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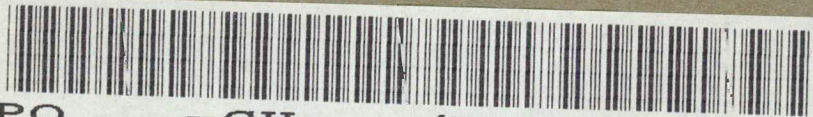
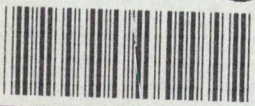
PAR - A

Part A.

SECRET

(Circulate under cover and
notify REGISTRY of movement)

Begins : 2/6/87.
 18/9/87..
Ends : ~~17/8/87~~ .


 PO -CH /NL/0405

 PART A

Chancellors (Lawson) Papers .

BALANCE OF PAYMENTS
FIGURES FOR 1987

PO -CH /NL/0405

PO -CH

PART A

DD is : 25 Years

[Signature]

18/12/95.

pup

FROM: PAUL DAVIS

DATE: 2 June 1987

1. MR BOTTRILL
2. CHANCELLOR OF THE EXCHEQUER

cc: Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Peretz
Mr Sedgwick
Mr Culpin
Miss O'Mara
Mr Barrell
Mr Owen
Mr Segal
Mr Ross Goobey
Mr Cresswell CSO

ch
looks OK (last 2
questions seem redundant,
but no great harm) -
AA

BALANCE OF PAYMENTS FIGURES: FIRST QUARTER 1987

1. The invisibles and capital account figures for the first quarter of 1987 will be published at 11.30 am on 4 June, together with revisions going back to 1984. A copy of the CSO press notice is attached. (Press notice to follow).
2. The current account surplus for the first quarter of 1987 is now estimated at £667 million, almost identical to the figure published in the DTI press notice on the April trade figures. However the current account deficit in 1986 has been revised down from £1.1 billion to £0.1 billion because of an upward revision to the invisible surplus of £1 billion. The balance of payments estimates are summarised in the table below.

Summary Table

	1985	1986	Q1	1986			£ billion	
				Q2	Q3	Q4	1987Q1	
Visible balance	-2178	-8253	-1227	-1551	-2873	-2602	-1135	
Invisibles	5628	8133	2291	1714	2111	2017	1802	
- Services	5705	5382	1217	1209	1414	1542	1410	
- IPD†	3393	5076	1175	1089	1508	1304	1212	
- Transfers	-3470	-2325	-101	-584	-811	-829	-820	
Current Account	3450	-120	1064	163	-762	-585	667	
Net transactions in external assets and liabilities*	-8109	-9193	-2244	-2547	638	-5040	3648	
Balancing item*	4659	9313	1687	2789	305	4532	-3835	

† Interest, profit and dividends

* Not seasonally adjusted

Services (Table C)

3. The surplus on services in the first quarter of 1987 was £1.4 billion, about £0.1 billion smaller than in the previous quarter. This was due mainly to a decline in financial and other services credits and in the travel balance, partly offset by improved balances in sea transport, civil aviation (now in surplus), and general government. The decline in financial and other services amounted to £240 million and reflected a reduction in net insurance earnings, and a fall in US forces expenditure in the UK.

Interest profits and dividends (IPD) (Table D)

4. The surplus on IPD fell by about £0.1 billion to £1.2 billion in the first quarter. There was a fall of £0.7 billion in interest earnings on UK banks' lending to overseas residents, only partly offset by a £0.4 billion fall in the corresponding debit. Earnings on direct investment overseas rose by £0.4 billion with only a slight fall on the debit side. A large proportion of the rise in direct investment credits reflects higher earnings by oil companies, including stock gains associated with the rise in the oil price.

5. The balance on IPD in 1986 has been revised to £5.1 billion, about £0.8 higher than the CSO's previous estimate. The main factor in this revision was a rise of £0.4 billion in earnings on direct investment overseas and a fall of £0.4 billion in the corresponding debit item. [NOT FOR USE: Almost all the revision to direct debits is accounted for by lower payments due abroad from overseas banks in the UK and reflects the results of the 1986 survey of direct investment by banks. There was also a significant upward revision to net earnings by oil companies.] Other revisions have been made in the light of final processing of results from the 1984 triennial survey of direct investment assets and liabilities and the 1985 survey of direct investment, which affected the estimates for earlier years, with 'knock-on' effects in 1986.

Transfers (Table E)

6. The balance on transfers was virtually unchanged between the first quarter of 1987 and the previous quarter at £0.8 billion. However there was some distortion to receipts and payments involving the EC; receipts were high because some payments from the EC due in the fourth quarter were delayed, and debits were high because some payments scheduled for April were brought forward to March. The deficit on transfers in 1986 as a whole has been revised down by £0.1 billion to a £2.3 billion deficit, accounted for by higher EC credits.

Transactions in external assets and liabilities (Tables G and H)

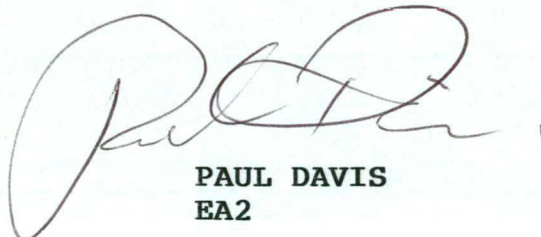
Net Transactions

	1985	1986	Q1	1986			£ million	
				Q2	Q3	Q4	1987	
							Q1	
Direct Investment	-4408	-5620	+301	-506	-1529	-3886	-1316	
Portfolio Investment	-11230	-12377	-3656	-4483	-2661	-1577	+1744	
Banks' net foreign currency lending abroad	+4900	+10494	+791	+2880	+5830	+993	+3671	
Banks' net sterling lending abroad	+2513	-343	+1833	-1389	-793	+6	+1114	
Other	+1874	+1544	-933	+1247	+2112	-882	-42	
Official reserves	-1758	-2891	-580	-296	-2321	+306	-1523	
Total	-8109	-9193	-2244	-2547	+638	-5040	+3648	

7. The capital account showed a net identified inflow of £3.6 billion in the first quarter compared with an identified outflow of £5 billion in the previous quarter (although figures for transactions on the capital account in the first quarter are not yet complete). With the current account in surplus the balancing item became negative in the first quarter and was £3835 million compared with a positive balancing item of £4532 million in the previous quarter. On the asset side, direct investment overseas fell by £2.7 billion in the first quarter from its very high level in the previous quarter and overseas portfolio investment fell by £3.4 billion, much of which was in the non-bank private sector (including some disinvestment by security dealers). Transactions in liabilities led to a net decrease of £1.7 billion in the first quarter. The largest fall (£0.6 billion) was in non-oil companies' inward direct investment, about £0.7 billion of which was due to Argyl's take-over of Safeway from its US parent. The official reserves rose by £1.5 billion in the first quarter.

8. The 1986 net capital outflow was revised up by £3.4 billion from the previous estimate reflecting upward revisions to direct investment overseas resulting from the various direct investment surveys mentioned above, and an upward revision of £1½ billion to the estimate of Other Financial Institutions outward portfolio investment in the fourth quarter. As a result of the revisions to both the capital account and invisibles in 1986, the balancing item has risen by around £2½ billion to over £9 billion. The balancing item reflects errors and omissions in the accounts. The positive balancing item in 1986 implies either unrecorded net credits on the current account and/or unrecorded net capital inflows. Some items (eg part of the trade credit) are missing from the accounts and there is also incomplete coverage for some series. Additionally recent data are subject to revision, and some first quarter data are not yet available (eg transactions between the UK non-bank private sector and banks overseas).

9. I would appreciate clearance for the attached press briefing.



PAUL DAVIS
EA2

Draft Press Briefing for IDT

1. Invisibles in 1987Q1: estimated at £1802 million, entirely consistent with previous CSO projection of surplus of £600 million a month.

2. Effect of revisions reduced deficit on current account in 1986 by £979 million to £120 million. Smaller revisions published for 1984 and 1985 have raised estimates of current account surpluses. Mainly result of changes to direct investment earnings as result of routine surveys.

3. Large changes in direct investment earnings in 1986 reflect results of new surveys of direct investment. Upward revision of net direct investment earnings in 1986 £810 million, comprised credit increase of £446 million and debit decrease of £364 million. Latter reflects in particular first information from foreign owned banks for 1986.

4. Further revisions to recent quarters' estimates made when new information available. Figure for latest quarter particularly liable to change.

5. Invisibles figures not included in current account press notice on 28 May because quarterly estimates prepared to pre-arranged timetable for publication of balance of payments accounts. Has never been practice to publish revised invisibles figures in monthly trade press notice.

6. Projection in current account press notice too low. ~~No.~~ Projection based on past data and CSO's view of current developments. £600 million a month in second quarter still best estimate.]

4/6/87 ✓

RD

MONTHLY NOTE ON THE BALANCE OF PAYMENTS - JUNE 1987

- * The visible trade deficit rose to £0.5 billion in April compared with £0.4 billion in March and an average visible deficit of £0.9 billion a month in the second half of 1986. Combined with an unchanged invisibles projection of £0.6 billion, the current account showed a surplus of £0.1 billion in April and £0.7 billion in the three months to April.
- * Revisions to the 1986 invisibles figures reduced the current account deficit from £1.1 billion to £0.1 billion. The preliminary estimate of the invisibles surplus in the first quarter was £1.8 billion, consistent with CSO projections published with the January - March trade figures.
- * UK competitiveness has deteriorated since the fourth quarter of 1986 with the appreciation of 8 per cent in the effective exchange rate, reversing about half of the gains which occurred during 1986.
- * G5 countries' domestic demand levelled out in the fourth quarter of 1986 and information so far this year suggests that industrial production has been flat.
- * UK domestic demand continued to rise in the fourth quarter. The preliminary estimates show consumers' expenditure flat in the first quarter although other indicators point to a continuing rise in activity.
- * Export volumes (excluding oil and erratics) rose by 1½ per cent in the three months to April although this probably overstates the underlying growth because of distortions due to the bad weather in January and the subsequent catch-up in February.
- * Import volumes (excluding oil and erratics) fell by 5½ per cent in the three months ending April. Distortions and volatility make the assessment of the underlying trend difficult but in the six months to April the volume of imports was 2½ per cent higher than in the previous six months.
- * The terms of trade has firmed since December reflecting sterling's appreciation and higher oil prices, only partly offset by a rise in commodity prices in SDR terms.
- * The £0.8 billion current surplus so far in 1987 compares with the FSBR forecast for a current deficit of £2½ billion in 1987. Independent forecasts are being revised down and now point on average to a £2 billion deficit.

PAUL DAVIS
EA2 DIVISION

MONTHLY NOTE ON THE BALANCE OF PAYMENTS - MAY 1987

Current account

1. The April trade figures, published on 28 May showed a deficit on non-oil trade of £0.9 billion, partially offset by a surplus on oil trade of £0.4 billion. The value of non-oil exports however, rose less rapidly than non-oil imports leading to an increase of £0.3 billion in the non-oil deficit. The oil trade surplus fell slightly, reflecting a sharp rise in both the imports and export of oil (the rise in oil imports in most likely due to the oil companies' resuming the purchase of oil at OPEC prices after the previous month's destocking).

TABLE 1: CURRENT ACCOUNT

		Current balance	Visible total	of which: oil	Manufactures	Other goods	Invisibles balance
1985		3.5	-2.2	8.1	-3.0	-7.3	5.6
1986		-0.1	-8.3	4.2	-5.4	-7.0	8.1
1986	Q1	1.1	-1.2	1.9	-1.3	-1.9	2.3
	Q2	0.2	-1.6	0.8	-0.6	-1.7	1.7
	Q3	-0.8	-2.9	0.6	-1.7	-1.8	2.1
	Q4	-0.6	-2.6	0.8	-1.8	-1.7	2.0
1987	Q1	0.7	-1.1	1.2	-0.7	-1.6	1.8
February 87		0.4	-0.2	0.3	0.0	-0.5	0.6
March		0.2	-0.4	0.5	-0.3	-0.5	0.6
April		0.1	-0.5	0.4	-0.4	-0.5	0.6*

*CSO projection

CHART 1: CURRENT ACCOUNT

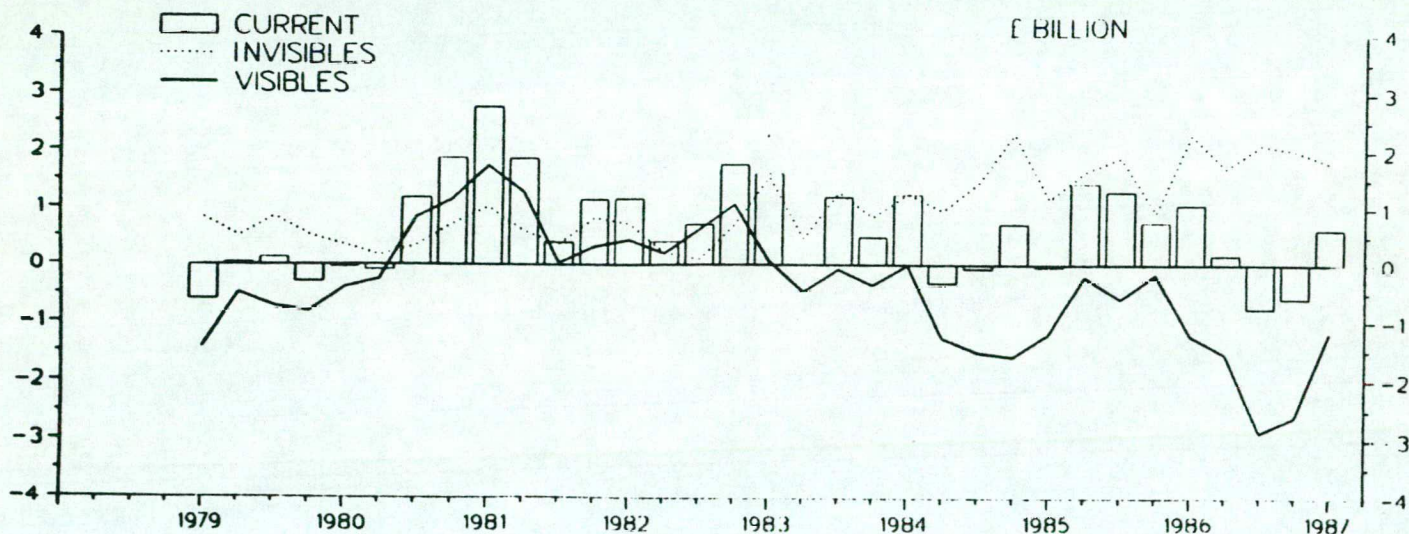
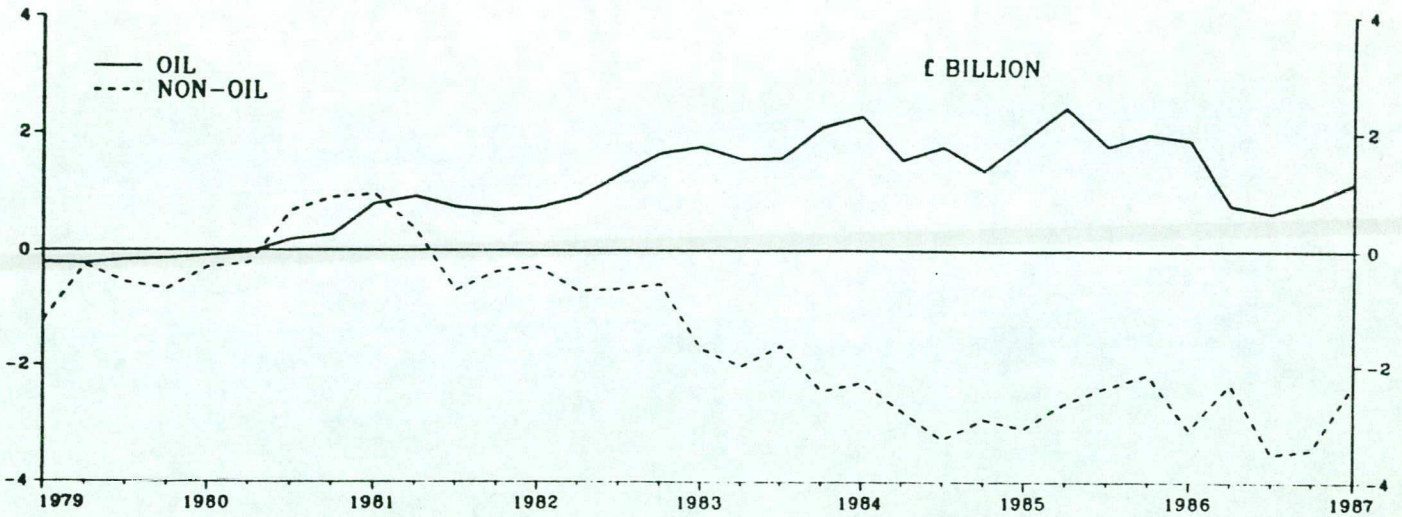


