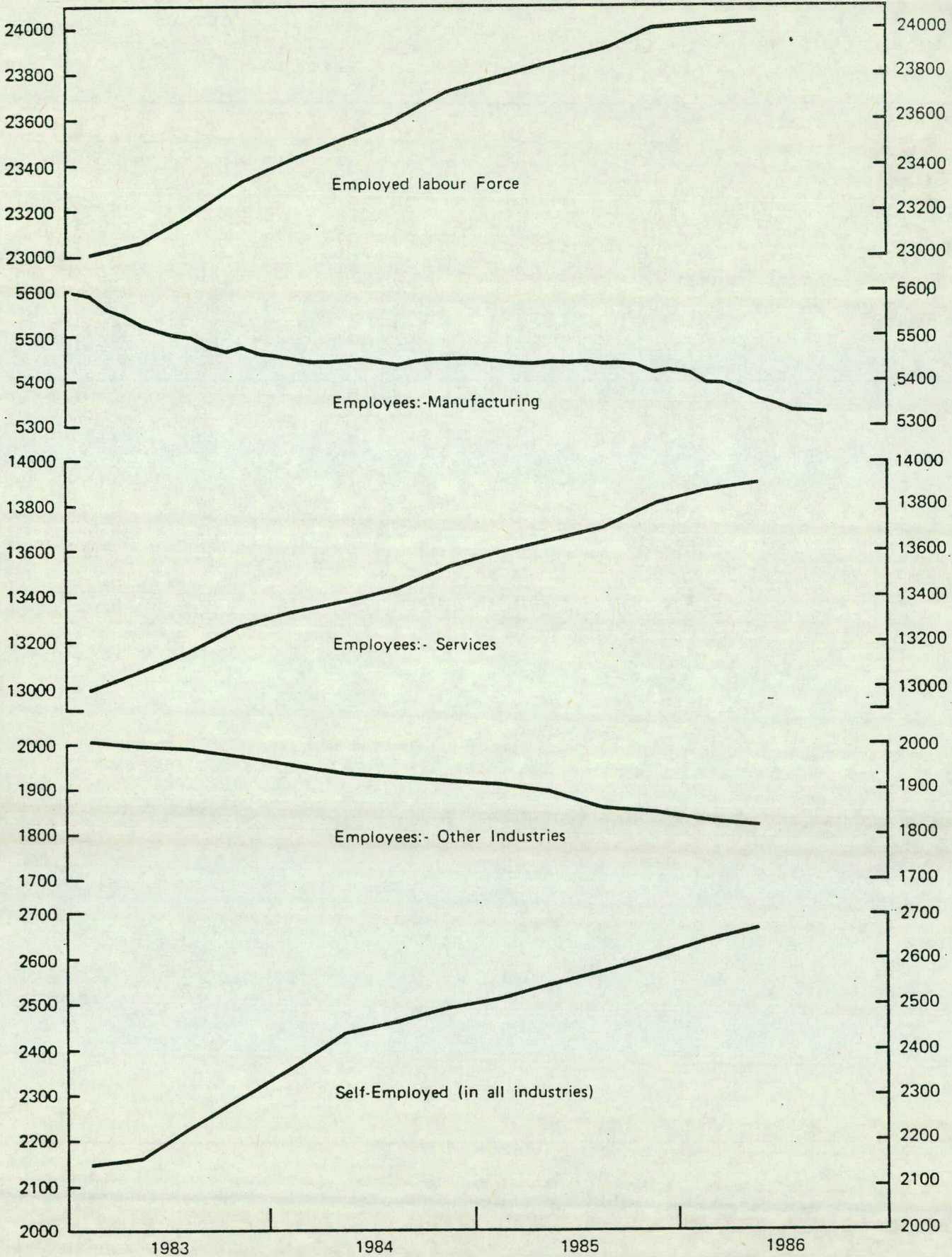
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The Employed Labour Force in Great Britain Thousand: Seasonally adjusted

		Employees in employment				Self- Employed Persons	Employed Labour Force
		Manufacturing Industries	Service Industries	Other Industries	All Industries and Services		
Levels							
1984	Sep	5,446	13,438	1,930	20,814	2,462	23,605
	Dec	5,454	13,532	1,921	20,907	2,489	23,724
1985	Mar	5,440	13,600	1,911	20,951	2,516	23,793
	Jun	5,439	13,653	1,896	20,988	2,543	23,857
	Sep	5,438	13,709	1,859	21,006	(2,574)	23,906
	Dec	5,425	13,805	1,843	21,073	(2,604)	24,001
1986	Mar	5,389	13,866	1,827	21,082	(2,635)	24,039
	Jun	5,349	13,903	1,821	21,073	(2,665)	24,060
Changes							
1984	Q3	- 3	+ 59	- 5	+ 51	+ 27	+ 80
	Q4	+ 8	+ 94	- 9	+ 93	+ 27	+119
1985	Q1	- 14	+ 68	- 10	+ 44	+ 27	+ 69
	Q2	- 1	+ 53	- 15	+ 37	+ 27	+ 64
	Q3	- 1	+ 56	- 37	+ 18	(+ 31)	+ 49
	Q4	- 13	+ 96	- 16	+ 67	(+ 30)	+ 95
1986	Q1	- 36	+ 61	- 16	+ 9	(+ 31)	+ 38
	Q2	- 40	+ 37	- 6	- 9	(+ 30)	+ 21
	Q3	- 20					
1985	Jul	+ 5					
	Aug	- 7					
	Sep	+ 1					
	Oct	- 4					
	Nov	- 13					
	Dec	+ 4					
1986	Jan	- 3					
	Feb	- 30					
	Mar	- 3					
	Apr	- 9					
	May	- 23					
	Jun	- 8					
	Jul	- 15					
	Aug	- 4					
	Sep	- 1					

NB: Employed Labour Force also includes HM Forces
 Brackets indicate projections based on the assumption that the average rate of increase between 1981 and 1985 is continuing.

Employment
Thousands



NB Total employed labour forces includes HM Forces

B3 Redundancies

B3.1 The underlying trend in the number of redundancies confirmed as due to occur, as measured by the twelve month ended averages, continues to fall. It is likely that changes in entitlement to rebate, which took effect on 1 August are still affecting the statistics. These encouraged employees to bring forward impending redundancies so that they could still claim their rebates. After three consecutive low months the number of advanced notifications of redundancies returned, in October, to around the level it was before the pattern of reporting was disrupted.

B3.2 The number of confirmed redundancies in the three months ending October is expected, after allowing for probable late reporting, to average about 15,000 a month, compared with 18,000 a month recorded during the corresponding period a year ago.

C PRICES AND REAL DISPOSABLE INCOME

C1 Average earnings

C1.1 The underlying increase in average weekly earnings in the year to September was 7½ per cent, the same as the increase in the year to August. The underlying annual increase has been broadly unchanged since the middle of 1984. There is little sign of a significant change in the annual increase, as the effect of some lower pay settlements may be offset by a rise in payments resulting from additional overtime working.

C1.2. The actual increase in the year to September of 6.2 per cent was lower than the estimated underlying increase because of the following temporary factors which depressed the actual increase:-

- back pay in September 1986 was lower than in September 1985;
- changes in the timing of bonus payments meant that the level of these payments in September 1986 was lower than in September 1985.

C1.3 In October and November, the underlying increase for the whole economy may show little change. Although some pay settlements are lower than the corresponding settlements a year ago eg for local authority manuals, the effect on the average earnings increase will be offset by some higher pay settlements eg for local authority non-manuals and by a rise in overtime payments resulting from additional overtime working. The actual annual increase is expected to be above the underlying increase, reflecting mainly the effect of the change in the timing of the teachers' pay settlement because of the delay in reaching last year's settlement.

C2 Unit wage costs and competitiveness

C2.1 Unit wage costs in the whole economy rose by about $1\frac{1}{2}$ per cent between the first and second quarters of 1986. In the third quarter the rise is likely to be about $\frac{1}{2}$ per cent, with total wage costs rising by less than $1\frac{1}{2}$ per cent and GDP(0) increasing by about 1 per cent; this would give a rise in unit wage costs of about $4\frac{1}{2}$ per cent since the third quarter of 1985.

C2.2 In the third quarter, manufacturing unit wage costs were similar to the level in the second quarter, with an increase in average earnings of $1\frac{1}{2}$ per cent being offset by a similar rise in labour productivity. (However this zero increase in unit wage costs presents a too optimistic view of the underlying trend, because the quarterly movement in productivity is probably erratically high and in the third quarter delays in pay settlements have depressed the rise in average earnings.) Compared with the same period a year ago, unit wage costs in the third quarter had increased by $4\frac{1}{2}$ per cent, with an increase in average earnings of just over 7 per cent being partially offset by a rise in productivity of over $2\frac{1}{2}$ per cent.

C2.3 In 1985, domestic manufacturing unit labour costs grew more rapidly than those of our major competitors; compared with 1984, UK unit labour costs increased by 6 per cent, as against little change in the US, Germany and Japan. This more rapid increase between 1984 and 1985 was only partly offset by the slight depreciation in the average level of sterling, and UK competitiveness declined. However there was at least a short-term improvement in competitiveness in the first quarter of 1986, when the fall in the exchange rate more than offset the rise in UK domestic labour costs. Despite the continued depreciation of sterling in the second quarter, UK competitiveness worsened slightly. With the sharper fall in the value of the pound more recently, however, there is likely to have been some further improvement again in the third quarter.

C3 Producer prices

C3.1 The seasonally adjusted price index for materials and fuel purchased by manufacturing industry increased by 1 per cent in October, after having risen by 1 3/4 per cent in September and 1 per cent in August. These increases mainly reflected higher prices of imported materials, which were influenced by the depreciation of sterling. The seasonally adjusted index is expected to rise by a further 1/2 per cent in November, but should still be about 11 1/2 per cent below its peak early last year. The unadjusted November materials and fuel index should be about 4 per cent below its corresponding 1985 level, with most of the fall over the twelve-month period in fuel prices and relatively little in raw materials.

C3.2 The twelve-monthly rate of increase in the index for output prices of manufactured products (home sales) was just under 4 1/2 per cent over the period from June to October, after having shown a fairly steady decline from around 5 per cent at the beginning of this year and 6 per cent at the beginning of 1985. The underlying annual rate of growth is thought to have fallen a little below its recent 4 1/2 per cent. On this basis, the monthly increase in November should be no more than 0.3 per cent and the twelve monthly increase should fall to around 4 per cent.

C4 retail prices

C4.1 The annual rate of inflation in October, as measured by the 12-month change in the retail prices index, was 3.0 per cent: the same as that recorded in September.

C4.2 Between September and October the increase in overall level of prices matched that recorded between the corresponding months last year: 0.2 per cent. There were small price increases for a range of goods and services, notably for clothing and draught beer, and seasonal falls in the prices of some fresh fruit.

C4.3 In November the 12-month rate is likely to rise to around $3\frac{1}{2}$ per cent. The recent increases in mortgage interest rates are expected to contribute about $\frac{1}{2}$ per cent out of an overall increase in prices of per cent. Between October and November last year a rise of 0.3 per cent was recorded.

C5 Real personal disposable income (RPDI)

C5.1 Total wages and salaries is estimated to have risen by between 1 and 1½ per cent between the second and third quarters of 1986. The level reached is around 7 per cent higher than that in the third quarter of 1985.

C5.2 The level of RPDI in the third quarter of 1986 is estimated to be rather less than ½ per cent higher than in the second quarter. Between the two quarters, consumers' expenditure at constant prices is estimated to have risen by a little over 1½ per cent. As a result, the saving ratio is projected to have fallen to around 9½ per cent in the third quarter of 1986.

	RPDI 1980 prices £bn	Consumers' expenditure 1980 prices £bn	Saving ratio per cent
1984	41.6*	36.7*	11½
1985	42.7*	38.0*	11
1984 Q1	40.9	36.4	11
Q2	41.2	36.8	10½
Q3	41.2	36.6	11
Q4	42.9	37.1	13½
1985 Q1	42.2	37.4	11½
Q2	42.6	37.7	11½
Q3	42.7	38.3	10½
Q4	43.5	38.6	11
1986 Q1	43.7	38.9	11
Q2	44.3	39.7	10½
Q3	(44.5)	40.3	(9½)

*Quarterly average

D COMPONENTS OF DOMESTIC EXPENDITURED1 Consumers' expenditure at constant prices

D1.1 Between the first and second quarters of 1986, consumers' expenditure rose by nearly 2 per cent to a level 5 per cent above the second quarter of last year. This reflects strong growth in retail sales and increased expenditure on most other goods and services apart from tobacco and energy products.

D1.2 Provisional estimates for the third quarter suggest that consumers' expenditure has grown by a little over 1½ per cent compared with the second quarter, maintaining an increase over the previous year of around 5 per cent. The latest increase reflects continued growth in retail sales.

D1.3 The provisional index of the volume of retail sales in October (at 123.1) was similar to that in September - the highest value recorded. Strong sales growth continues with the average index for the latest three months being 6 per cent higher than a year previously. A value around 124 is forecast for November.

D2 General government final consumption at constant prices

D2.1 General government consumption in the third quarter is estimated to rise to £12.9 billion which is in line with the forecast of £25.8 billion for the second half of 1986 in the Financial Statement and Budget Report 1986-87.

D3 Gross domestic fixed capital formation at constant prices

D3.1 Total fixed investment is expected to have been about £11.7 billion in the third quarter of 1986. The underlying trend of total fixed investment appears to be flat.

D3.2 Fixed investment by manufacturing industries (including leased assets) is provisionally estimated to have dropped 6 per cent between the third quarter of 1985 and 1986 whilst fixed investment by the construction, distribution and financial industries (excluding assets leased to manufacturers) rose 1 per cent over the same period. Between the first halves of 1985 and 1986 fixed capital formation by the extraction of mineral oil and natural gas industry fell 15 per cent. On the other hand fixed investment in dwellings rose 6 per cent between the first halves of 1985 and 1986 after remaining on a flat trend during 1985.

D4 Stockbuilding at constant prices

D4.1 Stocks increased £0.4 billion in the first half of 1986 following an increase of £0.6 billion during the whole of 1985. Stocks are provisionally estimated to have fallen about £0.1 billion in the third quarter of 1986.

E OVERSEAS TRADE AND CURRENT BALANCE

E1.1 Visible trade showed a deficit of £0.8 billion in October with the value of exports up 2 per cent on September and imports up by 1 per cent.

E1.2 In the three months ended October the visible trade deficit was £3.2 billion compared with £1.9 billion in the previous three months. The increase in the deficit reflects a deterioration in the balance on non-oil trade; the surplus on oil was little changed at £0.6 billion.

E1.3 By value, total exports showed no change over the latest three months while imports grew by $6\frac{1}{2}$ per cent. By volume, the upward trend in non-oil exports continues. The growth in non-oil import volume appears to have slackened by the underlying level remains high.

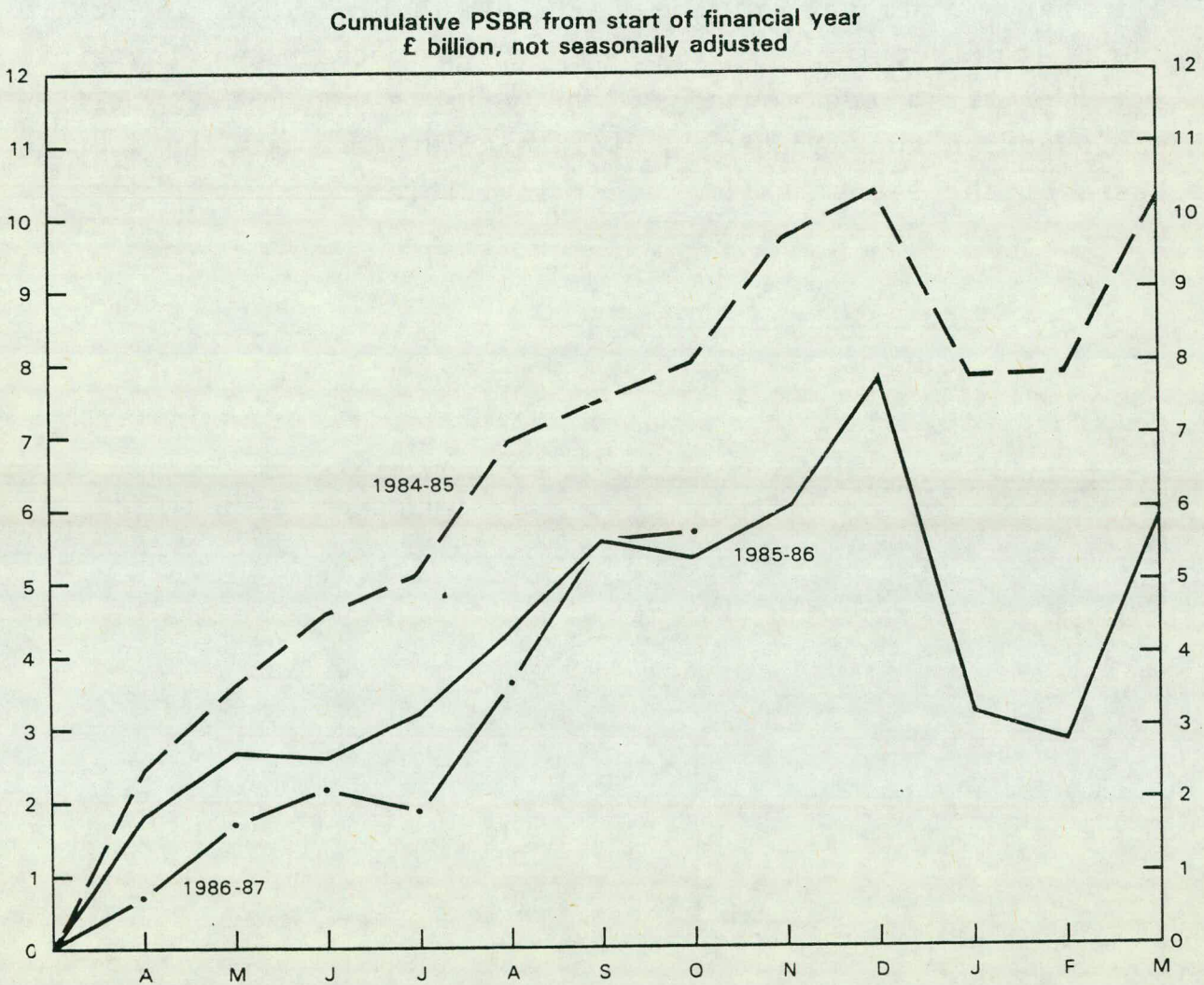
E1.4 Preliminary estimates of the invisible balance for the third quarter, and a projection for October, suggest that the invisible surplus for the first ten months of the year is about £7.3 billion more than offsetting the deficit on visible trade (see quality section for the basis of the latest estimate for invisibles).

F FINANCIAL

F1 PSBR

F1.1 The PSBR is provisionally estimated to have been £2.1 billion in September and close to zero in October, giving a cumulative total for the first seven months of 1986-87 of £5.7 billion. In the first seven months of 1985-86, the PSBR stood at £5.3 billion. The increase over last year is more than accounted for by lower Petroleum Revenue Tax receipts.

F1.2 The forecast for 1986-87, announced in the Autumn Statement, is £7 billion.



Note: The seasonal pattern can differ from year to year

F1.3 The components of the PSBR in October were:

(£ billion, not seasonally adjusted)
Comprising

	PSBR	CGBR(0)	LABR	PCBR
<u>Outturns</u>				
September	2.1	2.4	-0.1	-0.2
October	0.0	-0.3	-0.1	0.5
April to October	5.7	6.3	-0.1	-0.6

F2 Monetary growth (all figures quoted are not seasonally adjusted unless stated).

F2.1 Preliminary information suggests that in the 12 months to the end-October, M0 rose by 4 3/4 to 5 per cent and £M3 rose by 18 1/4 to 18 1/2 per cent. In October, M0 fell by about 1/2 per cent (about flat seasonally adjusted) and £M3 rose by 3/4-1 per cent (0-1/4 per cent seasonally adjusted).

F2.2 M0 remains well within its 2-6 per cent target range, although its 12 month growth rate is now rather higher than it was in the summer. £M3 growth remains difficult to interpret owing to the effects of changes in the financial system over recent years. The 12 month growth rate is roughly the same as the average over the summer.