CHART 1A: VISIBLE BALANCE



DETERMINANTS OF UK TRADE

Competitiveness

2. UK competitiveness (as measured by relative actual unit labour costs in manufacturing) has deteriorated by perhaps 8-9 per cent since the fourth quarter of 1986, reversing around half of the gain in competitiveness which occurred during 1986. In May the exchange rate was nearly 8 per cent higher than in the fourth quarter, while UK unit labour costs have probably been growing at a similar rate or a little faster than those elsewhere. (Much of the appreciation has occurred since the middle of the first quarter, and is not therefore fully reflected in the average relative unit labour costs in the first quarter shown in table 2.)

CHART 2: UNIT LABOUR COSTS IN MANUFACTURING

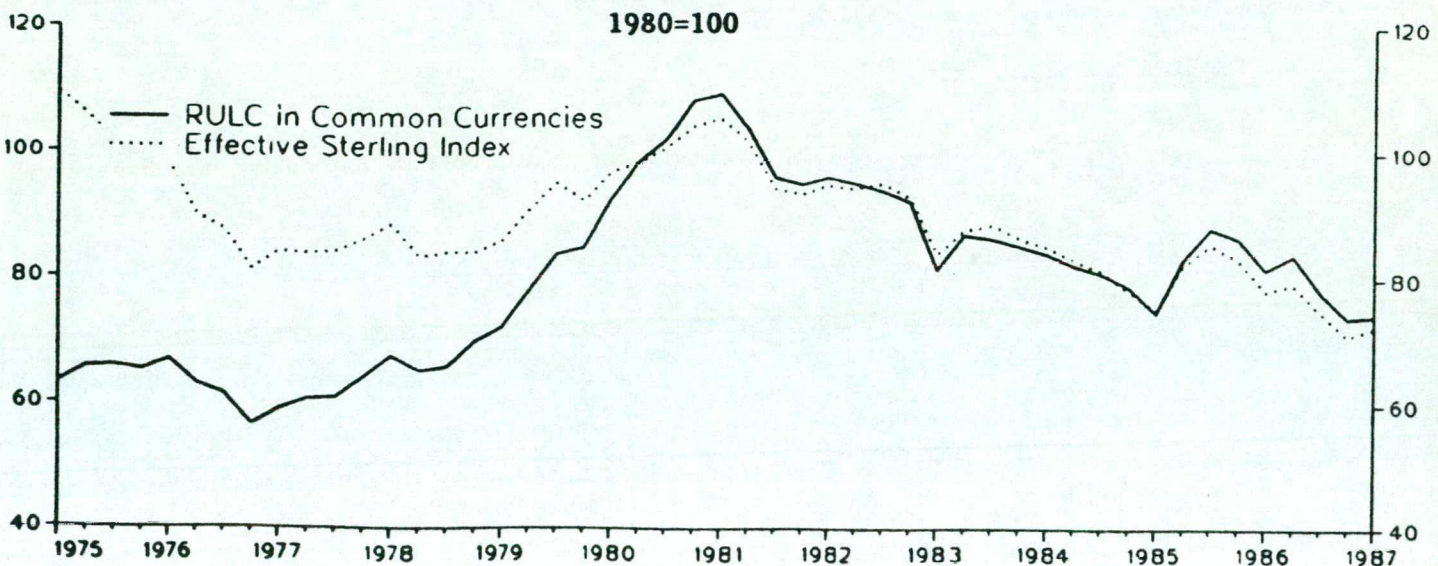


TABLE 2: RELATIVE UNIT LABOUR COSTS IN MANUFACTURING
(% changes on a year earlier in brackets)

		Relative unit labour costs indomestic currencies 1980=100		Export weighted exchange rate index 1975=100		Relative unit labour costs in common currencies 1980=100		Sterling exchange rate index 1975=100	
1985		100.4	(2.6)	77.0	(-0.6)	84.2	(1.9)	78.2	(-0.6)
1986		104.0**	(3.6)	68.8	(-10.6)	77.6**	(-7.8)	72.8	(-7.0)
1986	Q1	104.1	(7.2)	71.9	(-0.3)	81.1	(6.5)	75.1	(4.2)
	Q2	104.8	(5.2)	72.3	(-8.4)	82.4*	(-2.4)	76.1	(-3.5)
	Q3	103.0*	(1.4)	67.3	(-16.6)	75.5*	(-15.5)	71.9	(-12.4)
	Q4	103.9**	(1.1)	63.5	(-17.6)	71.4*	(-17.7)	68.2	(-14.6)
1987	Q1	103.6**	(-0.5)	64.5	(-10.3)	71.4*	(-12.0)	69.7	(-7.2)
1987	March							71.9	(-4.4)
	April							72.3	(-5.2)
	May							73.3	(-3.7)

* estimate

** projection

World trade and domestic demand

3. G5 countries' domestic demand, which grew strongly in the second and third quarters of 1986, levelled out in the fourth quarter reflecting in particular slower consumers' expenditure growth. GNP growth in the US and Japan strengthened in the first quarter, but in Germany GNP fell. G5 industrial production, which grew only slowly during 1986, picked up in February and March from the low level in January (when the weather was bad in Europe) but there remains no clear sign of a strong recovery in G5 export volume growth. UK domestic demand continued to rise in the fourth quarter but at a slower rate than earlier in the year. Consumers' expenditure remained flat in the first quarter while retail sales were a little below the high levels recorded in the fourth quarter. Retail sales rose sharply in April but fell back in May, Manufacturing production fell slightly in the first quarter but recovered in April.

TABLE 3: INDICATORS OF DEMAND

	G5 Countries			Indices 1980=100 UK		
	Export volumes*	Domestic demand	Industrial production	Export volumes**	Domestic demand	Manufacturing production
1985	110	113.2	112.0	114.9	111.0	103.8
1986	110	117.5	113.1	117.7	114.6	104.6
1986	1	107	112.7	111.9	113.9	102.6
	2	112	117.2	115.1	113.3	103.6
	3	106	118.5	113.4	118.5	105.0
	4	115	118.7	113.4	125.3	107.3
1987	1		113.7	124.4		107.0
February			114.2	134.0		107.9
March			114.0	120.5		107.5
April				122.7		108.1

* Not seasonally adjusted

** Excluding oil and erratics

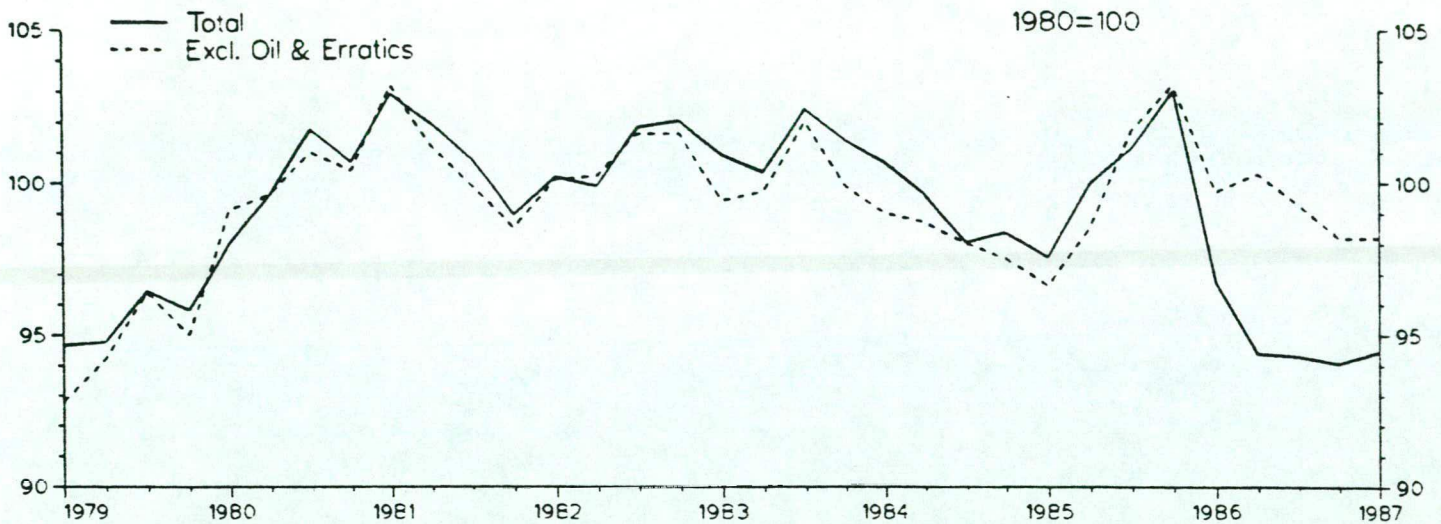
VISIBLE TRADE

TABLE 4: VISIBLE TRADE VALUES, VOLUMES AND TERMS OF TRADE

	£ billion			Ratio:		
	Exports	Imports	Balance	Terms of Trade*	Export volume/ Import volume	
1985	78.1	80.3	-2.2	100.4	94.2	
1986	72.8	81.1	-8.3	94.9	91.9	
1986	1	18.2	19.4	-1.2	96.7	94.1
	2	17.8	19.3	-1.6	94.4	94.6
	3	17.6	20.4	-2.9	94.2	88.5
	4	19.3	21.9	-2.6	94.1	91.0
1987	1	19.6	20.8	-1.1	94.1	97.6
February	7.0	7.2	-0.2	94.1	100.3	
March	6.4	6.8	-0.4	93.6	97.5	
April	6.6	7.1	-0.5	94.6	95.5	
% change						
3 months April on same period year earlier	11	8		0	3	
3 months April on previous three months	3½	-2½		½	6	
April on March	2	3½		1	-2	

* based on average value indices

● CHART 3: TERMS OF TRADE



Exports

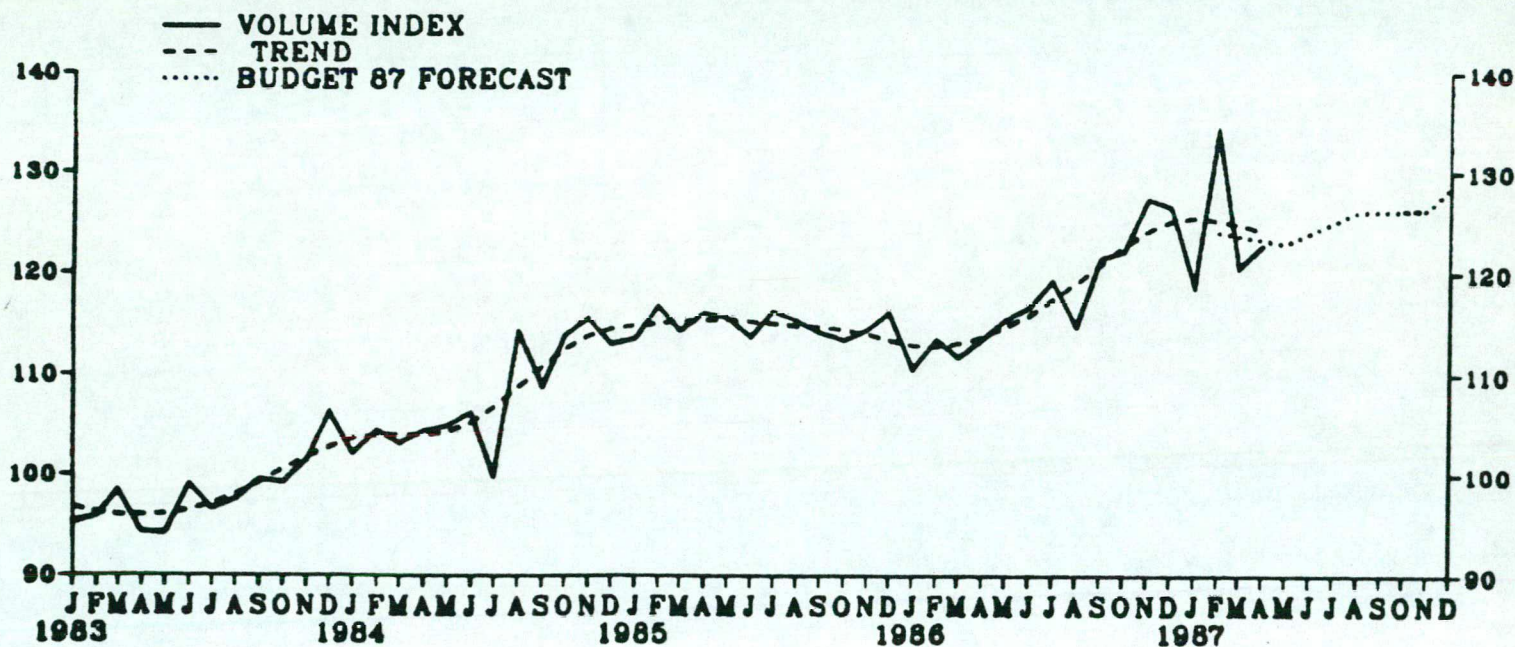
4. The volume of non-oil exports (excluding erratics) rose 2 per cent in April and in the three months to April was 1½ per cent higher than in the previous three months. The effects of the bad weather in January and the subsequent catch-up in February distort the three month comparison, which almost certainly therefore overstates the recent underlying growth. Within the total, the volume of exports of manufactures rose slightly in April as did exports of food, drink and tobacco though they remain below the very high levels reached at the end of 1986. The effect of the re-export of Spanish olive oil to Italy was reduced greatly in April, with exports down to about one sixth of their February peak. As a result the volume of exports of basics, which was exceptionally high in January and February has now returned roughly to its level in the second half of 1986. Within manufactures, in the three months to April the volume of exports of motor cars rose by 22 per cent and chemicals by 4½ per cent. CBI surveys show that the improvement in export order books may have levelled off in the last few months.