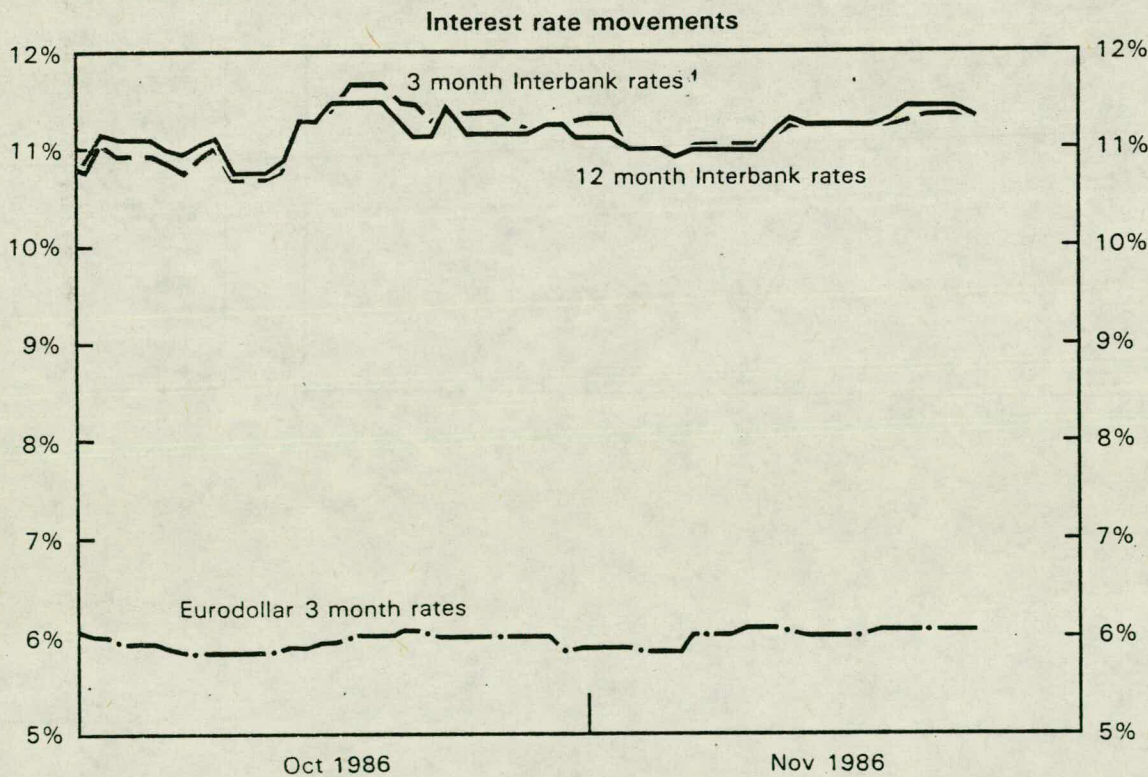
F2.3 £M3 rose by £1.3 billion in October. Provisional counterparts to the change in £M3 are as follows:

	<u>£ billion</u>
PSBR	-
Debt sales to the non-bank private sector and external flow to public sector	-1.8
(of which debt sales to nbps)	(-1.3)
Sterling lending to private sector	+3.3
Other counterparts	-0.2
	<hr/>
	1.3
Change in £M3	<hr/>

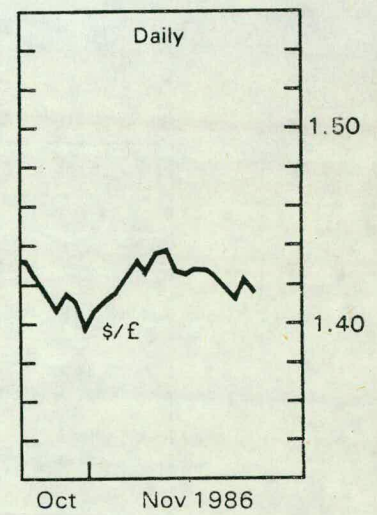
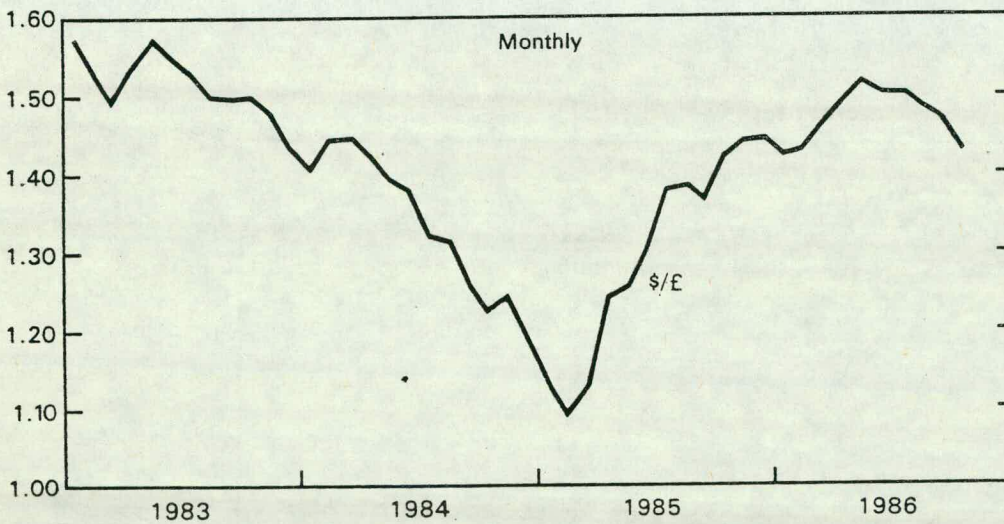
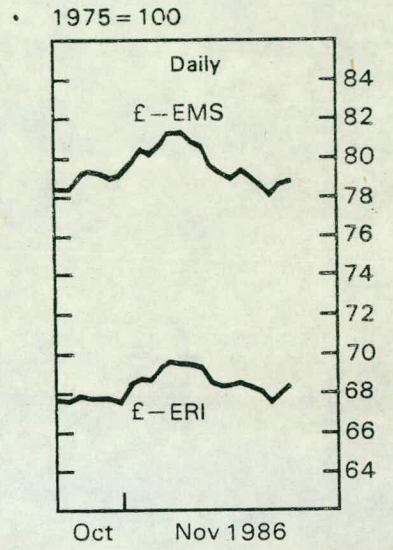
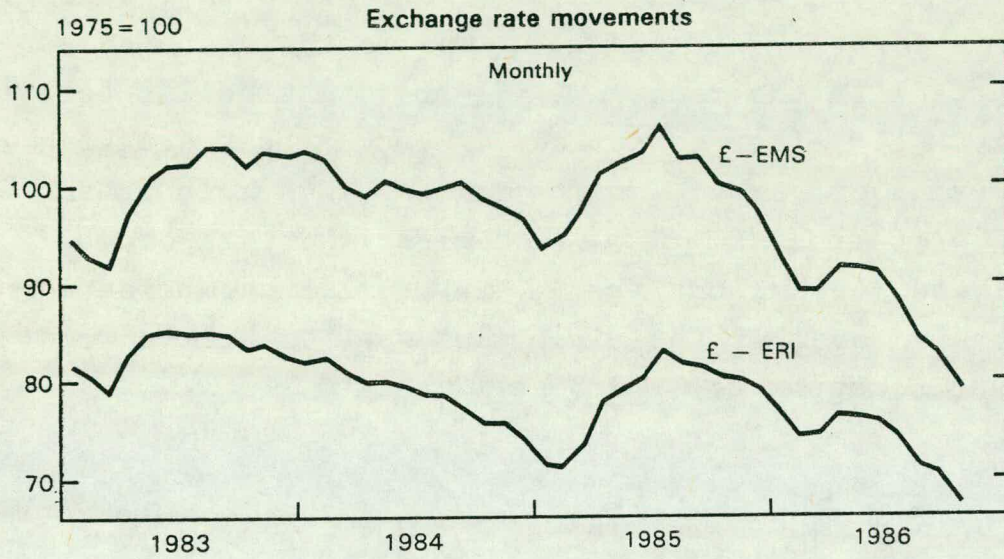
Financial developments make it increasingly difficult to read meaning into the behaviour of individual counterparts. Sterling lending in October may have been affected by the Big Bang as market makers borrowed from banks to finance their "books" and by the low October PSBR. The October figure for sterling lending is counterbalanced by lower figures in August and September; the average increase over the last three months of about £2.3 billion is lower than over the period May-July when the increase averaged about £2.8 billion.

F3 Financial markets

F3.1 Sterling rose in early November on the Government's good showing in the opinion polls and on expectations of a firmer oil price (which rose above \$15 a barrel for the first time in two months). It eased later in the month to trade in the range ERI 67½-68½. The dollar fell below the key level of DM 2.0 after economic data indicated a sluggish economy. At the end of October, 3 month and 12 month interbank lending rates were 11 5/16 and 11 1/8 respectively. During November the 3 month rate has been steady, but the 12 month rate has hardened slightly. At close on 26 November the yield curve was gently upward sloping from 11 11/32 at 3 months to 11 3/8 at 12 months.



1 For a long run of monthly data for this series and for 5 and 20 year gilts see Chart 5



GROSS DOMESTIC PRODUCT: 1980 PRICES AND SEASONALLY ADJUSTED (figures in brackets are cso forecasts) (1)
 TABLE 1 fbn, rounded to nearest f0.1 bn

	Consumers' expenditure	General government final consumption	Gross domestic fixed capital formation	Stock-building	Total domestic expenditure	Exports of goods and services	Imports of goods and services	Real resources for the balance of payments	Factor cost adjust-ment	Gross domestic product at factor cost
1984(2)	36.7	12.7	11.4	-	60.8	17.3	17.1	+ 0.1	- 8.2	52.7
1985(2)	38.0	12.8	11.6	+ 0.2	62.5	18.3	17.7	+ 0.6	- 8.5	54.7
1984 Q4	37.1	12.8	11.5	+ 0.3	61.7	18.1	18.1	-	- 8.3	53.3
1985 Q1	37.4	12.7	12.2	+ 0.1	62.4	18.2	17.7	+ 0.5	- 8.4	54.5
Q2	37.7	12.8	11.2	+ 0.4	62.1	18.6	17.5	+ 1.1	- 8.3	54.8
Q3	38.3	12.8	11.6	+ 0.1	62.7	18.0	17.4	+ 0.6	- 8.5	54.8
Q4	38.6	12.8	11.4	+ 0.1	62.9	18.4	18.0	+ 0.3	- 8.6	54.7
1986 Q1	38.9	12.8	11.9	+ 0.5	64.2	18.0	17.8	+ 0.2	- 8.6	55.8
Q2	39.7	12.8	11.5	- 0.1	63.9	18.6	18.1	+ 0.6	- 8.7	55.8
Q3	40.3	(12.9)	(11.7)	(-0.1)	(64.8)	18.9	19.1	- 0.2	(- 8.8)	(55.8)

Index numbers 1980=100

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	GDP(E)	GDP(O)	GDP(I)	GDP(Average)	GDP(Average) coal strike adjusted (B)	% change same period on a year earlier (A)	(B)
1984	105.7	106.7	107.5	106.6	107.9	2.6	4.1
1985	109.6	110.7	110.9	110.4	110.8	3.8	2.7
1981 Q2(3)	98.3	98.0	97.9	98.1	98.1		
1984 Q4	106.9	108.0	108.9	107.9	109.4	2.8	4.2
1985 Q1	109.2	109.6	109.4	109.4	110.7	3.2	3.9
Q2	109.8	110.7	111.9	110.8	111.1	4.9	3.7
Q3	109.8	110.9	111.3	110.7	110.7	3.5	2.0
Q4	109.5	111.7	110.9	110.7	110.7	2.6	1.2
1986 Q1	111.8	112.3	112.4	112.2	112.2	2.6	1.4
Q2	111.8	113.2	113.0	112.7	112.7	1.7	1.4
Q3*	(111.8)	114.3	(113.0)	(113.0)	(113.0)	(2.1)	(2.1)

(1) Entries in this table are latest estimates and are not necessarily the same as published figures.

(2) Quarterly averages

(3) Trough of cycle

*The forecasts for the GDP index measures are not intended to be more precise than the general statements in the text.

GROSS DOMESTIC PRODUCT: CURRENT PRICES AND SEASONALLY ADJUSTED (figures in brackets are CSO forecasts)(1)
 TABLE 2 fbn, rounded to nearest £0.1 bn

	Income from employment		North Sea oil profits (excluding stock appreciation)	Other industrial and commercial company profits		Other factor incomes	GDP at factor cost (income-based)	Total final expenditure	GDP (expenditure based)	
	Total	Of which: wages and salaries and forces pay		and	profits				at factor cost	at market prices
1984(2)	45.1	39.0	4.8	7.8	12.4	70.0	103.1	68.8	80.0	
1985(2)	48.8	42.5	4.6	10.1	12.9	76.4	112.5	75.6	87.9	
1984 Q4	46.6	40.5	5.3	8.3	12.1	72.2	107.9	71.0	82.4	
1985 Q1	47.4	41.2	5.3	9.2	12.0	73.8	111.4	73.8	85.3	
Q2	48.4	42.1	4.9	10.0	12.9	76.2	111.9	74.9	87.0	
Q3	49.4	42.9	4.0	10.5	13.2	77.2	112.3	76.2	88.6	
Q4	50.2	43.6	4.2	10.8	13.4	78.6	114.6	77.6	90.5	
1986 Q1	51.1	44.5	3.1	11.4	13.9	79.5	116.6	79.1	92.1	
Q2	52.1	45.5	1.5	11.1	14.2	79.0	116.2	78.3	92.0	
Q3	(52.8)	(46.1)	(1.3)	(11.4)	(14.3)	(79.8)	(118.4)	(79.1)	(93.1)	

Index numbers 1980=100

	Money GDP (average GDP at market prices)	Implied index of total home costs
1984	140.1	130.5
1985	153.6	138.2
1984 Q4	144.4	133.1
1985 Q1	148.4	135.4
Q2	152.3	136.5
Q3	155.0	139.1
Q4	158.7	142.0
1986 Q1	160.6	141.8
Q2	160.9	140.3
Q3	(163.2)	(141.7)

(1) Entries in this table are latest estimates and are not necessarily the same as published figures.
 (2) Quarterly averages

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TABLE 3

SELECTED MONTHLY INDICATORS
(Figures in brackets are CSO forecasts)

	Average earnings		Prices			Industrial production				Employees in employ-	
	Whole economy	Manufacturing	Producer		Retail (1)	Retail sales volume	Total	Manufacturing	Unemployment(2) (Monthly changes)	Vacancies(3)	-in manuf- facturing (Monthly changes)
			Materials and fuel purchased	Home Sales (1)							
	Jan 1980=100	1980=100	1980=100	Jan 1974=100	1980=100	1980=100	1980=100	'000	'000	'000	
1984	158.3	162.8	135.5	132.1	351.8	110.7	103.2	100.7	+12	150	- 1
1985	171.7	177.6	137.7	139.4	373.2	115.3	108.2	103.9	+ 6	162	- 2
1985 Jul	172.2	178.3	135.6	139.9	375.7	115.9	107.5	103.4	+ 7	162	+ 5
Aug	173.1	178.1	135.4	140.1	376.7	117.0	108.1	104.1	+ 6	163	- 7
Sep	176.4	181.5	135.1	140.5	376.5	115.6	109.7	104.0	- 4	166	+ 1
Oct	174.3	180.9	133.6	140.9	377.1	115.0	108.5	103.5	- 4	170	- 4
Nov	175.9	182.9	133.1	141.5	378.4	117.6	109.5	103.4	- 6	169	-13
Dec	178.1	184.7	132.2	141.9	378.9	117.4	107.1	103.8	+19	164	+ 4
1986 Jan	179.1	185.5	131.6	142.7	379.7	117.3	108.5	102.5	+21	163	- 3
Feb	180.0	186.0	130.2	143.3	381.1	117.5	109.9	103.0	+ 8	167	-30
Mar	182.6	186.9	128.2	144.3	381.6	119.7	109.5	102.8	+38	170	- 3
Apr	185.3	191.1	126.6	145.4	385.3	119.3	110.8	104.1	+ 2	170	- 9
May	182.4	187.5	126.9	145.9	386.0	118.5	108.5	103.1	+ 5	172	-23
Jun	183.9	189.8	125.3	145.8	385.8	121.7	107.5	103.4	+14	184	- 8
Jul	186.3	190.5	121.8	146.0	384.7	120.9	109.9	104.5	+ 4	193	-15
Aug	187.0	191.9	123.2	146.3	385.9	122.0	110.5	104.3	- 4	201	- 4
Sep	187.3	194.2	125.2	146.7	387.8	123.2	111.3	105.6	-26	206	- 1
Oct	(189)	(195)	126.7	146.9	388.4	123.1	(109 $\frac{1}{2}$)	(104 $\frac{1}{2}$)	-25	213	
Nov	(190)	(197)	(127 $\frac{1}{2}$)	(147 $\frac{1}{2}$)	(391 $\frac{1}{2}$)	(124)	(110)	(104 $\frac{1}{2}$)			
Dec											

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Basis for assessing the present (ie the figures in brackets) Effect of new pay settlements and short-term factors Detailed assessment Underlying trend Detailed assessments Continuing high level Detailed assessments

(1) Not seasonally adjusted

(2) New basis: excluding school leavers under 18 and adjusted for changes in coverage of the count.

(3) Unfilled vacancies at jobcentres, excluding Community Programme vacancies.

TABLE 4

SELECTED MONTHLY INDICATORS
(Figures in brackets are CSO forecasts)(1)

	Volume 1980=100		Value			Invis- ible balance(2)	£ billion		MO (wide monetary base) £ bil- lion (3)	Relative actual unit labour costs, inclu- ding exchange rate movements (1980=100)
	Exports of goods (excluding oil and erratics)	Imports of goods	Visible balance		Current balance total		Exchange rate Index (1975=100)			
			Excl oil and erratics	Oil inc erratics						
1984	108	137	-12.4	+6.9	-4.4	+5.6	+1.2	78.8	13.8	84.4
1985	115	143	-11.0	+8.2	-2.1	+5.7	+3.6	78.2	14.4	87.7
1985 Jul	117	143	-0.8	+0.6	-0.2	+0.6	+0.4	83.3	14.2)
Aug	115	144	-0.9	+0.7	-0.2	+0.6	+0.5	81.7	14.2) 92.9
Sep	115	143	-0.8	+0.7	-0.1	+0.6	+0.5	81.4	14.1)
Oct	112	144	-0.9	+0.8	-	+0.2	+0.2	80.4	14.1)
Nov	114	150	-1.1	+0.6	-0.2	+0.2	-	80.0	14.2) 91.1
Dec	117	146	-1.8	+0.5	-0.1	+0.4	+0.4	79.1	14.4)
1986 Jan	109	138	-0.9	+0.9	+0.1	+1.0	+1.1	76.6	14.4)
Feb	114	144	-1.1	+0.7	-0.4	+0.5	+0.2	74.2	14.4) 86.7
Mar	111	150	-1.5	+0.4	-1.2	+0.5	-0.6	74.6	14.5)
Apr	114	138	-0.9	+0.3	-0.3	+0.7	+0.4	76.2	14.4)
May	116	147	-1.0	+0.2	-0.7	+0.7	-	76.1	14.5) 88.3
Jun	116	149	-1.1	+0.3	-0.6	+0.7	-	75.8	14.6)
Jul	119	150	-1.1	+0.2	-0.6	+0.8	+0.2	74.0	14.6)
Aug	114	159	-1.7	+0.2	-1.5	+0.8	-0.7	71.4	14.7)
Sep	121	156	-1.2	+0.3	-0.9	+0.8	-0.1	70.4	14.8)
Oct	121	153	-1.1	+0.2)	-0.8	(+0.9)	(+0.1)	67.8	(14.8))
Nov	(121)	(155)	(-1.2)	(+0.3)	(-0.8)	(+0.9)	(+0.1)	(68.5))
Dec)
Basis for assessing the present	Trend line					CSO projections	Actual data to 26 November	Recent trends in components		

(1) Entries in this table are latest estimates and are not necessarily the same as published figures.

(2) Monthly figures are one-third of the quarterly total, except for EC budget refunds allocated to month of receipt.

(3) Average amount outstanding. Annual data relate to December.

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QUALITY OF LATEST INFORMATION AVAILABLE

Banking and Monetary Statistics: A Change in Reporting Dates

A major change has been made to the presentation of banking and monetary statistics, with the move of the reporting date from mid-month to end-month.

New calendar month series for the main monetary and liquidity aggregates have been compiled back to mid-1982, using information provided by the 90 or so largest banks, accounting for some 90 per cent of banks' contribution to $\pounds M3$.

Reflecting the comparatively short run of data on the new basis, with the exception of M0, the seasonal adjustments applied to calendar month data will be less reliable than those for banking months have been. They will be subject to greater revision as more information becomes available, and should be used with caution. For M0, where the series is derived from weekly information, long run data are available and the quality of the seasonally adjusted series is unaffected.