TABLE 5: EXPORT VOLUMES

		1980 = 100					
		Total exports*	Total exports (excluding oil and erratics*)	Manufactures (excluding erratics)	Food, drink and tobacco	Basic materials	Fuel
1985		118.7	114.9	115.7	119.2	106.1	171.7
1986		123.1	117.7	116.9	129.6	117.1	175.5
1986	1	117.5	111.9	111.7	118.7	110.7	178.3
	2	121.9	115.1	115.8	119.8	102.3	170.4
	3	122.6	118.5	117.6	133.5	126.3	174.3
	4	130.5	125.3	122.6	146.2	128.9	178.9
1987	1	130.0	124.4	122.2	129.0	144.8	183.1
February		138.4	134.2	129.0	138.9	148.6	182.2
March		126.9	120.5	121.7	120.0	127.0	179.9
April		130.8	122.7	123.0	123.9	127.3	202.9
3 months to April on same period year earlier		11	11	10½	5	24	7½
3 months to April on previous 3 months		2	1½	3	-8½	-6	3½
3 months to April on March		3	2	1	3	0	13

* BOP basis

CHART 4: NON OIL EXPORT VOLUMES EXCLUDING ERRATICS



Export prices

7. Manufacturers' export prices rose by $1\frac{1}{2}$ per cent in the three months to April on the previous three months to a level $2\frac{1}{2}$ per cent higher than a year earlier. Manufacturers have been taking advantage of exchange rate depreciation to raise domestic and export profit margins at a similar rate over the past year. The price of fuel rose $12\frac{1}{2}$ per cent in the three months to April on the previous three months reflecting the rise in the price of crude oil at the end of 1986.

TABLE 7: EXPORT PRICES*

		Exports**	Exports** (excluding oil and erratics)	Manufactures (excluding erratics)	Food, drink and tobacco	1980=100 Basic materials	Fuel
1985		138.8	134.2	134.4	128.1	138.5	152.1
1986		124.8	134.5	136.3	129.8	120.8	76.4
1986	1	130.4	134.4	136.0	127.1	124.9	109.5
	2	123.1	134.3	135.3	131.7	119.2	70.1
	3	120.8	133.9	136.4	128.4	118.4	57.5
	4	125.0	135.4	137.5	131.8	120.5	68.5
1987	1	127.4	136.6	139.4	130.8	119.1	78.5
February		127.5	136.2	139.4	128.9	125.4	80.0
March		128.2	137.6	139.7	132.6	119.3	79.6
April		127.1	137.8	139.6	132.6	124.9	79.5
% change							
3 months							
to April		$\frac{1}{2}$	2	$2\frac{1}{2}$	$2\frac{1}{2}$	$-\frac{1}{2}$	-12
on same period							
year earlier							
3 months to		$1\frac{1}{2}$	$1\frac{1}{2}$	$1\frac{1}{2}$	0	6	$12\frac{1}{2}$
April on							
previous 3 months							

* average value indices
** BOP basis

Exports by geographical destination

8. The value of exports to the US fell back a little in April from the high level of recent months but there was a sharp recovery in exports to the European Community - growth in exports to these markets has accounted for most of the rise in the value of exports since mid 1986. Exports to oil exporters fell back in April but in the three months to April they were $4\frac{1}{2}$ per cent above the low level of the previous three months.

Imports

9. Import volumes (excluding oil and erratics) rose by 2½ per cent between March and April. Imports of fuel rose sharply in April, possibly reflecting restocking by oil companies after their March run-down of inventories. In the three months to April, volumes of all broad categories of imports were below their level of the previous three months but comparison over this period are distorted by recent volatility. In the six months to April volume figures were up by 2½ per cent on the previous six months and up 6 per cent on the corresponding period a year ago. Within the total, the underlying trend of raw materials semi-manufactures, intermediate and capital goods appears to be slightly upward since mid 1986, consistent with rising domestic output, but imports of consumer goods and cars may have eased largely due to a slowing in consumers' expenditure.

CHART 6: NON OIL IMPORT VOLUMES EXCLUDING ERRATICS

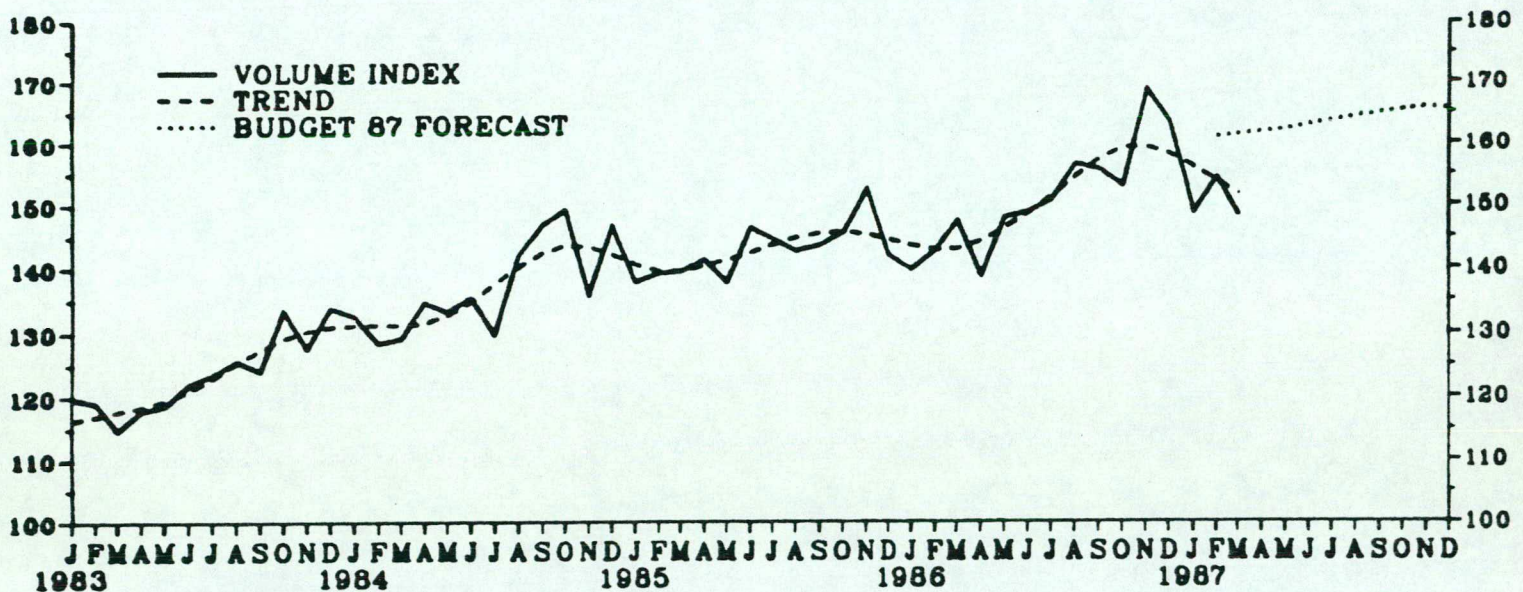


TABLE 8: IMPORT VOLUMES

		Goods*	Goods less oil and erratics*	Food, drink and tobacco	Basic materials	1980=100 Fuels [†]	Manufactures less erratics
1985		126.0	142.8	114.4	102.2	86.2	154.4
1986		133.9	151.1	123.5	108.7	93.4	163.0
1986	1	124.9	143.3	123.5	104.1	70.1	153.3
	2	128.8	145.2	119.7	105.4	85.3	156.9
	3	138.5	154.3	125.5	106.1	111.9	167.6
	4	143.4	161.7	125.3	119.4	106.2	174.4
1987	1	133.2	150.4	120.2	121.5	90.8	160.5
February		138.0	154.3	130.4	124.3	103.6	160.1
March		130.2	147.5	114.2	116.6	77.2	161.3
April		137.1	151.7	111.6	125.5	100.7	165.7
% change							
3 months to April on same period a year earlier		7½	6	-3½	16½	24	6½
3 months to April on previous three months		-4	-5½	-6	-2	-½	-5½
April on March		5½	2½	-2½	7½	30½	2½

† Figures affected by coal strike

* Balance of payments basis

TABLE 9: IMPORT VOLUMES OF MANUFACTURES

		Semi manufactures	Finished manufactures	of which: Passenger motor cars	Other consumer goods	1980 = 100 Inter- mediate goods	Capital goods
1985		143.9	161.4	127.9	139.5	172.8	187.1
1986		152.0	170.4	131.6	158.3	187.0	183.1
1986	1	147.3	157.2	126.2	144.5	169.8	172.4
	2	149.2	162.1	125.0	154.2	180.8	169.5
	3	154.8	176.0	142.2	164.6	192.6	185.2
	4	156.6	186.4	133.0	170.1	204.9	205.4
1987	1	152.3	166.0	102.6	156.0	184.9	186.8
February		155.7	163.0	91.4	161.8	178.9	183.1
March		155.9	165.2	106.6	162.4	188.3	172.9
April		157.5	171.3	111.8	159.2	197.5	185.5
% change							
3 months to April on same period year earlier		6	7	-15½	10	11½	7
3 months to April on previous 3 months		2	-9½	-16	-3½	-7½	-13
April on March			1	3½	5	-2	5 7½

Import prices

10. In the three months to April import prices were about 1½ per cent higher than in the previous three months. Manufactures import prices grew by 1 per cent over the period, and fuels by 11 per cent. The basic materials import price rose by 1 per cent reflecting the firmer exchange rate, partly offset by a rise in commodity prices in SDR terms, whilst prices of food fell by 1 per cent.

TABLE 10: IMPORT PRICES*

		1980=100					
		Imports**	Imports** (excluding oil and erratics)	Manufactures (excluding erratics)	Food, drink and tobacco	Basic materials	Fuel
1985		138.3	134.1	131.7	132.6	130.2	180.0
1986		131.5	135.5	135.1	132.5	113.3	98.0
1986	1	134.8	134.9	134.1	129.1	114.9	143.5
	2	130.4	133.8	132.9	131.4	113.5	103.8
	3	128.1	134.8	134.3	132.8	110.8	78.1
	4	132.9	137.9	138.4	136.5	113.8	84.4
1987	1	135.4	139.1	140.6	133.7	112.7	94.2
	February	135.4	140.0	142.3	133.9	114.7	95.7
	March	137.0	139.1	140.2	134.1	113.9	97.4
	April	134.5	138.3	139.1	134.0	113.6	95.7
	% change 3 months to April on same period year earlier	½	2	3½	3½	-1	-25½
	3 months to April on previous 3 months	1½	1	1	-1	1	11

* average value indices

** BOP basis

Export shares and import penetration

11. On the basis of available information to the fourth quarter of 1986 it appears that UK manufacturing export volume growth has been considerably faster than growth of other developed countries' exports during 1986. This maintains the underlying improvement in UK relative performance, which has been evident since 1982. In the fourth quarter of 1986 imports grows faster than total final expenditure, though it is likely that this rise in import penetration was reversed in the first quarter of 1987.

TABLE 11: UK EXPORT AND IMPORT PERFORMANCE

		(Per cent)			
		UK share of developed countries exports*		Imports (less oil) share in total final expenditure	
		Volume	Value	Volume	Value
1985		9.4	8.2	16.6	16.0
1986		9.5	8.0	17.0	16.2
1986	1	9.2	7.8	16.4	15.7
	2	9.5	8.3	16.5	15.8
	3	9.4	7.8	17.3	16.4
	4	9.8	7.9	17.7	17.0

* Manufactures, weighted by UK markets

Invisibles

12. The invisibles surplus for the first quarter is estimated to have fallen to £1.8 billion compared to £2 billion in the fourth quarter. The outturn was in line with the CSO projections for January to March. The invisibles surplus for 1986 has been revised up by £0.9 billion to £8.1 billion.

TABLE 12 INVISIBLES BALANCES

						£ billion
		Services	IPD*	Transfers	Total Invisibles	Current account
1984		3.8	4.4	2.3	6.0	1.6
1985		5.7	3.4	-3.5	5.6	3.5
1986		5.4	5.1	-2.3	8.1	-0.1
1986	1	1.2	1.2	-0.1	2.3	1.1
	2	1.2	1.1	-0.6	1.7	0.2
	3	1.4	1.5	-0.8	2.1	-0.8
	4	1.5	1.3	-0.8	2.0	-0.6
1987	1	1.4	1.2	-0.8	1.8	0.7

* Interest, profits and dividends.

Services

13. The surplus on services in the first quarter fell by £0.1 billion to £1.4 billion, This was due mainly to a decline in financial and other services credits and a widening in the net travel deficit, partly offset by lower deficits on sea transport and general government, and a return to surplus for civil aviation. The decline in financial and other services amounted to £240 million and reflected a reduction in net insurance earnings and a fall in US forces expenditure in the UK.

Interest profits and dividends (IPD)

14. The surplus on IPD fell by about £0.1 billion to £1.2 billion in the first quarter. There was a fall of £0.7 billion in interest earnings on UK banks' lending to overseas residents, only partly offset by a £0.4 billion fall in the corresponding debits. Earnings on direct investment overseas rose by £0.4 billion with only a slight fall on the debit side. A large proportion of the rise in direct investment credits reflects higher earnings by oil companies, including stock gains associated with the rise in the oil prices.

15. The balance on IPD in 1986 has been revised to £5.1 billion, about £0.8 billion higher than the CSO's previous estimate. The main factor in this revision was a rise of £0.4 billion in earnings on direct investment overseas and a fall of £0.4 billion in the corresponding debit item. [NOT FOR USE: Almost all the revision to direct debits is accounted for by lower payments due abroad from overseas banks in the UK and reflects the results of the 1986 survey of direct investment by banks. There was also a significant upward revision to net earnings by oil companies.] Other revisions have been made in the light of processing of results from the 1984 triennial survey of direct investment assets and liabilities and the 1985 survey of direct investment, which affected the estimates for earlier years, with 'knock-on' effects in 1986.

Transfers

16. The balance on transfers was virtually unchanged between the first quarter of 1987 and the previous quarter at £0.8 billion. Receipts from EC were exceptionally high because some payments due in the fourth quarter were delayed, but debits were also abnormally high because payments scheduled for April were brought forward to March.