Invisibles

The estimates for the third quarter of 1986 are based on partial information supplied for the balance of payments figures due for publication on 4 December, and are subject to revision. They have been incorporated in the October Trade Press Notice, published on 25 November.

pur

FROM: R B SAUNDERS

DATE: 28 November 1986

MR BOTTRILL

cc PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
Sir T Burns
Mr F E R Butler
Sir G Littler
Mr Cassell
Mr Peretz
Mr Scholar
Mr Sedgwick
Mr H P Evans
Mr Culpin
Mr Kelly
Miss O'Mara
Mr Fox

ADVANCE CIRCULATION OF TRADE FIGURES

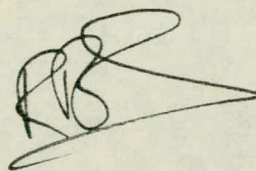
We had a word about this. Sir Peter Middleton is concerned that the overseas trade figures are becoming increasingly market sensitive, and that we should do all we can to restrict advance circulation in the Treasury to those with a strict need to know.

2. The present position is as follows. DTI produce final export figures about a week and a half ahead of publication and full trade figures just under a week ahead. Copies of both are sent to the Chancellor's office, this office and EA, who receive two copies of the exports figures (Mr Barrell and Mr King) and five copies of the full trade figures (Messrs Sedgwick, Barrell, Owen, King and yourself). We circulate both sets of figures to the people on the list attached at A. The draft press notice is received from DTI two or three days before publication by the Chancellor's office, this office and Mr King. We circulate it to the list at B, while Mr King provides a brief which is circulated as at C. Finally, we circulate the embargoed press notice as at D.

3. Two questions arise. First, there is the topsy-turvey distribution by this office which appears to have grown up. For the future, I would propose to circulate the exports and trade figures only to Sir T Burns, Sir G Littler, Mr Cassell and Mr Peretz. If

any other present recipients can show an operational need to know the figures this far ahead, they will no doubt tell me. In future, I will not circulate the draft press notice at all, but I think that the circulation of Mr King's briefing looks about right, subject to the addition of Mr Scholar and Mr Kelly to the first part of the list. Nor do I propose in the future to circulate the press notice itself, unless any copy recipients feel they would like to have it.

4. Secondly, I should be grateful if you would consider most carefully whether as many as five people in EA need regularly to see the figures so far in advance. As I have said, the criterion must be a strict operational need to know. Following our discussion, I agree however that individual secret and personal copies should be sent to the appropriate people in EA rather than your getting one copy which is shared.

A handwritten signature in black ink, appearing to be 'R B SAUNDERS', written in a cursive style with a long horizontal stroke extending to the right.

R B SAUNDERS
Private Secretary

OVERSEAS TRADE FIGURES ADVANCE CIRCULATION LIST

PERSONAL AND SECRET UNTIL

(A)

1. Economic Secretary
2. Financial Secretary
3. Mr Cassell
4. Sir T Burns
5. Sir G Littler
6. Mr Culpin
7. Miss O'Mara
8. Mr Scholar
9. ~~Mr Sedgwick~~ MR PERETZ
10. ~~Miss Peirson~~ ~~MR Entell~~ MR CW Kelly.
11. Mr F E R Butler

CURRENT ACCOUNT.

BALANCE OF PAYMENTS TRADE FIGURES: DRAFT PRESS NOTICE

(B)

PERSONAL AND SECRET UNTIL

1. Mr Culpin
2. Mr Scholar
3. Mr Sedgwick
4. Mr Lewetz.

3EA briefing

(C)

TRADE FIGURES FOR OCTOBER, 1986

Advance circulation

Chancellor	Mr Peretz
Chief Secretary	
Economic Secretary	Miss O'Mara
Sir P Middleton	Mr Culpin
Sir G Littler	Mr Barrell
Sir T Burns	Mr Owen
Mr Cassell	Mr Norgrove - No. 10
Mr H P Evans	
Mr Sedgwick	

Circulation after 11.30 a.m.

Financial Secretary
Minister of State
Mr Matthews
Mr Shaw
Mr Hacche
Mr Tyrie
Mr Ross Goobey
Miss Roche (No. 10)

BALANCE OF PAYMENTS

Current Acc.

TRADE FIGURES: PRESS NOTICE

(D)

1. Sir G Littler
2. Mr Scholar
3. Mr Walsh
4. Sir T Burns
5. Miss O'Mara

--- I am copying this letter to the Chancellor of the Exchequer, the Secretary of State for Employment and the PUSS (CCA), Department of Trade and Industry.

*Yours Earnest
Michael*

MICHAEL JOPLING

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

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The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1

CH/EXCHEQUER

REC.	02 DEC 1986
ACTION	MR S. J. DAVIES 2/12
COPIES TO	CST, FST, EST, MST
	SIR P. MIDDLETON
	SIR T. BURNS
	MR SEDGWICK 2

December 1986

MR BONNEY
MR SCHOLAR

FORECASTS OF RETAIL FOOD PRICES

I am writing to report on recent retail food price movements and our latest forecasts to March 1987.

The annual rate of increase in the Food Price Index has been around 3 to 3½ per cent for the past 2 years and this helped bring down the inflation rate. Although prices of some food items are certainly higher, those of lamb, margarine, eggs, tea, sugar and processed fruit and vegetables are lower on average than a year ago.

The latest figures, for October, show the Food Price Index 3.6 per cent above the level a year ago. This reflects a small but steady increase in the prices of manufactured foods whilst for some seasonal foods, notably potatoes and fresh vegetables, prices are higher than in October 1985. Our forecasters are expecting food prices to rise by about one per cent between October and December but the annual rate of increase is expected to remain around 3½ per cent. Higher prices of bread, some canned foods and seasonal price rises for potatoes and fresh vegetables are anticipated before Christmas.

In the first quarter of 1987 when fresh fruit and vegetables are less plentiful, a further rise in food prices of about 1½ per cent is forecast. The price of fresh milk is also likely to rise by 1p per pint, on the doorstep, but possibly by less in the shops. Some meat prices may be lower and the forecast is that the annual rate of increase in food prices will remain at about 3½ per cent to March 1987, provided, of course, severe weather does not interrupt fresh food supplies.

/I am copying

*This is a Sal
 Enclosure. Some - per
 Bank & CSO, but not
 former - needs a rocket
 Pst let me have an
 (76 on for 1st of
 v. long salary note
 work in 1986)
 in the legal area this
 division or capital
 on capital
 on capital*

FROM: S D KING
 DATE: 2 December 1986

1. MR BOTTRILL
2. ECONOMIC SECRETARY

- cc: Chancellor*
 Sir P Middleton*
 Sir G Littler*
 Sir T Burns*
 Mr Peretz
 Mr Sedgwick*
 Mr Culpin
 Ms O'Mara*
 Mr Barrell
 Mr Hacche*
 Mr Owen
 Mr Segal
 Mr Ross Goobey
 Mr Cresswell (CSO)

*Ch
 This is going to look v bad
 (£751 million conveniently rounding
 to £0.8 billion, but quarterly figure
 A £2.4 billion suspect). Robert was
 very concerned that press briefing
 in this note was too wooden. He
 and I prefer something a to
 lines of the attached
 re-draft AA*

*No 1, too - pay
 Lower me
 one caution
 M.*

BALANCE OF PAYMENTS FIGURES: THIRD QUARTER 1986

The invisibles and capital account figures for 1986Q3 will be published at 11.30 am on Thursday 4 December. A copy of the CSO press notice is attached (top copy and asterisked copy recipients only).

Current Account (table B of press notice)

2. The current deficit for 1986Q3 is now estimated to have been £0.8 billion compared to a surplus of £0.3 billion in the second quarter. The deterioration reflects wholly the widening in the visible deficit since the invisibles surplus has risen to £2.3 billion compared to £1.9 billion in the second quarter as a result of higher net earnings from services and from interest, profits and dividends. The current account for the first three quarters as a whole is now estimated to have been broadly in balance.

Summary Table

	£ billion				
	<u>1985</u>	<u>1986</u>			
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q1-Q3</u>
Visible balance	-2.1	-1.4	-1.6	-3.0	-6.1
Invisibles	5.7	2.0	1.9	2.3	6.1
o.w. Services	5.8	1.2	1.3	1.6	4.2
IPD	3.4	1.0	1.1	1.5	3.6
Transfers	-3.5	-0.2	-0.6	-0.9	-1.7
Current Account	3.5	0.5	0.3	-0.8	0.0
Net transactions* in UK external assets and liabilities	-7.6	-1.6	-2.6	-0.9	-4.1
Balancing item	4.1	1.3	2.8	1.9	6.0

* not seasonally adjusted

3. The new estimate of the Q3 current deficit is rather larger than the £0.6 billion published earlier this month in the DTI press notice on the October trade figures. The invisibles surplus between July and September is now estimated to have been £751 million a month compared to the CSO's previous projection of £800 million a month. A fairly sharp improvement will be needed in the fourth quarter if the CSO's current projection of a £900 million a month surplus is to be correct. [NOT FOR PUBLIC USE: The CSO's earlier estimate incorporated over-optimistic figures for net earnings based on incorrect data from the Bank.]

Services (table C)

4. The surplus on services increased by £0.3 billion between the second and third quarters of 1986. There were slight improvements on the travel and civil aviation balances, but the main cause of the increased surplus on services was higher 'financial and other services' credits. Apparently, the chief factor behind this increase is higher earnings on insurance. Lloyds have not been particularly forthcoming on the reasons behind this, but the CSO believes that the increase is largely higher net premium income, which may not be sustainable in the long term.

Interest, profits and dividends (IPD) (table D)

5. The surplus on interest, profit and dividends increased by almost £0.4 billion between the second and third quarters as improved net earnings from direct investment more than offset a rise in net interest payments by UK banks. Net earnings from direct investment rose by almost £0.4 billion from the low Q2 level which had reflected BP's write-off on its investment in Sohio. Earnings in Q3 were helped by a large tax credit to BP.

6. Net earnings on portfolio investment rose in the third quarter probably reflecting in part the effects of sterling's depreciation. Net payments by UK banks on overseas borrowings, however, rose sharply - although the reasons for this are not yet clear.

Transfers (table E)

7. There was an increase in the deficit on transfers from £0.6 billion in Q2 to £0.9 billion in Q3, reflecting mainly higher net EC contributions.