Transactions in external assets and liabilities

TABLE 13: NET TRANSACTIONS

	1985	1986	Q1	1986			1987	£ billion
				Q2	Q3	Q4	Q1	
Direct investment	-4.4	-5.6	+0.3	-0.5	-1.5	-3.4	-1.3	
Portfolio investment	-11.2	-12.4	-3.7	-4.5	-2.7	-1.6	+1.7	
Bank's net foreign currency lending abroad	+4.9	+10.5	+0.8	+2.9	+5.8	+1.0	+3.7	
Banks' net sterling lending abroad	+2.5	-0.3	+1.8	-1.4	-0.8	0	+1.1	
Other	+1.9	+1.5	-0.9	+1.2	+2.1	-0.9	0	
Official reserves	-1.8	-2.9	-0.6	-0.3	-2.3	+0.3	-1.5	
Total	-8.1	-9.2	-2.2	-2.5	+0.6	-5.0	+3.6	

17. Net identified capital inflows were £3.6 billion in the first quarter (although figures are not complete). With the current account in surplus a negative balancing item of £3.8 billion was recorded compared with a positive balancing item of £4.5 billion in the previous quarter. Outflows for direct investment overseas fell by £2.7 billion in the first quarter from its very high level in the previous quarter and portfolio investment flows to overseas fell by £3.4 billion, much of which was in the non-bank private sector (including some disinvestment by security dealers). Transactions in liabilities led to a net decrease in the inflow of £1.7 billion in the first quarter. The largest fall (£0.6 billion) was in non-oil companies' inward investment, reflecting Argyl's £0.7 billion take-over of Safeway from its US parent. The official reserves rose by £1.5 billion in the first quarter.

18. The 1986 net capital outflow was revised up by £3.4 billion to £9.2 billion reflecting upward revisions to direct investment overseas resulting from the various direct investment surveys mentioned above, and an upward revision of £1½ billion to the estimate of other financial institutions outward portfolio investment in the fourth quarter. As a result of the revisions to both the capital account and invisibles in 1986, the positive balancing item has risen by around £2½ billion to over £9 billion. This implies either unrecorded net credits on the current account and/or unrecorded net capital inflows.

PROSPECTS

19. The FSBR projected a current account deficit of £2½ billion in 1987. This compares with independent forecasts which are now on average projecting a deficit of £2.0 billion in 1987 and £2.5 billion in 1988: recent forecasts have uniformly reduced their current account estimates for 1987, with the exception of Henley all have revised downwards their forecasts of the invisibles surplus but, more than offsetting this, all have revised downwards their projections of the visibles deficit by £2.7 billion on average.

TABLE 14: CURRENT ACCOUNT (£ billion)

	1987	1988	1989	1990
CBI (March)	-2.0	-2.0		
OECD (December)	-3.4	-6.0*	-	-
National Institute (May)	-0.3	-3.7	-	-
LBS (February)	-2.3	-1.0	-0.9	-0.9
Phillips and Drew (June)	-2.8	-3.3	-2.4	-1.7
Goldman Sachs (May)	-2.1	-3.2		
Henley (May)	-2.3	-2.2	-1.9	-2.2
Oxford (April)	-0.8	-2.0	-1.9	-2.2
Liverpool (March)	-1.7	-0.2	-0.8	-0.3
Independent Average†	-2.0	-2.5	-	-
HMT (FSBR)	-2½	-2*		

† Based on sample used in regular EB comparison

* 1988H1, annualised

INTERNATIONAL COMPARISONS

20. The US current deficit levelled off in the first three quarters of 1986, but increased further in the fourth quarter. The German and Japanese surpluses have shown no sign of falling from the very high levels reached at the beginning of 1986.

TABLE 15 CURRENT ACCOUNTS OF THE G5

		\$ billion				
		US	Japan	Germany	France	UK
1983		-46.0	20.8	4.1	-4.2	4.8
1984		-106.5	35.0	7.0	-0.8	2.1
1985		-117.7	49.2	13.2	-0.2	4.5
1986		-140.6	86.0	35.8	3.7	-0.2
1986	1	-34.0	15.9	7.7	1.0	1.5
	2	-34.4	21.6	7.7	1.0	0.2
	3	-35.3	23.8	11.3	0.8	-1.1
	4	-36.8	24.1	9.3	1.0	-0.8
1987	1	-35.3	24.5	11.1		1.0



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**UNITED KINGDOM BALANCE OF PAYMENTS:
PRELIMINARY FIGURES FOR THE FIRST QUARTER OF 1987**

Preliminary estimates indicate that the UK current account (seasonally adjusted) was in surplus by £0.7 billion in the first quarter of 1987. There was a deficit on visible trade of £1.1 billion and a surplus on invisible transactions of £1.8 billion (Table A).

The deficit on visible trade in the first quarter was made up of a surplus on trade in oil of £1.2 billion, and a deficit on non-oil trade of £2.3 billion. Between the fourth quarter of 1986 and the first quarter of 1987 there was an increase of £0.3 billion in the surplus on trade in oil, and reduction of £1.1 billion in the deficit on non-oil trade (Table B).

The preliminary estimates for invisibles in the first quarter put the net credit on services at £1.4 billion (Table C). Net investment earnings (interest, profits and dividends) are put at £1.2 billion (Table D) and net transfer payments overseas are put at £0.8 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.

The estimated surplus on services in the first quarter (£1.4 billion) was lower than in the previous quarter (£1.5 billion), although slightly above the average quarterly level during 1986 (£1.35 billion). Improvements in the sea transport and civil aviation accounts in the first quarter were more than offset by adverse changes in respect of travel and financial and other services (Table C).

Enquiries: Balance of payments figures: Central Statistical Office: 270 6357
Economic policy aspects : HM Treasury : 270 5185



The estimated surplus on interest, profits and dividends was also lower than in the fourth quarter (£1.2 billion compared with £1.3 billion). Earnings on UK direct investments overseas increased by £0.3 billion more than earnings on overseas direct investment in the UK. However, the net receipts by UK banks in respect of portfolio investment income and interest on borrowing from and lending to overseas residents fell by £0.4 billion (Tables D and I).

The deficit on transfers in the first quarter was similar to that in the preceding quarter. Net payments to the European Community institutions remained at a high level in the first quarter as some payments due in April were brought forward to March (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 inflow of £3.6 billion in the first quarter, compared with an outflow of £5.0 billion in the fourth quarter of 1986 (Table A).

Overseas lending and borrowing, and overseas portfolio investment by UK banks resulted in a net inflow of £5.2 billion in the first quarter, following an outflow of £0.1 billion in the previous quarter. There were increases in both foreign currency and sterling net borrowing while portfolio investment overseas by UK banks showed net disinvestment for the first time in recent quarters (Table I).

UK direct investment overseas, which included Grand Metropolitan's acquisition of Nabisco's Heublein unit (£0.8 billion), declined from the very high fourth quarter level (Table G).

Preliminary figures for overseas portfolio investment by UK financial institutions show a lower level of investment (£0.7 billion) than the quarterly rate during 1986 (£3.3 billion). This change mainly reflects some disinvestment by security dealers on their own account (Table G).

The official reserves rose by £1.5 billion in the first quarter, much more than offsetting the small fall in the previous quarter (Table G).

Overseas direct investment in the UK was below the preceding quarter. Investment by oil companies increased but that by non-oil companies was lower. The latter included disinvestment of £0.7 billion as a result of the Argyll Group's acquisition of Safeway from its US parent (Table H).

Overseas portfolio investment in the UK was similar to that in the fourth quarter, a reduction in investment in government and public corporations' securities being largely offset by increased investment in UK companies' securities (Table H).

Net transactions in assets and liabilities should, with reversal of sign, equal the unadjusted balance on the current account. However, in practice there tends to be a discrepancy, the balancing item. The balancing item was substantially positive in 1986, although on the evidence so far it may have been negative in the first quarter of 1987. This mismatch between identified transactions in assets and liabilities and the current account will reflect some items on which there is no current information or where the provisional estimates will be subsequently revised. Some items, such as part of trade credit, are never picked up by the current reporting system. In addition there are potential errors in measuring capital flows from changes in balance sheet data denominated in foreign currencies when exchange rates are changing significantly, and there may be timing differences between transactions recorded in different parts of the account, especially those of a seasonal nature (Table A).

NOTES TO EDITORS

The figures for the invisibles balance in the first quarter update and expand the reassessed projection included in the Press Notice on the current account of the UK balance of payments in April published on 28 May.

Revisions have been made to the figures for earlier periods. The major changes relate to direct investment earnings and transactions and incorporate the results of:

- a. the triennial (1984) survey of direct investment assets and liabilities, the results of which were published in British Business on 22 May;

b. the 1985 annual overseas transactions inquiry into direct investment and associated earnings;

c: the 1986 survey of direct investment and associated earnings by banks.

For 1986 the revisions to direct investment earnings (£0.8 billion), together with smaller revisions to other series, including net payments to European Community institutions, have had the effect of reducing the current account deficit by just under £1.0 billion. The revisions to estimates of direct investment earnings and other changes have increased the estimated current account surplus in 1985 by £0.5 billion and in 1984 by £0.3 billion.

CSO Databank identifiers are shown against the series included in the tables. The data in this Press Release can be obtained in computer readable form via the CSO Databank service which provides macro-economic time series data on magnetic tape. Details of the service offered and the schedule of charges may be obtained from the Databank Manager, CSO Branch 9, Room 52/4, Government Offices, Great George Street, London SW1P 3AQ (Telephone: 01-270 6386). The CSO does not offer direct on-line access for these data, but a list of host bureaux offering such a facility is available on request from the CSO.

SUMMARY BALANCE OF PAYMENTS

£ million

TABLE A

		1984	1985	1986	1985				1986				1987
					1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Seasonally adjusted													
Visible trade (balance)	AIMA	-4384	-2178	-8253	-1198	-212	-596	-172	-1227	-1551	-2873	-2602	-1135
Invisibles (balance):													
Services	AIMC	3827	5705	5382	1175	1563	1554	1413	1217	1209	1414	1542	1410
Interest, profits and dividends	AIMD	4419	3393	5076	979	841	1272	301	1175	1089	1508	1304	1212
Transfers	AIME	-2275	-3470	-2325	-996	-753	-930	-791	-101	-584	-811	-829	-820
Total	AIMB	5971	5628	8133	1158	1651	1896	923	2291	1714	2111	2017	1802
Current balance	AIMF	1587	3450	-120	-40	1439	1300	751	1064	163	-762	-585	667
Not seasonally adjusted													
Current balance	AIMG	1587	3450	-120	-687	1036	1422	1679	557	-242	-943	508	187
UK external assets and liabilities													
Transactions in assets	HEPZ	-31391	-51763	-90630	-16830	-6644	-15950	-12339	-15246	-14548	-40946	-19890	-12903
Transactions in liabilities	HEQW	24274	43654	81437	13524	5024	10288	14818	13002	12001	41584	14850	16551
Net transactions	HEQU	-7117	-8109	-9193	-3306	-1620	-5662	2479	-2244	-2547	638	-5040	3648
Balancing item	AASA	5530	4659	9313	3993	584	4240	-4158	1687	2789	305	4532	-3835

CURRENT ACCOUNT
Seasonally adjusted

£ million

TABLE B

		1984	1985	1986	1985				1986				1987
					-----				-----				
					1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Credits													
Exports of goods													
Oil	CGQE	14852	16134	8221	4728	4326	3394	3686	3024	1783	1529	1885	2225
Other	CGQF	55515	61977	64621	15353	15866	15309	15449	15140	16003	16024	17454	17411
Total	CGKG	70367	78111	72843	20081	20192	18703	19135	18164	17786	17553	19340	19637
Invisibles	CGKR	76983	80349	76347	21704	20266	19426	18953	19058	18456	19270	19563	19528
Total	CGQA	147350	158460	149190	41785	40458	38129	38088	37222	36242	36823	38903	39165
Debits													
Imports of goods													
Oil	CGQG	7915	8029	4068	2834	1878	1614	1703	1134	1011	882	1041	1061
Other	CGQH	66836	72260	77028	18445	18526	17685	17604	18257	18326	19544	20901	19711
Total	CGHK	74751	80289	81096	21279	20404	19299	19307	19391	19337	20426	21942	20772
Invisibles	CGHT	71012	74721	68214	20546	18615	17530	18030	16767	16742	17159	17546	17726
Total	CGQC	145763	155010	149310	41825	39019	36829	37337	36158	36079	37585	39488	38498
Balances													
Visible trade													
Oil	CGQI	6937	8105	4153	1894	2448	1780	1983	1890	772	647	844	1164
Other	CGQJ	-11321	-10283	-12407	-3092	-2660	-2376	-2155	-3117	-2323	-3520	-3447	-2300
Total	AIMA	-4384	-2178	-8253	-1198	-212	-596	-172	-1227	-1551	-2873	-2602	-1135
Invisibles	AIMB	5971	5628	8133	1158	1651	1896	923	2291	1714	2111	2017	1802
of which: Private sector and public corporations: services and I.P.D.	CGIV	10154	11314	12916	2688	2941	3407	2278	3031	2875	3507	3503	3297
Current balance	AIMF	1587	3450	-120	-40	1439	1300	751	1064	163	-762	-585	667

SERVICES
Seasonally adjusted

Table C

£ million

		1984	1985	1986	1985				1986				1987
					-----				-----				
					1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Credits													
Private sector and public corporations													
Sea transport	CGKP	3254	3276	3017	824	851	802	799	751	796	718	752	699
Civil aviation	CGKE	2931	3188	2936	805	842	780	761	776	722	720	718	829
Travel	CGKU	4613	5441	5405	1322	1387	1381	1351	1334	1296	1371	1404	1494
Financial and other services	HHDD	10253	11809	13172	2854	2937	2919	3099	3044	3243	3436	3449	3185
Total	CGKN	21051	23714	24530	5805	6017	5882	6010	5905	6057	6245	6323	6207
General government	CGKK	470	482	505	116	112	119	135	134	99	119	153	175
Total credits	CGKS	21521	24196	25035	5921	6129	6001	6145	6039	6156	6364	6476	6382
Debits													
Private sector and public corporations													
Sea transport	CGHR	4386	4436	4249	1174	1132	1036	1094	1012	1069	1039	1129	1014
Civil aviation	CGHF	2683	2886	3082	715	732	693	746	766	798	751	767	771
Travel	CGHW	4666	4871	5927	1271	1148	1157	1295	1383	1525	1643	1376	1571
Financial and other services	CGHN	4304	4516	4485	1129	1139	1094	1154	1145	1124	1078	1138	1113
Total	CGHP	16039	16709	17743	4289	4151	3980	4289	4306	4516	4511	4410	4469
General government	CGHH	1655	1782	1910	457	415	467	443	516	431	439	524	503
Total debits	CGHU	17694	18491	19653	4746	4566	4447	4732	4822	4947	4950	4934	4972
Balance													
Private sector and public corporations													
Sea transport	HHCS	-1132	-1160	-1232	-350	-281	-234	-295	-261	-273	-321	-377	-315
Civil aviation	HHCT	248	302	-146	90	110	87	15	10	-76	-31	-49	58
Travel	HHCU	-53	570	-522	51	239	224	56	-49	-229	-272	28	-77
Financial and other services	HHCV	5949	7293	8687	1725	1798	1825	1945	1899	2119	2358	2311	2072
Total	CGIT	5012	7005	6787	1516	1866	1902	1721	1599	1541	1734	1913	1738
General government	CGIP	-1185	-1300	-1405	-341	-303	-348	-308	-382	-332	-320	-371	-328
Total	AIMC	3827	5705	5382	1175	1563	1554	1413	1217	1209	1414	1542	1410