External assets and liabilities (tables G and H)

8. Although figures for transactions in external assets and liabilities are not yet complete, the available data show a net outflow of £0.9 billion in the third quarter, following an outflow of £2.6 billion in the preceding quarter. Once again, there is a positive balancing item of almost £2 billion.

9. Within the capital account, net overseas borrowing by banks in the UK rose by £5.3 billion although this masks extraordinarily large figures for both inflows and outflows for which there appears little explanation. Portfolio investment by UK financial institutions in overseas securities continued at a high level. Investment by overseas residents in both general government and company securities rose.

10. UK direct investment overseas rose exceptionally rapidly by £2 billion (or £3.3 billion including unremitted profits) in the third quarter, possibly reflecting a least in part merger activity in the US.

Official Reserves (table G)

11. The increase of £2.3 billion in the official reserves included proceeds from the \$4 billion floating rate note issue in September.

Comparison with forecast

[NOT FOR PUBLIC USE:]

12. The new Q3 invisibles figures are broadly in line with the unpublished forecasts underlying the Autumn Statement, although the services surplus was better than expected and net IPD earnings lower.

<u>Q3 Invisibles</u>	£ billion			
	<u>Services</u>	<u>IPD</u>	<u>Transfers</u>	<u>Total Invisibles</u>
Published	1.6	1.5	-0.9	2.3
Underlying Autumn Statement	1.4	1.8	-0.9	2.2]

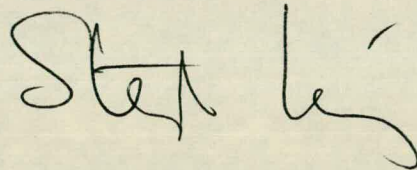
Assessment

13. The improvement in the invisibles balance is encouraging, although the explanations given for the movements in some of the series are incomplete. The average monthly invisibles balance for the third quarter, of £751 million, which rather conveniently rounds to £0.8 billion, may well provoke criticism from commentators who were already sceptical when the CSO projections were originally announced. The CSO does not intend to revise its £0.9 billion a month projection for the fourth quarter as yet. The statisticians' view is that the travel and aviation balances may recover and earnings on portfolio investment may be

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considerably higher. They expect these increases to be only partially offset by a slight reduction in net earnings on direct investment, which were artificially boosted in the third quarter by the BP tax credit.

14. I would be grateful for clearance of the attached press briefing.

A handwritten signature in cursive script, appearing to read "Stephen King". The signature is written in dark ink on a light-colored background.

S D KING

Draft press briefing for IDT

Positive

1. Cumulative current account broadly in balance in first three quarters of 1986.
2. Surplus on interest, profits and dividends of £1.5 billion in 1986Q3 demonstrates benefits of build-up of net overseas assets.

Defensive

1. Downward revision to invisibles surplus for 1986Q3 suggests that figures published with DTI press notice were massaged.
Nonsense. Initial estimates made on basis of available information. As more information becomes available, only sensible that figures should be revised. Further revision may occur in the future. (Refer detailed questions to CSO).
2. £900 million projection for invisibles for fourth quarter now looks too optimistic.
Projection will be re-assessed when November's trade figures are published on 23 December. (Refer detailed questions to CSO).
3. Average balance of £751 million a month for third quarter 'conveniently' rounds to £800 million.
Balance of £751 million derived from available data. Absolutely no reason to doubt integrity of CSO. (Refer detailed questions to CSO).

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UNITED KINGDOM BALANCE OF PAYMENTS: PRELIMINARY FIGURES FOR THE THIRD QUARTER OF 1986

Preliminary estimates indicate that the UK current account (seasonally adjusted) was in deficit by just under £0.8 billion in the third quarter of 1986 and in balance in the first nine months of the year (Table A).

There was a deficit on visible trade of £3.0 billion in the third quarter and a surplus on invisible transactions of £2.3 billion. In the first three quarters of the year the deficit on visible trade and the estimated surplus on invisibles were both £6.1 billion (Table A).

The preliminary estimates for invisibles in the third quarter put the net credit on services at £1.6 billion (Table C). Net investment earnings (interest, profits and dividends) are put at £1.5 billion (Table D) and net transfer payments overseas are put at £0.9 billion (Table E). It must be stressed that figures for invisible transactions, particularly for the most recent quarters, are liable to substantial revisions as later information becomes available.

Between the second and third quarters the deficit on visible trade increased by £1.5 billion, reflecting an increase of £1.4 billion in the deficit on non-oil trade a reduction of £0.1 billion in the surplus on oil (Table B).

The estimated surplus balance on services was significantly higher in the third quarter (£1.6 billion compared with £1.3 billion in the previous quarter). There was a substantial increase in the surplus on financial and other services (particularly in respect of insurance). The travel account remained in deficit, although somewhat below the second quarter's level (Table C).

The estimated surplus balance on interest, profits and dividends was also significantly higher in the third quarter (just under £1.5 billion compared with £1.1 billion in the previous quarter). Earnings on UK direct investment, and interest and dividends from portfolio investment overseas, both increased substantially, but there was an increase in net interest payments overseas associated with UK banks' borrowing and lending (Table D).

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The deficit on transfers in the third quarter (£0.9 billion) was higher than in the second quarter mainly because of an increase in net transfers to the European Community and transactions under bilateral aid which rose from the low second quarter figure (Table E).

Although figures for transactions in external assets and liabilities are not yet complete, the available data (which exclude most of the information on UK non-bank private sector transactions with banks overseas) show a net outflow of £0.9 billion in the third quarter, following an outflow of £2.6 billion in the preceding quarter. (Table A).

UK banks' overseas borrowing and lending and portfolio investment in overseas securities resulted in a net inflow of £3.4 billion in the third quarter compared with an outflow of £0.7 billion in the second. The very high figures for both overseas foreign currency borrowing and lending in the third quarter reflect substantial growth in inter-bank business between banks in the major financial centres (Table G and H).

Preliminary figures show a very high level of UK direct investment overseas in the third quarter, reflecting in part increased take-over activity in the United States. (Table G).

UK portfolio investment overseas showed a decline in the third quarter affecting all sectors (Table G).

The increase of £2.3 billion in the official reserves included proceeds from HM Government's \$4 billion floating rate note issue in September (Table G).

Preliminary figures show an increase in overseas direct investment in the UK; investment by non-oil companies was at a similar level as in the second quarter but oil companies and miscellaneous investment rose (Table H).

There was an increase in portfolio investment in the UK by overseas residents in the third quarter. The inflow into "other general government securities" included investment by overseas residents in HM Government's \$4 billion floating rate note issue, and the increased investment in UK company securities is possibly associated with the floating of new UK issues, some of which are tailored to overseas customers (Table H).

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Net transactions in assets and liabilities should, with reversal of sign, equal the unadjusted balance on the current account. The balancing item over the first three quarters of the year is large, indicating a mismatch between identified current and capital transactions. Part of this difference will be due to items on which there is no current information or where the provisional estimates will be subsequently revised. Also, some items, such as part of trade credit, are never picked up by the reporting system. In addition there may be timing differences between the transactions recorded in different parts of the accounts, including those of a seasonal nature.

NOTES TO EDITORS

The figures for the invisible balance in the third quarter update and expand the tentative estimates included in the Press Notice on the current account of the UK balance of payments on 25 November. Revisions have also been made to figures for earlier quarters.

SUMMARY BALANCE OF PAYMENTS

£ million

TABLE A

	1983	1984	1985	1985				1986			
				1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	
				Seasonally adjusted							
Visible trade (balance)	-835	-4384	-2111	-1260	-119	-439	-293	-1437	-1579	-3034	
Invisibles (balance):											
Services	3652	3744	5757	1211	1573	1592	1381	1209	1344	1639	
Interest, profits and dividends	2420	4156	3408	1050	819	1221	318	999	1113	1474	
Transfers	-2104	-2305	-3505	-1018	-755	-929	-803	-222	-603	-860	
Total	3968	5595	5660	1243	1637	1884	896	1986	1854	2253	
Current balance	3133	1211	3549	-17	1518	1445	603	549	275	-781	
				Not seasonally adjusted							
Current balance	3133	1211	3549	-626	1044	1444	1688	262	-165	-987	
UK external assets and liabilities											
Transactions in assets	-30815	-31256	-50235	-16547	-6280	-15538	-11870	-15067	-14454	-39864	
Transactions in liabilities	26148	24866	42612	13247	4869	10320	14176	13491	11845	38967	
Net transactions	-4667	-6390	-7623	-3300	-1411	-5218	2306	-1576	-2609	-897	
Balancing item	1534	5179	4073	3926	367	3774	-3994	1314	2774	1884	

A

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CURRENT ACCOUNT
Seasonally adjusted

£ million

TABLE B

	1983	1984	1985	1985				1986		
				1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr
Credits										
Exports of goods										
Oil	12501	14852	16050	4721	4336	3410	3583	3035	1799	1541
Other	48275	55515	62001	15349	15890	15339	15423	15087	15990	15976
Total	60776	70367	78051	20070	20226	18749	19006	18122	17789	17517
Invisibles	65225	76736	80611	21787	20326	19517	18981	18963	18569	19473
Total	126001	147103	158662	41857	40552	38266	37987	37085	36358	36990
Debits										
Imports of goods										
Oil	5525	7915	7887	2763	1925	1509	1690	1106	1049	853
Other	56086	66836	72275	18567	18420	17679	17609	18453	18319	19698
Total	61611	74751	80162	21330	20345	19188	19299	19559	19368	20551
Invisibles	61257	71141	74951	20544	18689	17633	18085	16977	16715	17220
Total	122868	145892	155113	41874	39034	36821	37384	36536	36083	37771
Balances										
Visible trade										
Oil	6976	6937	8163	1958	2411	1901	1893	1929	750	688
Other	-7811	-11321	-10274	-3218	-2530	-2340	-2186	-3366	-2329	-3722
Total	-835	-4384	-2111	-1260	-119	-439	-293	-1437	-1579	-3034
Invisibles	3968	5595	5660	1243	1637	1884	896	1986	1854	2253
of which:										
Private sector and public corporations: services and I.P.D.	7695	9804	11409	2801	2942	3409	2257	2854	3045	3713
Current balance	3133	1211	3549	-17	1518	1445	603	549	275	-781