INTEREST, PROFITS AND DIVIDENDS
Seasonally adjusted

£ million

		1984	1985	1986	1985				1986				1987
					1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Credits													
Earnings on -													
Direct investment	HHBZ	7837	8100	7384	2456	2107	2050	1487	1752	1649	2027	1956	2350
Portfolio investment	CGGS	3768	5117	6335	1371	1302	1239	1205	1410	1502	1652	1771	1760
Lending etc to overseas residents by:													
UK banks	HHHQ	37115	36372	31093	10143	9219	8453	8557	8122	7484	7606	7881	7140
Other UK residents excluding general government	HHIW	2315	2620	2111	735	658	625	602	575	505	505	526	499
Official reserves and other central government assets	CGMG	606	560	616	151	135	131	143	152	154	154	156	162
Total credits	CGKL	51641	52769	47540	14855	13421	12498	11995	12011	11295	11944	12290	11911
of which:													
Private sector and public corporations	CGMI	51035	52209	46924	14704	13286	12367	11852	11859	11141	11790	12134	11749
General government	CGMG	606	560	616	151	135	131	143	152	154	154	156	162
Debits													
Earnings on -													
Direct investment													
Non-oil companies	CGEU	2964	3402	3233	897	937	695	873	645	801	888	899	868
Oil companies and miscellaneous	HHCF	3314	4005	2052	1459	870	669	1007	680	440	277	655	730
Total	HHCI	6278	7407	5285	2356	1807	1364	1880	1325	1241	1165	1554	1598
Portfolio investment	HHIA	1541	1780	2293	389	434	446	511	519	552	594	628	726
Borrowing etc from overseas residents by:													
UK banks	HHIX	36985	37879	32649	10506	9759	8866	8748	8426	7897	8130	8196	7779
Other UK residents excluding general government	HHIY	2083	2006	1943	543	502	478	483	488	446	478	531	519
Other external liabilities of general government	HHHY	335	304	294	82	78	72	72	78	70	69	77	77
Total debits	CGHJ	47222	49376	42464	13876	12580	11226	11694	10836	10206	10436	10986	10699
of which:													
Private sector and public corporations	HHHK	45893	47900	40795	13532	12211	10862	11295	10427	9807	10017	10544	10190
General government	HHHL	1329	1476	669	344	369	364	399	409	399	419	442	509
Balance													
Total balance	AIMD	4419	3393	5076	979	841	1272	301	1175	1089	1508	1304	1212
of which:													
Private sector and public corporations	CGMW	5142	4309	6129	1172	1075	1505	557	1432	1334	1773	1590	1559
General government	HHHM	-723	-916	-1053	-193	-234	-233	-256	-257	-245	-265	-286	-347

TRANSFERS
Seasonally adjusted

£ million

		1984	1985	1986	1985				1986				1987
					-----				-----				
					1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
CGKO		1428	1511	1637	369	375	381	386	389	395	447	406	397
General government receipts													
EC institutions:													
Negotiated refunds	CGPI	528	61	-	61	-	-	-	-	-	-	-	-
Other	CGPL	1865	1812	2135	498	341	546	427	619	610	515	391	838
Total	HHAH	2393	1873	2135	559	341	546	427	619	610	515	391	838
Credits													
CGKT		3821	3384	3772	928	716	927	813	1008	1005	962	797	1235
CGHQ		1604	1648	1754	407	407	414	420	433	434	439	448	436
General government													
Overseas aid	CGEM	560	614	628	173	136	160	145	165	93	210	160	117
Payments to EC institutions													
Gross	HHHT	3213	3970	4513	1137	721	1091	1021	936	1069	1347	1161	1563
Less, VAT abatement	HHHP	-	-166	-1701	-	-	-	-166	-657	-225	-478	-341	-299
Other	HHAG	719	788	903	207	205	192	184	232	218	255	198	238
Total	CGHI	4492	5206	4343	1517	1062	1443	1184	676	1155	1334	1178	1619
Debits													
CGHV		6096	6854	6097	1924	1469	1857	1604	1109	1589	1773	1626	2055
CGIU		-176	-137	-117	-38	-32	-33	-34	-44	-39	8	-42	-39
General government	CGIQ	-2099	-3333	-2208	-958	-721	-897	-757	-57	-545	-819	-787	-781
Balance	AIME	-2275	-3470	-2325	-996	-753	-930	-791	-101	-584	-811	-829	-820
Of which:													
with EC institutions (1)	CGIR	-820	-1931	-677	-578	-380	-545	-428	340	-234	-354	-429	-426

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' (Cmd 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.

VOLUME, UNIT VALUE AND IMPLIED PRICE INDICES(1)

1980=100

Table F

		1984	1985	1986	1985				1986				1987		

					1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr		
Seasonally adjusted															
<u>Volume indices</u>															
Exports of goods	CGTR	112.5	118.7	123.1	118.7	120.2	116.2	119.6	117.5	121.9	122.6	130.5	130.0		
Exports of non-oil goods	CGSV	104.9	110.6	115.2	109.2	111.9	109.8	111.4	108.2	114.7	114.7	123.1	121.8		
Exports of services	CGSI	100.7	107.8	108.1	105.3	109.1	107.7	109.0	105.0	107.1	109.4	111.1	108.9		
Exports of goods and services	HHCX	109.6	116.0	119.4	115.3	117.4	114.1	117.0	114.4	118.2	119.3	125.7	124.7		
Imports of goods	CGTS	121.8	126.0	133.9	126.3	125.0	124.8	128.0	124.9	128.8	138.5	143.4	133.2		
Imports of non-oil goods	CGSW	128.2	133.0	140.5	130.7	133.1	132.9	135.3	133.8	135.1	143.5	149.5	139.7		
Imports of services	CGSP	105.3	107.1	110.9	106.4	105.4	105.8	110.8	112.7	112.6	109.3	109.1	109.4		
Imports of goods and services	HHCY	118.5	122.2	129.2	122.2	121.0	120.9	124.5	122.4	125.5	132.5	136.4	128.3		
Not seasonally adjusted															
<u>Unit value indices</u>															
Exports of goods	CGTO	136.0	143.5	136.6	146.4	145.5	141.7	140.5	139.0	134.8	134.3	138.1	140.7		
Exports of non-oil goods	CGSX	133.5	141.8	145.1	142.2	142.8	141.6	140.6	143.0	144.2	145.3	148.1	149.7		
Imports of goods	CGTP	139.7	145.2	134.0	152.3	148.7	141.4	138.2	137.6	131.5	130.2	137.0	140.0		
Imports of non-oil goods	CGSY	136.2	141.8	141.5	147.1	144.6	139.2	136.4	140.0	139.0	140.5	146.4	148.0		
Terms of trade(2):															
All goods	CGTQ	97.4	98.8	101.9	96.1	97.8	100.2	101.6	101.0	102.6	103.1	100.8	100.5		
Non-oil goods	CGSZ	98.0	100.0	102.6	96.6	98.8	101.7	103.1	102.1	103.7	103.4	101.2	101.1		
<u>Implied price indices</u>															
Exports of services	CGTA	136.3	143.3	147.7	144.6	142.5	141.5	144.8	147.3	146.4	148.0	149.0	149.9		
Imports of services	CGTB	142.3	146.2	150.1	153.1	146.8	141.0	146.0	146.8	147.3	152.4	153.3	155.1		

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.

TRANSACTIONS IN UK EXTERNAL ASSETS (1)
Not seasonally adjusted

£ million

		1984	1985	1986	1985				1986				1987
					1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Direct investment overseas by UK residents													
Unremitted profits	HHDR	-4885	-4969	-3333	-1635	-1449	-1325	-560	-920	-831	-1020	-1162	-1828
Other	HHDS	-1208	-3860	-6362	-1810	-320	-701	-1029	-149	-867	-2020	-3926	-528
Total	HHBV	-6093	-8829	-10395	-3445	-1769	-2026	-1589	-1069	-1698	-3040	-5088	-2356
Portfolio investment in overseas securities by UK residents													
UK banks	HHAL	-7980	-10251	-6491	-1921	-2429	-2323	-3578	-886	-2137	-2360	-1108	407
Other financial institutions (2)	HHAM	-1502	-4960	-13035	-3157	-1668	-501	366	-3501	-3724	-2795	-3015	-708
Other UK residents	HHAN	-68	-3089	-884	-882	-683	-816	-708	-83	-219	-255	-327	-779
Total	CGOS	-9550	-18300	-20410	-5960	-4780	-3640	-3920	-4470	-6080	-5410	-4450	-1080
Foreign currency lending abroad by UK banks													
	HEZZ	-9135	-20406	-47945	-3424	355	-11271	-6066	-6931	-5578	-27236	-8200	-6050
Foreign lending abroad by other UK banks													
	HCAD	-4933	-1637	-5553	-2984	449	372	526	-2057	-528	-1488	-1880	-1362
Deposits etc overseas by UK residents other than banks and general government													
Transactions with banks abroad (3)	HESZ	-3097	-748	-2642	-777	-98	649	-522	-116	-549	-1513	-464	-1020
Other external assets	HETE	1252	645	646	-116	-8	91	678	-59	337	225	143	705
Official reserves													
	AIPA	908	-1758	-2891	90	-607	-49	-1192	-580	-296	-2321	306	-1523
Other external assets of central government													
	HEUJ	-743	-730	-540	-214	-186	-76	-254	36	-156	-163	-257	-217
Total transactions in assets													
	HEPZ	-31391	-51763	-90630	-16830	-6644	-15950	-12339	-15246	-14548	-40946	-19890	-12903

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

TRANSACTIONS IN UK EXTERNAL LIABILITIES (1)
Not seasonally adjusted

£ million

le H

		1984	1985	1986	1985				1986				1987
					-----				-----				
					1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Direct investment in the UK by overseas residents													
Non-oil companies													
Unremitted profits	CGLU	1409	1655	1731	576	614	372	93	454	552	611	114	706
Other	CGLM	612	497	1886	277	-107	381	-54	343	499	264	780	-453
Oil companies and miscellaneous	HHJA	-2202	2269	1658	1486	32	-2	753	573	141	636	308	787
Total	HHBU	-181	4421	5275	2339	539	751	792	1370	1192	1511	1202	1040
Portfolio investment in the UK by overseas residents													
British government stocks													
Investment by:													
Overseas authorities (exchange reserves)	AING	188	1482	277	208	640	-75	709	-152	343	45	41	103
Other overseas residents	CGLV	781	1438	1837	508	637	452	-159	224	424	495	694	692
Other general government securities	HHIZ	-346	265	1184	-2	-176	-1	444	-26	12	836	362	-139
Public corporations' securities	HEZX	-229	-10	-4	73	174	-121	-136	138	-126	-7	-9	-76
UK companies' securities	HEZV	1025	3895	4739	520	1225	630	1520	630	944	1380	1785	2244
Total	HEYR	1419	7070	8033	1307	2500	885	2378	814	1597	2749	2873	2824
Foreign currency borrowing etc. from overseas by UK banks													
	HCAF	18637	25306	58439	5142	777	7964	11423	7722	8458	33066	9193	9721
sterling borrowing etc. from overseas by UK banks													
	HEPD	6148	4150	5610	4278	-387	780	-521	3890	-861	695	1886	2476
Borrowing from overseas by UK residents other than banks and general government													
Transactions with banks abroad (2)	HETN	-2316	2377	3450	-224	1660	-226	1167	-1044	1271	2999	224	62
Other external liabilities	HETQ	615	310	463	498	-112	140	-216	53	229	399	-218	806
Other external liabilities of general government	HEUR	-48	20	167	184	47	-6	-205	197	115	165	-310	-378
Total transactions in liabilities	HEQW	24274	43654	81437	13524	5024	10288	14818	13002	12001	41584	14850	16551

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

H

SUMMARY OF UK BANKS' OVERSEAS PORTFOLIO INVESTMENT AND LENDING AND BORROWING OVERSEAS (1)

£ million

		1984	1985	1986	1985				1986				1987			
					Seasonally adjusted											
					1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr			
Dividends and interest (see table D)																
Debits																
Portfolio investment	HHAS	1420	2300	2621	650	582	548	520	615	617	675	714	647			
Lending etc to overseas residents	HHHQ	37115	36372	31093	10143	9219	8453	8557	8122	7484	7606	7881	7140			
Total	HHJC	38535	38672	33714	10793	9801	9001	9077	8737	8101	8281	8595	7787			
Credits																
Borrowing etc from overseas residents	HHIX	36985	37879	32649	10506	9759	8866	8748	8426	7897	8130	8196	7779			
Credits less debits	HHJD	1550	793	1065	287	42	135	329	311	204	151	399	8			
Transactions in UK external assets and liabilities (see tables G & H) (2)																
Not seasonally adjusted																
Portfolio investment overseas	HHAL	-7980	-10251	-6491	-1921	-2429	-2323	-3578	-886	-2137	-2360	-1108	407			
Lending and borrowing, etc in foreign currencies																
Lending	HEZZ	-9135	-20406	-47945	-3424	355	-11271	-6066	-6931	-5578	-27236	-8200	-6050			
Borrowing	HCAF	18637	25306	58439	5142	777	7964	11423	7722	8458	33066	9193	9721			
Net	HCAF	9502	4900	10494	1718	1132	-3307	5357	791	2880	5830	993	3671			
Lending and borrowing, etc in sterling																
Lending	HCAD	-4933	-1637	-5953	-2984	449	372	526	-2057	-528	-1488	-1880	-1362			
Borrowing	HEPD	6148	4150	5610	4278	-387	780	-521	3890	-861	695	1886	2476			
Net	HCAH	1215	2513	-343	1294	62	1152	5	1833	-1389	-793	6	1114			
Total identified capital transactions	HHJG	2737	-2838	3660	1091	-1235	-4478	1784	1738	-646	2677	-109	5192			

Excludes all direct investment in and by UK banks and the related earnings ; and portfolio investment in UK banks and related earnings. UK banks' net overseas earnings from services (part of financial and other services credits in table C) are also excluded.
 UK assets: increase -/decrease +; UK liabilities: increase +/decrease -.



To PS/Minister for Trade

cc DTI

From Peter Stibbard
US/S2
V/260 Ext. 4871

17 July 1987

PS/Secretary of State
PS/CDL
PS/Mr Butcher
PS/Sir Brian Hayes
Mr Liesner
Mr Harvey S1
Mr Whiting Ec2
Mr Moorey Inf
Mr Boyd S2A
Mr Richardson S2C
Mr Hewer S2A1
Mr Hall S2C1

Treasury

PS/Chancellor of
the Exchequer
PS/Paymaster General
PS/Sir Peter Middleton
Mr Cassell
Mr Sedgwick
Mr Bottrill
PS/No. 10
PS/Governor

No. 10
Bank of
England
C&E

CSO

PS/Chairman
Mr Nash
Mr Finlinson
Mr Hibbert
Mr Wells

Ch
This seems sensible
to allow Peter's nodding

But 1987
will be Q4
by Budget day?
Will we have
1987 autumn
PS 800

TIMING OF QUARTERLY BALANCE OF PAYMENTS PRESS NOTICE

The Issue

1 Your approval is sought for the Central Statistical Office (CSO) to begin issuing its quarterly balance of payments press notice about two weeks later than hitherto. This will bring some improvements to the public presentation of estimates and projections of invisible trade for recent periods. The attached note by the CSO provides more information.

Recommendation

2 I recommend your approval of this change. The proposal represents the agreed views of officials in the Treasury, Bank of England, CSO and DTI, following meetings chaired by Sir Peter Middleton.

Timing

3 The CSO would like to introduce the change with the press notice giving the first results for the second quarter of 1987. This was originally scheduled for release on 3 September but the proposal in this submission moves it to 17 September.



4 It would be helpful to have your approval by the end of this month. An early response will aid the planning of work and will enable the CSO to make a public announcement about the change when they issue their regular monthly note on release dates on 18 August.

5 Earlier fears that the introduction of this change would be complicated by the effects of recent industrial action at Customs Computer Centre (Shoeburyness) are now unfounded. The latest news is that the Statistical Office is recovering from the industrial action faster than originally thought. It is likely that the timetable for monthly visible trade figures will be back on schedule with the August figures; these will be released around 24 September. The exact timing of monthly trade figures for June, July and August and the arrangements for public announcements will be covered in separate submissions.

Background

6 Please see paragraphs 1 and 2 of the attached note. The proposal mainly arises from presentational problems in November 1986 and February this year, which led to adverse publicity and Parliamentary exchanges.

Argument

7 Please see paragraphs 3 to 9 of the attached note. The proposal will have only a modest impact on the inherent proneness to revision of the invisibles estimates. (The scope for longer term improvements of this kind is, however, being examined by an interdepartmental committee of officials). The main benefit of the proposal will be a more orderly timetable for revisions, which will allow better opportunities for explanation and briefing.

A handwritten signature in black ink, appearing to be 'P J Stibbard', written in a cursive style.

P J STIBBARD

Release of balance of payments statistics

Note by the Central Statistical Office

Introduction

This submission proposes changes in the timing of the quarterly press notice issued by the Central Statistical Office on the balance of payments accounts - copy attached. The objectives of the change are primarily to introduce a longer interval between the publication of the monthly and quarterly press notices in order to avoid significant revisions to the data in a short period and also to improve the quality of the quarterly estimates.

1. At present official statistics on the balance of payments are issued during the year in two main ways. There is a monthly press notice on the current account (issued jointly by the Department of Trade and Industry and the Central Statistical Office) which contains the reported visible trade figures and, for recent months, a projected estimate of the balance on invisible trade. This notice appears at various dates in the last ten days of the following month - the exact date largely depending on how weekends and bank holidays fall in a particular period. There is also a quarterly press notice on the full balance of payments account, both current and capital, which is issued by the Central Statistical Office in the 9th week after the end of the quarter - usually between the 3rd and 5th of the month.

2. The proximity of the dates of these two press notices once a quarter has given rise to presentational problems over the past year. The estimates of the invisibles balance are still being finalised for the quarterly press notice at the time when the monthly press notice is issued and have therefore been subject to significant changes between the publication of the two press notices - only ten days or so apart. In November 1986 considerable publicity, which gave rise to a Private Notice Question, was given to the figures on the invisibles balance given in the monthly press notice issued on 25 November, when the earlier projection for the third quarter was revised upwards from £600 million to £800 million a month and formed the basis of a projection of £900 a month for the fourth quarter. Within ten days, the quarterly press notice recorded a third quarter average of £750 million a month. In February this year there was similar adverse publicity when substantial revisions were made to the projected invisibles balance for the fourth quarter of 1986. In the quarterly press release on 4 March, additional changes were made to the estimates of the invisibles balance in the earlier quarters of 1986 - reducing the annual total by around £700 million. While the need to revise the figures was unavoidable, it was undoubtedly confusing to make two sets of revisions within such a short period.

3. To try to avoid a continuation of this unhelpful situation, discussions have been held between CSO, Treasury, DTI and Bank officials, as the result of which it is now proposed that the

quarterly balance of payments press notice should in future appear about two weeks later than at present, ie it would appear in the third rather than the first week of the final month of the following quarter and shortly before the quarterly national income press notice.

4. Other ways of avoiding the present difficulties, involving delaying unnecessarily the monthly trade figures press notice, - which attracts the main attention - to coincide with the issue of the quarterly press notice have been rejected because adverse comment about unnecessary delays in releasing statistics would be inevitable. Also, it is not practical to finalise the quarterly balance of payments figures any earlier than at present.

5. The proposed change would have two advantages:

(a) There would be significant, although still modest, improvements in the quality of the quarterly estimates, especially in those parts of the invisibles account such as oil where the occasional absence of data for one large company can significantly affect the provisional estimates.

(b) It would eliminate the need to make a reassessment of the invisibles figures in time for the first monthly press notice of a new quarter before all the quarterly data are available, ie the monthly press notice for the following month would appear shortly after, rather than shortly before, the quarterly press notice and would only incorporate previously announced invisibles figures.

6. The disadvantages in this change are that information to assess recent quarterly balance of payments developments would appear a week or two later than at present and the reassessment of the invisibles balance in the monthly press notice would be a month later. However, these delays are considered to be of marginal significance, given the considerable uncertainties in measuring invisibles.

7. Although the timing of the monthly press notices for the next few months is uncertain because of the effects of industrial action, this need not affect the timing of the quarterly press notice and it is proposed that the quarterly press notice at present planned for 3rd September should appear on 17th September. A similar delay would occur in subsequent quarters. The change would be announced publicly when the CSO issues its regular note on release dates on 18th August. No date for the quarterly press notice in September has yet been announced, although on past experience the public would expect a date during the first week of the month.

8. It is unlikely that this change would be regarded by Parliament and the press as a fundamental one, as the quarterly press notice receives less press coverage than the monthly notice unless substantial revisions are made to the figures. However, the delay may give rise to some public comment as any improvement

in the quality of the figures may be relatively small and would not avoid the possibility of later, possibly substantial, revisions.

9. A relatively low-key announcement should be sufficient. A reference to the effect of the delay to the quarterly figures on the reassessment of the invisibles balance in the monthly press notice would be incorporated in the monthly notice due to appear - on the present provisional timetable - during the week beginning 31 August.

Central Statistical Office
7 July 1987

RD

RESTRICTED

MINISTER FOR TRADE OFFICE MINUTE NUMBER: 630

To:	cc	PS/Secretary of State	
		PS/Chancellor of the Duchy	
MR STIBBARD		PS/Mr Butcher	
S2		PS/Sir Brian Hayes	
		Mr Liesner	
From:		Mr Harvey	S1
		Mr Whiting	Ec2
STEVEN PHILLIPS		Mr Moorey	Ind
APS/MfT		Mr Boyd	S2A
Room 833A		Mr Richardson	S2C
1 Victoria Street		Mr Hewer	S2A
215 5146		Mr Hall	S2C

20 July 1987

TIMING OF QUARTERLY BALANCE OF PAYMENTS PRESS NOTICE

Mr Clark has considered your submission of 17 July and is content for the Central Statistical Office (CSO) to begin issuing its quarterly balance of payments press notice about two weeks later than hitherto.

Steven Phillips

STEVEN PHILLIPS



MINISTER FOR TRADE

cc External
PS/Prime Minister
PS/Chancellor of the Exchequer
PS/Paymaster General
PS/Sir Peter Middleton, HMT
Mr Cassell, HMT
Mr Sedgwick, HMT
Mr Bottrill, HMT

PS/Governor of the Bank of England

PS/Chairman, CandE
Mr Nash, CandE
Mr Finlinson, CandE

Mr Hibbert, CSO
Mr Wells, CSO



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	<u>Current ac</u> (£)	<u>Trade deficit</u>
--	-----------------------	----------------------

Q I	+ £0.7bn	- £1.1bn
-----	----------	----------

Q II	- £0.6bn	- £2.4bn
------	----------	----------

April	+ 96	- 504
-------	------	-------

May	- 527*	- 1127*
-----	--------	---------

June	- 168	- 768
------	-------	-------

(*) revised from -561/-1161

(***) no revision to invisibles (yet)

trade surplus 359
 April cap 26
 June 333

ATA

~~333~~

20/7/87. PMP

MONTHLY NOTE ON THE BALANCE OF PAYMENTS - JULY 1987

- * The visible trade deficit rose to £1.2 billion in May compared with £0.5 billion in April and an average visible deficit of £0.9 billion a month in the second half of 1986. Combined with an unchanged invisibles projection of £0.6 billion, the current account showed a deficit of £0.6 billion in May, although for the year so far it remains in surplus by £0.2 billion.
- * UK competitiveness has deteriorated since the fourth quarter of 1986 with the appreciation of 7 per cent in the effective exchange rate, reversing nearly half of the gains which occurred during 1986.
- * G5 countries' domestic demand grew a little in the first quarter. Information so far this year suggests that industrial production has been rising only slowly.
- * UK domestic demand was broadly unchanged in the first quarter but growth in consumers' expenditure picked up sharply in the second quarter and manufacturing output has continued to rise.
- * Export volumes (excluding oil and erratics) fell by 4 per cent in the three months to May, mainly reflecting anticipated falls in exports of non-manufactures from the exceptionally high levels at the end of last year. It is possible that the underlying level is slightly below that of end 1986, although export volumes are still 6½ per cent higher than a year earlier. Given the volatility of recent figures, this may represent nothing more than a temporary pause in the upward trend.
- * Import volumes (excluding oil and erratics) remained unchanged in the three months ending May but were 7½ per cent higher than a year before. Imports of intermediate goods and semi manufactures rose strongly in the latest three months, reflecting the growth in activity. A rise in imports from the depressed level in early 1987 had been expected.
- * The terms of trade has firmed since December reflecting sterling's appreciation and higher oil prices, only partly offset by a rise in commodity prices in SDR terms.
- * The £0.2 billion current surplus so far in 1987 compares with the FSBR forecast for a current deficit of £2½ billion in 1987. Independent forecasts none of which yet reflect the May trade figures, now point on average to a £1.1 billion current account deficit.

PAUL DAVIS
EA2 DIVISION

MONTHLY NOTE ON THE BALANCE OF PAYMENTS - JULY 1987

Current account

1. The May trade figures, published on 22 July showed a deficit on non-oil trade of £1.5 billion, partially offset by a surplus on oil trade of £0.4 billion. The value of non-oil exports fell by £0.1 billion whilst the value of non-oil imports rose by £0.5 billion leading to an increase of £0.6 billion in the non-oil deficit compared with April. The oil trade surplus was unchanged between April and May. The Customs strike which delayed the publication of the May figures is not thought to have caused any distortions to the figures, nor is it expected to affect the June figures.

TABLE 1: CURRENT ACCOUNT

							£ billion	
		Current balance	Visible total	of which: oil	Manufactures	Other goods	Invisibles balance	
1985		3.5	-2.2	8.1	-3.0	-7.3	5.6	
1986		-0.1	-8.3	4.2	-5.4	-7.0	8.1	
1986	Q1	1.1	-1.2	1.9	-1.3	-1.9	2.3	
	Q2	0.2	-1.6	0.8	-0.6	-1.7	1.7	
	Q3	-0.8	-2.9	0.6	-1.7	-1.8	2.1	
	Q4	-0.6	-2.6	0.8	-1.8	-1.7	2.0	
1987	Q1	0.7	-1.1	1.2	-0.7	-1.6	1.8	
March		0.2	-0.4	0.5	-0.3	-0.5	0.6	
April		0.1	-0.5	0.4	-0.4	-0.5	0.6*	
May		-0.6	-1.2	0.4	-0.9	-0.6	0.6*	

*CSO projection

CHART 1: CURRENT ACCOUNT

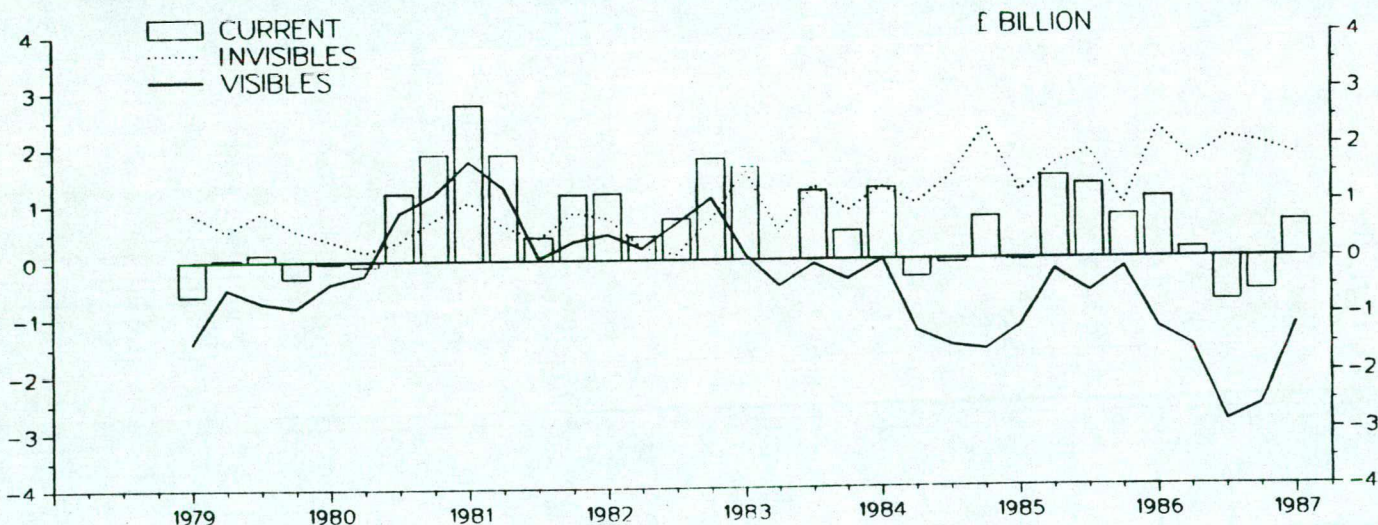
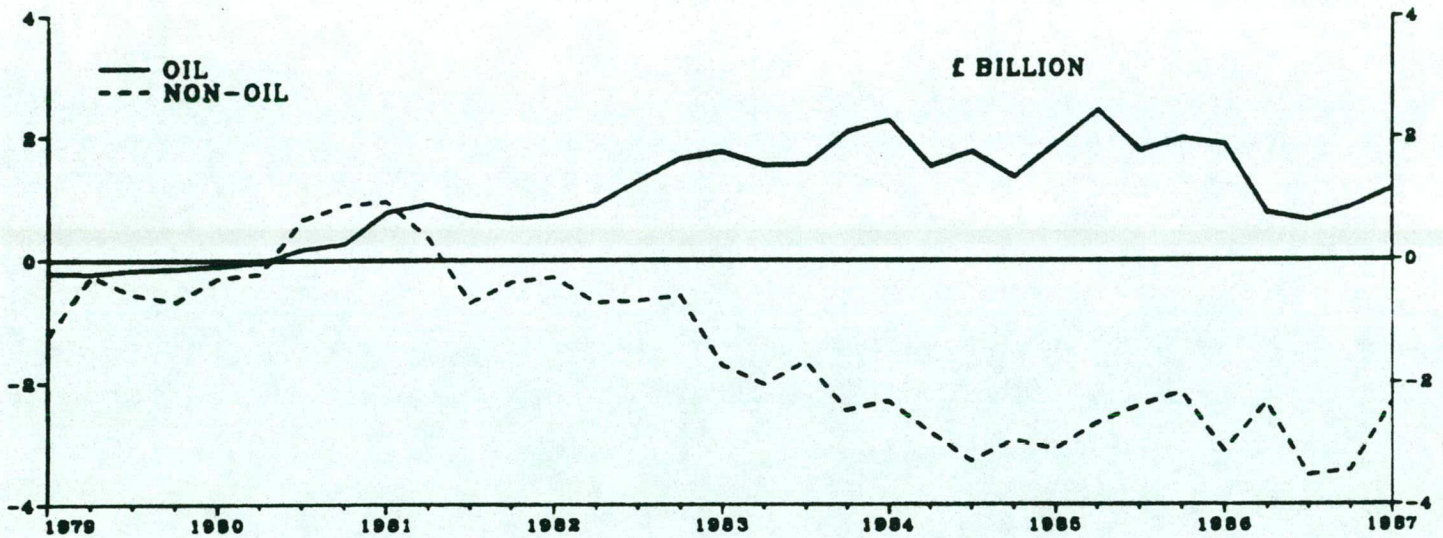