CONFIDENTIAL UNTIL PUBLICATION

B

SERVICES
Seasonally adjusted

£ million

Table C

	1983	1984	1985	1985				1986		
				1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr
Credits										
Private sector and public corporations										
Sea transport	3054	3254	3276	824	851	802	799	753	790	730
Civil aviation	2665	2931	3188	805	842	780	761	779	725	723
Travel	4003	4614	5451	1347	1375	1412	1317	1353	1276	1370
Financial and other services	9428	10110	11848	2857	2947	2930	3114	3049	3302	3469
Total	19150	20909	23763	5833	6015	5924	5991	5934	6093	6292
General government	473	474	485	116	114	119	136	131	101	118
Total credits	19623	21383	24248	5949	6129	6043	6127	6065	6194	6410
Debits										
Private sector and public corporations										
Sea transport	4067	4386	4436	1174	1132	1036	1094	1012	1068	1036
Civil aviation	2354	2683	2886	715	732	693	746	766	760	690
Travel	4090	4664	4877	1266	1140	1162	1309	1403	1483	1546
Financial and other services	3937	4251	4510	1126	1137	1093	1154	1160	1108	1060
Total	14448	15984	16709	4281	4141	3984	4303	4341	4419	4332
General government	1523	1655	1782	457	415	467	443	515	431	439
Total debits	15971	17639	18491	4738	4556	4451	4746	4856	4850	4771
Balance										
Private sector and public corporations										
Sea transport	-1013	-1132	-1160	-350	-281	-234	-295	-259	-278	-306
Civil aviation	311	248	302	90	110	87	15	13	-35	33
Travel	-87	-50	574	81	235	250	8	-50	-207	-176
Financial and other services	5491	5859	7338	1731	1810	1837	1960	1889	2194	2409
Total	4702	4925	7054	1552	1874	1940	1688	1593	1674	1960
General government	-1050	-1181	-1297	-341	-301	-348	-307	-384	-330	-321
Total	3652	3744	5757	1211	1573	1592	1381	1209	1344	1639

C

CONFIDENTIAL UNTIL PUBLICATION

INTEREST, PROFITS AND DIVIDENDS
Seasonally adjusted

£ million

Table D

	1983	1984	1985	1985				1986		
				1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr
Credits										
Earnings on -										
Direct investment	6169	7749	8027	2452	2086	2026	1463	1634	1597	1984
Portfolio investment	2657	3770	5459	1456	1386	1321	1296	1539	1644	1843
Lending etc to overseas residents by:										
UK banks	30962	37115	36372	10143	9219	8453	8557	8126	7515	7704
Other UK residents excluding general government	1663	2315	2622	734	659	626	603	571	494	483
Official reserves and other central government assets	616	606	560	151	135	131	143	155	155	156
Total credits	42066	51555	53040	14935	13485	12557	12063	12025	11405	12170
of which:										
Private sector and public corporations	41450	50949	52480	14784	13350	12426	11920	11870	11250	12014
General government	616	606	560	151	135	131	143	155	155	156
Debits										
Earnings on -										
Direct investment										
Non-oil companies	2418	2936	3459	913	957	703	886	831	908	1017
Oil companies and miscellaneous	2958	3519	4170	1441	923	753	1053	637	468	303
Total	5376	6455	7629	2354	1880	1456	1939	1468	1376	1320
Portfolio investment	1374	1541	1811	400	448	463	500	532	531	558
Borrowing etc from overseas residents by:										
UK banks	30922	36985	37879	10506	9759	8866	8748	8456	7875	8292
Other UK residents excluding general government	1669	2083	2009	543	501	479	486	491	440	453
Other external liabilities of general government	305	335	304	82	78	72	72	79	70	73
Total debits	39646	47399	49632	13885	12666	11336	11745	11026	10292	10696
of which:										
Private sector and public corporations	38457	46070	48125	13535	12282	10957	11351	10609	9879	10261
General government	1189	1329	1507	350	384	379	394	417	413	435
Balance										
Total balance	2420	4156	3408	1050	819	1221	318	999	1113	1474
of which:										
Private sector and public corporations	2993	4879	4355	1249	1068	1469	569	1261	1371	1753
General government	-573	-723	-947	-199	-249	-248	-251	-262	-258	-279

CONFIDENTIAL UNTIL PUBLICATION

TRANSFERS
Seasonally adjusted

£ million

Table E

	1983	1984	1985	1985				1986		
				1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr
Credits										
Private	1315	1428	1511	369	375	381	386	389	395	401
General government receipts from EC institutions:										
Negotiated refunds	807	528	61	61	-	-	-	-	-	-
Other	1414	1842	1751	473	337	536	405	484	575	492
Total	2221	2370	1812	534	337	536	405	484	575	492
Total credits	3536	3798	3323	903	712	917	791	873	970	893
Debits										
Private	1463	1604	1648	407	407	414	420	432	433	438
General government										
Bilateral aid	530	560	614	173	136	160	145	165	93	210
Payments to EC institutions										
Gross	2994	3213	3970	1137	721	1091	1021	936	1069	1347
less, VAT abatement	-	-	-166	-	-	-	-166	-657	-225	-478
Other	653	726	762	204	203	181	174	219	203	236
Total	4177	4499	5180	1514	1060	1432	1174	663	1140	1315
Total debits	5640	6103	6828	1921	1467	1846	1594	1095	1573	1753
Balance										
Private	-148	-176	-137	-38	-32	-33	-34	-43	-38	-37
General government	-1956	-2129	-3368	-980	-723	-896	-769	-179	-565	-823
Total balance	-2104	-2305	-3505	-1018	-755	-929	-803	-222	-603	-860
of which: with EC institutions (1)	-773	-843	-1992	-603	-384	-555	-450	205	-269	-377

1. This series does not have the same coverage as that shown in Table 3.3 of 'The Government Expenditure Plans 1986-1987 to 1988-1989' (Cmnd 9702-11). The main differences are that the latter excludes the United Kingdom's contribution to the Community Budget expenditure on overseas aid (which is attributed to the aid programme) and includes receipts in respect of services.

E

CONFIDENTIAL UNTIL PUBLICATION

TRANSACTIONS IN UK EXTERNAL LIABILITIES (1)
Not seasonally adjusted

£ million

Table H

	1983	1984	1985	1985				1986		
				1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr
Direct investment in the UK by overseas residents										
Non-oil companies										
Unremitted profits	1085	1389	1929	645	682	440	162	556	559	660
Other	1030	807	-53	139	-243	243	-192	751	367	270
Oil companies and miscellaneous	1323	-1770	1494	1265	-47	95	181	532	165	636
Total	3438	426	3370	2049	392	778	151	1839	1091	1566
Portfolio investment in the UK by overseas residents										
British government stocks										
Investment by:										
Overseas authorities (exchange reserves)	227	188	1482	208	640	-75	709	-162	339	46
Other overseas residents	714	781	1438	508	637	452	-159	202	392	383
Other general government securities	-10	-346	264	-2	-176	-1	443	-26	12	647
Public corporations' securities	12	-229	-10	73	174	-121	-136	138	-126	-7
UK companies' securities	945	1025	3895	520	1225	630	1520	630	939	1480
Total	1888	1419	7069	1307	2500	885	2377	782	1556	2549
Foreign currency borrowing etc. from overseas by UK banks	17190	18637	25314	5154	769	7967	11424	7719	8467	33245
Sterling borrowing etc. from overseas by UK banks	3946	6133	4150	4278	-387	780	-521	3890	-861	753
Borrowing from overseas by UK residents other than banks and general government										
Transactions with banks abroad (2)	336	-2316	2377	-224	1660	-226	1167	-1044	1271	295
Other external liabilities	-74	615	311	498	-112	140	-215	94	234	500
Other external liabilities of general government	-576	-48	21	185	47	-4	-207	211	87	59
Total transactions in liabilities	26148	24866	42612	13247	4869	10320	14176	13491	11845	38967

1. Increase+/decrease-. For definition and coverage of series see section 8 of the 1986 edition of the CSO Pink Book.
2. Borrowing from banks in the reporting area covered by the BIS not available for the most recent quarter.

H

CONFIDENTIAL UNTIL PUBLICATION

VOLUME, UNIT VALUE AND IMPLIED PRICE INDICES(1)

1980=100

Table F

	1983	1984	1985	1985				1986		
				1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr
Seasonally adjusted										
Volume indices										
Exports of goods	103.8	112.5	118.6	118.6	120.5	116.3	118.9	116.9	121.8	123.3
Exports of non-oil goods	97.2	104.9	110.6	109.2	112.0	110.0	111.2	107.6	114.7	113.9
Exports of services	98.7	100.1	107.8	105.2	109.5	107.7	108.8	104.5	107.3	108.6
Exports of goods and services	102.5	109.4	115.9	115.3	117.8	114.2	116.3	113.8	118.2	119.6
Imports of goods	109.7	121.9	125.8	126.6	124.7	124.1	127.9	125.7	128.6	139.1
Imports of non-oil goods	116.4	128.2	133.0	131.6	132.3	132.8	135.2	134.8	134.8	144.2
Imports of services	103.9	105.0	107.1	106.1	105.2	106.1	111.0	112.6	111.2	104.9
Imports of goods and services	108.5	118.4	122.0	122.4	120.7	120.4	124.5	123.0	125.1	132.1
Not seasonally adjusted										
Unit value indices										
Exports of goods	125.7	136.0	143.5	146.4	145.5	141.7	140.5	139.0	134.8	134.7
Exports of non-oil goods	123.6	133.5	141.8	142.2	142.8	141.6	140.6	143.0	144.2	145.7
Imports of goods	127.5	139.7	145.2	152.3	148.7	141.4	138.2	137.6	131.5	130.4
Imports of non-oil goods	124.3	136.2	141.8	147.1	144.6	139.2	136.4	140.0	139.0	140.6
Terms of trade(2):										
All goods	98.6	97.4	98.9	96.1	97.8	100.2	101.6	101.0	102.5	103.3
Non-oil goods	99.4	98.0	100.0	96.6	98.8	101.7	103.1	102.1	103.7	103.6
Implied price indices										
Exports of services	126.8	136.3	143.5	145.0	142.8	141.7	145.1	148.2	147.3	149.4
Imports of services	130.2	142.2	146.2	153.0	146.7	141.1	146.0	147.6	146.8	154.1

1. The methods employed to produce these series are described on page 26 of the 1986 edition of the CSO Pink Book.
2. Export unit value index as a percentage of the import unit value index.