CHART 1A: VISIBLE BALANCE

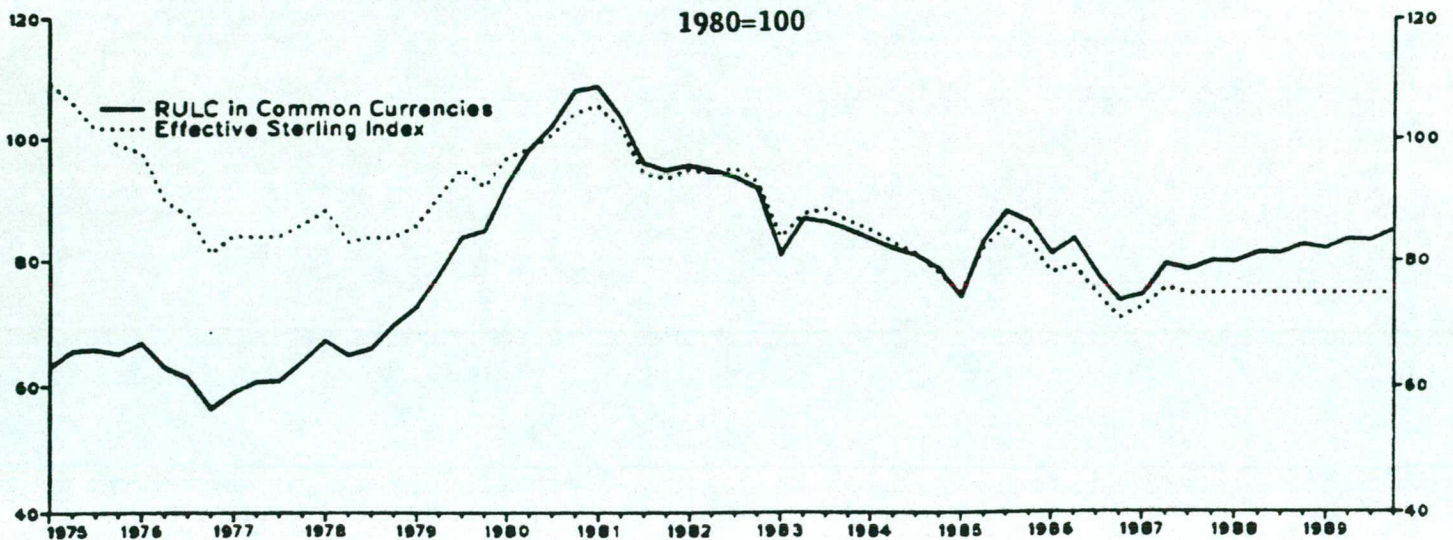


DETERMINANTS OF UK TRADE

Competitiveness

2. UK competitiveness (as measured by relative actual unit labour costs in manufacturing) has deteriorated by perhaps 7-8 per cent since the fourth quarter of 1986, reversing nearly half of the gain in competitiveness which occurred during 1986. The exchange rate is currently around 7 per cent higher than in the fourth quarter, while UK unit labour costs have probably been growing at a similar rate or a little faster than those elsewhere. (Much of the appreciation has occurred since the middle of the first quarter, and is not therefore fully reflected in the average relative unit labour costs in the first quarter shown in table 2.)

CHART 2: UNIT LABOUR COSTS IN MANUFACTURING



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TABLE 2: RELATIVE UNIT LABOUR COSTS IN MANUFACTURING
(% changes on a year earlier in brackets)

		Relative unit labour costs indomestic currencies 1980=100	Export weighted exchange rate index 1975=100	Relative unit labour costs in common currencies 1980=100	Sterling exchange rate index 1975=100
1985		100.4 (2.6)	77.0 (-0.6)	84.4 (1.9)	78.2 (-0.6)
1986		104.0** (3.6)	68.8 (-10.6)	77.7 (-7.8)	72.8 (-7.0)
1986	Q2	104.8 (5.2)	72.3 (-8.4)	82.6 (-2.4)	76.1 (-3.5)
	Q3	103.0* (1.4)	67.3 (-16.6)	75.7 (-15.5)	71.9 (-12.4)
	Q4	103.9** (1.1)	63.5 (-17.6)	71.5 (-17.7)	68.2 (-14.6)
1987	Q1	103.6** (-0.5)	64.5 (-10.3)	72.1* (-12.0)	69.7 (-7.2)
1987	Q2	107.4** (2.5)	69.6** (-3.8)		72.8 (-4.3)
	April				72.3 (-5.2)
	May				73.3 (-3.7)
	June				72.7 (-4.1)

* estimate

** projection

World trade and domestic demand

3. GNP growth in the US and Japan strengthened in the first quarter, but in Germany and Italy GNP fell. G5 industrial production, which grew only slowly during 1986, has risen slightly from its first quarter level but there remains no clear sign of a strong recovery in G5 export volume growth. UK domestic demand was broadly unchanged in the final quarter. Consumers' expenditure remained flat in the first quarter while retail sales were a little below the high levels recorded in the fourth quarter. Retail sales rose in June after falling back in May and manufacturing production continued to increase in May.

TABLE 3: INDICATORS OF DEMAND

	G5 Countries			Indices 1980=100 UK		
	Export volumes*	Domestic demand	Industrial production	Export volumes**	Domestic demand	Manufacturing production
1985	110	113.3	112.0	114.9	111.0	103.8
1986	110	117.5	113.1	117.7	114.6	104.7
1986	1	107	112.7	111.9	114.2	102.8
	2	112	117.3	115.1	113.7	104.0
	3	106	118.6	113.3	118.5	105.0
	4	115	118.6	113.8	125.3	107.1
1987	1	107+	119.0	113.7	116.2	107.4
March			114.2	120.5		107.9
April			114.0	122.7		108.0
May				120.1		109.1

* Not seasonally adjusted

** Excluding oil and erratics

+ Provisional

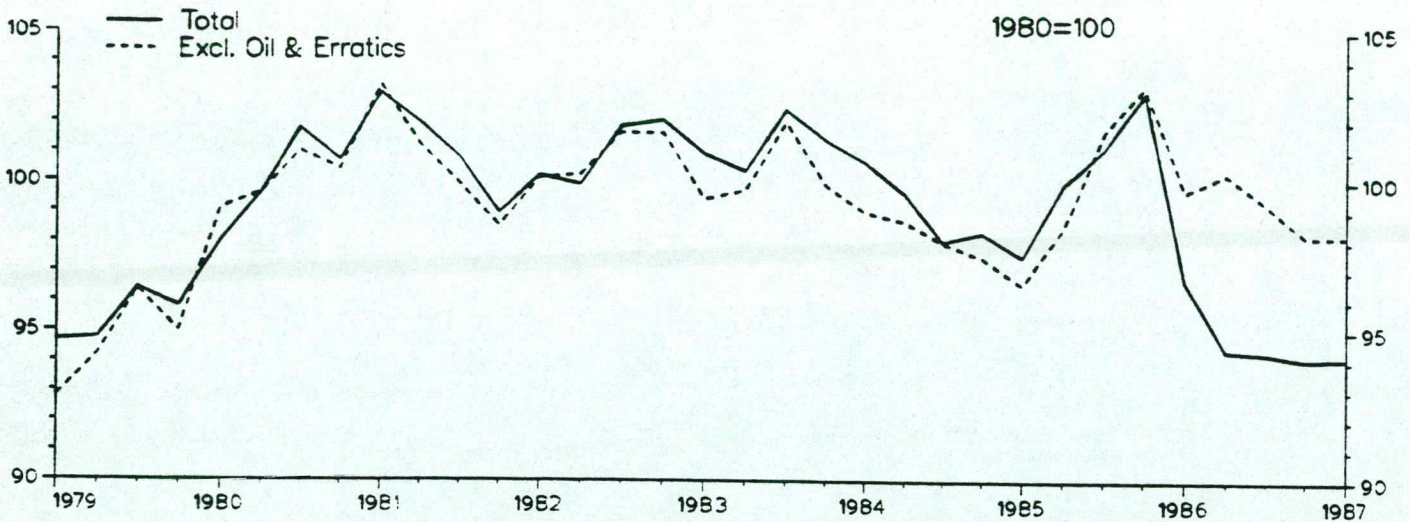
VISIBLE TRADE

TABLE 4: VISIBLE TRADE VALUES, VOLUMES AND TERMS OF TRADE

	£ billion			Ratio:	
	Exports	Imports	Balance	Terms of Trade*	Export volume/ Import volume
1985	78.1	80.3	-2.2	100.4	94.2
1986	72.8	81.1	-8.3	94.9	91.9
1986 1	18.2	19.4	-1.2	96.7	94.1
2	17.8	19.3	-1.6	94.4	94.6
3	17.6	20.4	-2.9	94.2	88.5
4	19.3	21.9	-2.6	94.1	91.0
1987 1	19.6	20.8	-1.1	94.1	97.6
March	6.4	6.8	-0.4	93.6	97.5
April	6.6	7.1	-0.5	94.6	95.4
May	6.3	7.5	-1.2	96.1	85.3
% change					
3 months May	9	9		0	-1
on same period					
year earlier					
3 months May	-2	½		½	-3
on previous					
three months					
May on	-4½	5½		1½	-10½
April					

* based on average value indices

CHART 3: TERMS OF TRADE



Exports

4. The volume of non-oil exports (excluding erratics) fell 2 per cent in May. Within the total, fuel exports fell by about 21 per cent (this fall was largely offset by lower oil imports) and there were falls in other major categories with the exception of food drink and tobacco which rose by 3½ per cent in May.

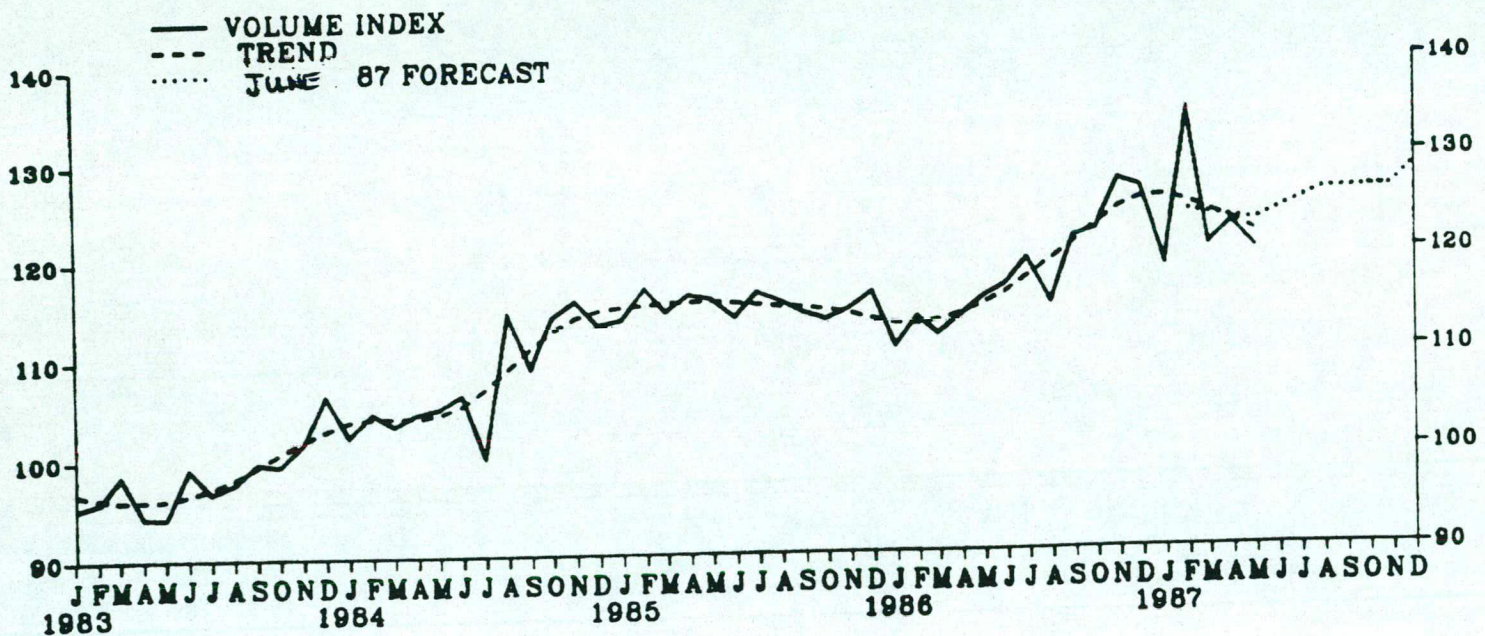
5. In the three months ending in May, non-oil export volumes (excluding erratics) fell by 4 per cent compared with the previous three months (though they were still 6½ per cent higher than a year earlier and in the first five months of this year were 1 per cent higher than in the second half of 1986). Exports of non-monetary gold fell in this period, as did basic materials (with the cessation of the carousel trade in olive oil, which had inflated both import and export figures) and food drink and tobacco (due to reduced disposals of excess grain stocks by IBAP). The volume of exports of manufactures (excluding erratics) also fell, by 1 per cent, in the three months to May. It is possible that the underlying level of exports is now a little below its level of the end of 1986. However recent quarterly figures have been rather volatile. Hence it is difficult to judge whether the latest few month's figures are any more than a temporary pause in a generally upward trend. The June forecast projects a resumption of growth in manufacturing exports in the second half of 1987 and the latest CBI quarterly survey points to continuing buoyancy in firms' export order books.