F

CONFIDENTIAL UNTIL PUBLICATION

TRANSACTIONS IN UK EXTERNAL ASSETS (1)
Not seasonally adjusted

£ million

Table G

	1983	1984	1985	1985				1986		
				1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr
Direct investment overseas by UK residents										
Unremitted profits	..	-4811	-4792	-1607	-1399	-1277	-509	-879	-835	-1266
Other	..	-1146	-2515	-1516	-15	-335	-649	245	-466	-2081
Total	-5301	-5957	-7307	-3123	-1414	-1612	-1158	-634	-1301	-3347
Portfolio investment in overseas securities by UK residents										
UK banks	-2751	-7980	-10251	-1921	-2429	-2323	-3578	-1200	-2260	-1853
Other financial institutions (2)	-3466	-1504	-4919	-3155	-1666	-502	404	-3472	-3656	-3210
Other UK residents	-303	-66	-3070	-874	-675	-815	-706	-188	-504	-417
Total	-6520	-9550	-18240	-5950	-4770	-3640	-3880	-4860	-6420	-5480
Foreign currency lending abroad by UK banks	-16100	-9135	-20405	-3423	355	-11271	-6066	-6931	-5566	-27243
Sterling lending abroad by UK banks	-2232	-4933	-1637	-2984	449	372	526	-2072	-528	-1475
Deposits etc overseas by UK residents other than banks and general government										
Transactions with banks abroad (3)	-684	-3098	-798	-827	-98	649	-522	-116	-572	-210
Other external assets	-107	1252	640	-116	-9	89	676	90	390	373
Official reserves	607	908	-1758	90	-607	-49	-1192	-580	-296	-2321
Other external assets of central government	-478	-743	-730	-214	-186	-76	-254	36	-161	-161
Total transactions in assets	-30815	-31256	-50235	-16547	-6280	-15538	-11870	-15067	-14454	-39864

1. Increase-/decrease+. For definition and coverage of series see section 8 of the 1986 edition of the CSO Pink Book.
2. Includes security dealers from the beginning of 1984.
3. Deposits with banks in the reporting area covered by the BIS are not available for the most recent quarter.

G

CONFIDENTIAL UNTIL PUBLICATION



psw

FROM: P D P BARNES
DATE: 1 December 1986

PPS

cc PS/Financial Secretary
PS/Sir P Middleton
Sir G Littler
Sir T Burns
Mr F E R Butler
Mr Cassell
Mr Peretz
Mr Scholar
Mr Sedgwick
Mr Evans
Mr Culpin
Mr Bottrill
Mr Kelly
Miss O'Mara
Mr Fox

ADVANCE CIRCULATION OF TRADE FIGURES

The Economic Secretary has seen PS/Sir P Middleton's minute to Mr Bottrill of 28 November. The Economic Secretary considers that, in view of his responsibilities for funding and markets, he needs early warning as at present. He does not think the trade figures are any more market sensitive than the money figures which he also sees.

PB

P D P BARNES
Private Secretary

pup

FROM: ROBERT CULPIN
DATE: 2 DECEMBER 1986

MR SAUNDERS

cc PPS

Sir Terence Burns
Sir Geoffrey Littler
Mr Cassell
Mr Peretz
Mr Scholar
Mr Sedgwick
Miss O'Mara
Mr Pickford

ADVANCE CIRCULATION OF TRADE FIGURES

I agree - your note of 28 November - that the present arrangements are a mess; but I am not sure your proposals go far enough to sort it out. May I set out my principal requirements?

a. I need to see the draft press notice in advance. It is no good waiting until the final version comes round after we have started briefing on it. So if you are going to stop circulating the draft, some one else needs to pass me a copy.

b. I need to see either the DTI or the Treasury briefing in time to comment - if I want to - on the line to take or any supplementary points we need covered. Again, it is no good leaving this to the last minute. If, for example, the Chancellor has points he wants put across, I need to know in time to think what to do about it. And if there are points which are going to be difficult with the Press which are not fully covered in the briefing, I need to be able to make representations. So if we are going to rely more on the Treasury brief and less on the raw data, we probably need the briefing a bit earlier.

c. I need the charts which Peter Stibbard circulates. If you are going to limit circulation of the DTI material, we need to be sure these will be included in the Treasury brief.

d. I need a brief which I can give to all Press Officers on the morning the trade figures are published. The present system is potty, because only I receive the brief before 11.30, and it is classified SECRET and PERSONAL until 11.30. But at 11.30, people are telephoning Press Officers and expecting them to know what to say. In terms of the list at your C, I think we need three categories in place of your two: advance circulation as now; circulation after 11.30 as now; and a new category - circulation to Press Officers at, say, 9.00 a.m. on the morning of publication.

May I take the opportunity to register one more general point? Now that we are publishing all our statistics at 11.30, I need to be sure that I see the briefs on them the evening before publication at the latest. Otherwise it is too late to comment, if I want to. But today, for example, I only saw the Reserves briefing this morning (no complaint against the authors). Can we get this better organised?



ROBERT CULPIN

SK/D81



mp

Caxton House Tothill Street London SW1H 9NF

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David Norgrove Esq
Private Secretary
10 Downing Street
London
SW1

✓

3 December 1986

Dear David

*Ch
Pattistel Ends 12 Dec.*

AA

OUTLOOK FOR RPI

... I enclose a numbered copy of the latest DE note.

Copies also go to Mr Alex Allan (Treasury) Sir Peter Middleton (Treasury), Mr Timothy Walker (Trade and Industry), Ms R Passmore (CSO), John Footman (Bank of England), Chris Cloake (CO).

Yours sincerely

Nick Baxter

NICK BAXTER
Private Secretary

PERSONAL AND CONFIDENTIAL

OUTLOOK FOR RETAIL PRICES: NOVEMBER AND DECEMBER 1986

1. The annual rate of inflation in November, as measured by the 12-month change in the retail prices index, is expected to rise to around $3\frac{1}{2}$ per cent from the 3 per cent recorded for October.

2. The increase in the overall level of prices between October and November is expected to be about $\frac{3}{4}$ per cent, compared with an increase of 0.3 per cent recorded between the corresponding months last year. Most of this month's rise is the result of higher owner occupiers' housing costs, following the increases in mortgage interest rates announced in October; but, in addition, the prices of durable household goods and clothing are likely to be higher, as are premia for motor insurance.

3. In December a further rise in the 12-month rate - to around $3\frac{3}{4}$ per cent - seems likely. This largely results from the small rise of 0.1 per cent between November and December last year being replaced in the 12 month calculation by a larger rise - of between $\frac{1}{3}$ and $\frac{1}{2}$ per cent - this year. A substantial element in this year's rise is expected to reflect higher food prices.

Percentage change in the RPI

	over 12	over 1 month	
	months	all items	all excluding seasonal food
August	2.4	0.3	0.3
September	3.0	0.5	0.5
October	3.0	0.2	0.2

FORECASTS

November	$3\frac{1}{2}$	$\frac{3}{4}$	$\frac{3}{4}$ -1
December	$3\frac{3}{4}$	$\frac{1}{3}$ - $\frac{1}{2}$	$\frac{1}{3}$

CONFIDENTIAL

pup



FROM: P D P BARNES
DATE: 3 December 1986

MR KING

cc PS/Chancellor
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Peretz
Mr Sedgwick
Mr Culpin
Miss O'Mara
Mr Bottrill
Mr Barrell
Mr Hacche
Mr Owen
Mr Segal
Mr Ross Goobey
Mr Cresswell (CSO)

BALANCE OF PAYMENTS FIGURES : THIRD QUARTER 1986

The Economic Secretary was grateful for your submission of 2 December.

2. The Economic Secretary was content with your draft press briefing, subject to the following amendments:-

- (i) in Defensive 1, delete the sentence "further revision may occur in the future." The Economic Secretary that there is no need to make this explicit;
- (ii) in Defensive 2, insert "monthly" after "£900 million";
- (iii) in Defensive 3, replace "integrity" by "objectivity".

RB

P D P BARNES
Private Secretary

CONFIDENTIAL

FROM: A BOTTRILL

DATE: 4 December 1986

MR CULPIN

cc: PPS —
Sir Peter Middleton
Miss O'Mara
Mr Pickford
Mr King

BALANCE OF PAYMENTS: THIRD QUARTER 1986

Your minute of 4 December.

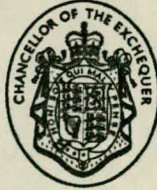
2. In view of the fact that your office had not asked in the past for a copy of the CSO Press Notice, we had assumed that you received one direct from the CSO Press Office. We will send you a copy in future.

3. I was also surprised when I spoke to the CSO last night to be told that they did not supply you with a copy of their Press briefing. I had assumed Whitehall Press offices swapped notes. I asked them to send you a copy.

ABM 11

A BOTTRILL

[Handwritten signature]



FROM: A C S ALLAN
DATE: 4 December 1986

PS/ECONOMIC SECRETARY

- cc Sir P Middleton
- Sir G Littler
- Sir T Burns
- Mr Peretz
- Mr Sedgwick
- Mr Bottrill
- Mr Culpin
- Miss O'Mara
- Mr Barrell
- Mr Hacche
- Mr King
- Mr Owen
- Mr Pickering
- Mr Segal
- Mr Ross Goobey
- Mr Cresswell (CSO)

Make:
Ch
Nothing except
straight news reporting
so far.
Press note flagged
MA

BALANCE OF PAYMENTS FIGURES: THIRD QUARTER 1986

The Chancellor has seen Mr King's minute to the Economic Secretary of 2 December. He feels the further revisions to the invisibles figures will look very bad. He would prefer a somewhat expanded press briefing on the lines of the draft attached.

2. He would also be grateful if EA could let him have a note on the very large balancing item (£6 billion for the first three quarters of 1986). Is it thought that the succession of very large positive balancing items represents unrecorded invisible exports (eg IPD)? Or unrecorded inflows? Or what?

C.R

PP A C S ALLAN

RE-DRAFT OF DEFENSIVE PRESS BRIEFING FOR IDT

Earlier figures were fiddled?

Nonsense. New and revised information is coming in all the time on the umpteen series which are aggregated together to get the invisibles balance. By the time the November trade figures were published it was clear that the earlier projection of a £600 million monthly surplus for QIII was a considerable underestimate. At that time, the best estimate was of a surplus of around £800 million. The subsequent changes and more detailed information have led to the estimate of £751 million now published.

Why did you not wait (as normal) before revising the projection?

With such a sizeable revision clearly in prospect, it made little sense to continue with the old projection.

Will £900 million projection for QIV be revised down?

No reason to change earlier view that invisible surplus in QIV will be higher than in QIII. Whether a new projection is necessary will be decided at the time of the December trade figures.