TABLE 5: EXPORT VOLUMES

		1980 = 100					
		Total exports*	Total exports (excluding oil and erratics*)	Manufactures (excluding erratics)	Food, drink and tobacco	Basic materials	Fuel
1985		118.7	114.9	115.7	119.2	106.1	171.7
1986		123.1	117.7	116.9	129.6	117.1	175.5
1986	1	117.5	111.9	111.7	118.7	110.7	178.3
	2	121.9	115.1	115.8	119.8	102.3	170.4
	3	122.6	118.5	117.6	133.5	126.3	174.3
	4	130.5	125.3	122.6	146.2	128.9	178.9
1987	1	130.0	124.4	122.2	129.0	144.8	183.1
	March	126.9	120.5	121.7	120.0	127.0	179.9
	April	130.8	122.7	123.0	123.9	127.3	202.9
	May	122.5	120.1	119.4	128.1	109.3	160.0
3 months to May on same period year earlier		6	6½	6½	6	16½	6½
3 months to May on previous		-3½	-4	-1	-8½	-19	-1
3 months to May on April		-6½	-2	-3	3½	-14	-21

* BOP basis

CHART 4: NON OIL EXPORT VOLUMES EXCLUDING ERRATICS



Export prices

7. **Manufacturers' export prices** rose by 1 per cent in the three months to May on the previous three months to a level 3½ per cent higher than a year earlier. Manufacturers have been taking advantage of exchange rate depreciation to raise domestic and export profit margins at a similar rate over the past year. The price of fuel rose 5 per cent in the three months to May on the previous three months reflecting in part the rise in the price of crude oil at the end of 1986.

TABLE 7: EXPORT PRICES*

		Exports**	Exports** (excluding oil and erratics)	Manufactures (excluding erratics)	Food, drink and tobacco	1980=100 Basic materials	Fuel
1985		138.8	134.2	134.4	128.1	138.5	152.1
1986		124.8	134.5	136.3	129.8	120.8	76.4
1986	1	130.4	134.4	136.0	127.1	124.9	109.5
	2	123.1	134.3	135.3	131.7	119.2	70.1
	3	120.8	133.9	136.4	128.4	118.4	57.5
	4	125.0	135.4	137.5	131.8	120.5	68.5
1987	1	127.4	136.6	139.4	130.8	119.1	78.5
March		128.2	137.6	139.7	132.6	119.3	79.6
April		127.1	137.8	139.6	132.6	124.9	79.5
May		129.9	139.1	141.1	132.0	124.3	76.6
% change							
3 months							
to May		2½	3	3½	2	0	6
on same period							
year earlier							
3 months to		2	2	1	2½	4½	5
May on							
previous 3 months							

* average value indices

** BOP basis

Exports by geographical destination

8. The value of exports to the US has been declining from the high level reached early in the year, and in the three months to May was 17 per cent lower than in the previous three months. Exports to the EC rose by 2½ per cent, growth in exports to these markets has accounted for most of the rise in the value of exports since mid 1986. Exports to Japan fell by 1½ per cent in the three months to May, though exports to oil exporters rose by 12 per cent to from the low level of the previous three months.

Imports

9. Import volumes (excluding oil and erratics) rose by 10 per cent between April and May. Imports of fuel fell sharply in May, partly offsetting the fall in export volumes. In the year so far, import volumes (excluding oil and erratics) were about 2½ per cent lower than in the second half of last year, but in the three months to May on the previous three months they remained unchanged and were 7½ per cent higher than a year before. Within the total, the volumes of food, drink and tobacco, fuels and basic materials all fell in the latest three months, but manufactures rose. The latter reflected in particular increased imports of intermediate and semi-manufactured goods which is consistent with rising domestic output. There was also some reversal of the previous falls in imports of passenger motor cars. The erratic path of imports recently makes it unusually hard to assess the underlying trend, but with most categories of imports of manufactures higher in the latest three months than previous three months, the figures do provide some support for the FSBR and June forecasts of a rising trend through 1987.

CHART 6: NON OIL IMPORT VOLUMES EXCLUDING ERRATICS



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TABLE 8: IMPORT VOLUMES

		Goods*	Goods less oil and erratics*	Food, drink and tobacco	Basic materials	1980=100 Fuels [†]	Manufactures less erratics
1985		126.0	142.8	114.4	102.2	86.2	154.4
1986		133.9	151.1	123.5	108.7	93.4	163.0
1986	1	124.9	143.3	123.5	104.1	70.1	153.3
	2	128.8	145.2	119.7	105.4	85.3	156.9
	3	138.5	154.3	125.5	106.1	111.9	167.6
	4	143.4	161.7	125.3	119.4	106.2	174.4
1987	1	133.2	150.4	120.2	121.5	90.8	160.5
March		130.2	147.5	114.2	116.6	77.2	161.3
April		137.1	151.7	111.6	125.5	100.7	165.7
May		143.6	166.8	133.2	121.2	72.3	181.9
% change							
3 months to May on same period a year earlier		7	7½	-2½	15	4	9½
3 months to May on previous three months		-½	0	-5½	-2½	-16½	3
May on April		4½	10	19½	-3½	-28	10

† Figures affected by coal strike

* Balance of payments basis

TABLE 9: IMPORT VOLUMES OF MANUFACTURES

		Semi manufactures	Finished manufactures	of which: Passenger motor cars	Other consumer goods	1980 = 100 Inter- mediate goods	Capital goods
1985		143.9	161.4	127.9	139.5	172.8	187.1
1986		152.0	170.4	131.6	158.3	187.0	183.1
1986	1	147.3	157.2	126.2	144.5	169.8	172.4
	2	149.2	162.1	125.0	154.2	180.8	169.5
	3	154.8	176.0	142.2	164.6	192.6	185.2
	4	156.6	186.4	133.0	170.1	204.9	205.4
1987	1	152.3	166.0	102.6	156.0	184.9	186.8
March		155.9	165.2	106.6	162.4	188.3	172.9
April		157.5	171.3	111.8	159.2	197.5	185.5
May		171.7	188.5	122.4	177.7	214.8	204.9
% change							
3 months to May on same period year earlier		8½	10	-10	10½	14½	6
3 months to April on previous 3 months		6	1	5½	3½	6	-5½
May on April		9	10	9½	11½	9	10½

Import prices

10. In the three months to May import prices were about 1 per cent higher than in the previous three months. Fuel prices rose by 6 per cent as the oil prices firmed, but the rising exchange rate contributed to falls of $\frac{1}{2}$ per cent in manufactures import prices and 1 per cent in imported food prices. The effect of the exchange rate on basic materials prices was more than offset by continued rises in commodity prices in SDR terms.

TABLE 10: IMPORT PRICES*

		Imports**	Imports** (excluding oil and erratics)	Manufactures (excluding erratics)	Food, drink and tobacco	Basic materials	Fuel
1980=100							
1985		138.3	134.1	131.7	132.6	130.2	180.0
1986		131.5	135.5	135.1	132.5	113.3	98.0
1986	1	134.8	134.9	134.1	129.1	114.9	143.5
	2	130.4	133.8	132.9	131.4	113.5	103.8
	3	128.1	134.8	134.3	132.8	110.8	78.1
	4	132.9	137.9	138.4	136.5	113.8	84.4
1987	1	135.4	139.1	140.6	133.7	112.7	94.2
	March	137.0	139.1	140.2	134.1	113.9	97.4
	April	134.5	138.3	139.1	134.0	113.6	95.7
	May	135.2	137.3	138.6	131.6	114.7	94.9
% change							
3 months							
to May		2 $\frac{1}{2}$	3	4	2 $\frac{1}{2}$	$\frac{1}{2}$	19 $\frac{1}{2}$
on same period							
year earlier							
3 months to		1	- $\frac{1}{2}$	- $\frac{1}{2}$	-1	1 $\frac{1}{2}$	6
May on							
previous 3 months							

* average value indices

** BOP basis

Export shares and import penetration

11. On the basis of available information to the first quarter of 1987 it appears that UK manufacturing export volume growth has been considerably faster than growth of other developed countries' exports. This maintains the underlying improvement in UK relative performance, which has been evident since 1982. In the first quarter of 1987 imports grew less quickly than total final expenditure, hence there was a fall in import penetration in both value and volume terms.

TABLE 11: UK EXPORT AND IMPORT PERFORMANCE

		(Per cent)		Imports (less oil) share in total final expenditure	
		UK share of developed countries exports*			
		Volume	Value	Volume	Value
1985		9.4	8.2	16.6	16.0
1986		9.5	8.0	17.0	16.2
1986	1	9.1	7.8	16.4	15.7
	2	9.5	8.3	16.5	15.8
	3	9.3	7.8	17.3	16.4
	4	9.9	7.9	17.7	17.0
1987	1	9.7+	7.9+	16.5	16.1

* Manufactures, weighted by UK markets

+ Estimated

PROSPECTS

19. The FSB projected a current account deficit of £2½ billion in 1987. [NOT FOR USE: This was revised to a £½ billion deficit in the internal June forecast]. This compares with independent forecasts which are now on average projecting a deficit of £1.1 billion in 1987 and £2.2 billion in 1988: recent forecasts have uniformly reduced their current account estimates for 1987.

TABLE 14: CURRENT ACCOUNT (£ billion)

	1987	1988	1989	1990
CBI (March)	-2.0	-2.0		
OECD (June)	-1.6	-3.7	-	-
National Institute (May)	-0.3	-3.7	-	-
LBS (July)	1.4	-0.9	-1.6	-1.5
Phillips and Drew (July)	-0.8	-2.0	-1.5	-2.9
Goldman Sachs (July)	-0.8	-1.8		
Henley (July)	-0.9	-2.2	-1.9	-2.2
Oxford (April)	-0.8	-2.0	-1.9	-2.2
Liverpool (July)	-0.2	2.3	6.7	7.6
Independent Average†	-1.1	-2.2		
HMT (June)	-½*	-1*		

† Based on sample used in regular EB comparison

* Not for use.

INTERNATIONAL COMPARISONS

20. The US current account deficit was little changed in the first quarter from its average in 1986. German and Japanese surpluses remain strong, though the French surplus fell to \$0.3 billion in the first quarter.

TABLE 15 CURRENT ACCOUNTS OF THE G5*

		\$ billion				
		US	Japan	Germany	France	UK
1983		-46.0	20.8	4.1	-4.2	4.8
1984		-106.5	35.0	7.0	-0.8	2.1
1985		-117.7	49.2	13.2	-0.2	4.5
1986		-140.6	86.0	35.8	3.7	-0.2
1986	1	-34.0	15.9	7.7	1.0	1.5
	2	-34.4	21.6	7.7	1.0	0.2
	3	-35.3	23.8	11.3	0.8	-1.1
	4	-36.8	24.1	9.3	1.0	-0.8
1987	1	-35.3	23.9	11.1	0.3	1.0

* Seasonally adjusted

COVERING SECRET AND PERSONAL

DEPARTMENT OF TRADE AND INDUSTRY
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Mr A Allan ✓
Principal Private Secretary
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON
SW1 3AG

Your reference

Our reference

Date 17 July 1987

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

Publication is set for Wednesday 22 July at 11.30 am and I should be grateful if you would arrange for the Notice to be cleared by 12.00 noon Tuesday 21 July and to inform me accordingly.

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

Yours sincerely

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COVERING SECRET AND PERSONAL

THE CURRENT ACCOUNT OF THE UNITED KINGDOM
BALANCE OF PAYMENTS

MAY 1987

The current account for May, seasonally adjusted, was estimated to have been in deficit by £561 million compared with a surplus of £96 million in April. In May, exports - seasonally adjusted on a balance of payments basis - were valued at £6290 million and imports at £7450 million so that trade in goods was in deficit by £1161 million.

The balance on invisibles 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.

MARCH TO MAY 1987

In the three months ended May 1987, the current account showed a deficit of £0.3 billion compared with a surplus of £0.3 billion in the previous three months. There was a deficit on visible trade of £2.1 billion in the latest three months compared with a deficit of £1.6 billion in the three months ended February. The surplus on invisibles in the latest three months 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
1985	+ 3450	-2178	78111	80289	+ 5628
1986	- 120	-8253	72843	81096	+ 8133
1986 Q1	+ 1064	-1227	18164	19391	+ 2291
Q2	+ 163	-1551	17786	19337	+ 1714
Q3	- 762	-2873	17553	20426	+ 2111
Q4	- 585	-2602	19340	21942	+ 2017
1987 Q1	+ 667	-1135	19637	20772	+ 1802
1986 Dec	- 215	- 887	6477	7364	+ 672b
1987 Jan	+ 84	- 517	6235	6752	+ 601b
Feb	+ 398	- 202	6973	7174	+ 600b
March	+ 184	- 417	6429	6846	+ 601b
April	+ 96 a	- 504	6572	7076	+ 600 a
May	- 561 a	-1161	6290	7450	+ 600 a
Dec-Feb 1987	+ 268	-1605	19684	21290	+ 1873
Mar-May 1987	- 280 a	-2081	19291	21372	+ 1801 a
Jan-May 1987	+ 202 a	-2800	32498	35298	+ 3002 a

a Invisibles for April and May 1987 are projections.

b 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.

SECRET

and personal until release of press notice on 22 JUL 87 at 11.30 a.m.

Handwritten calculations in red ink:

$$\begin{array}{r} 202 \\ 34 \\ \hline 236 \\ 168 \\ \hline 68 \end{array}$$

$$\begin{array}{r} 482 \\ 184 \\ \hline 666 \\ - 598 \\ \hline 68 \end{array}$$

Handwritten scribbles in red ink.

VISIBLE TRADE IN MAY 1987

There was a deficit on visible trade in May of £1161 million compared with a deficit of £504 million in April. At £361 million, the surplus on oil was £58 million less than in April. The deficit on non-oil trade increased by £599 million.

At £6290 million, exports in May were £282 million ($4\frac{1}{2}$ per cent) lower than in April. Lower exports of oil accounted for most of the fall and excluding oil and the erratic items exports were down by just £66 million (1 per cent) in May.

Total imports were valued at £7450 million in May which was £374 million ($5\frac{1}{2}$ per cent) higher than in April. Imports of oil fell by £145 million in May and imports of the erratic items fell by £55 million. Excluding oil and the erratic items, imports rose by 9 per cent between April and May. Imports of manufactures excluding the erratic items rose by $9\frac{1}{2}$ per cent between the two months.

RECENT TRENDS

Visible balance

In the three months ended May, there was a deficit on visible trade of £2.1 billion - a surplus on trade in oil of £1.2 billion offset by a deficit on non-oil trade of £3.3 billion. Between the three months ended February and the latest three months, the visible trade balance deteriorated by £0.5 billion - the

surplus on oil increased by £0.3 billion while the deficit on non-oil trade rose by around £0.7 billion.

Exports

Exports amounted to £19.3 billion in the three months ended May, £0.4 billion (2 per cent) less than in the three months ended February. Exports of oil increased by £0.1 billion while exports of the erratic items fell by £0.1 billion. Excluding oil and the erratic items, exports fell by $2\frac{1}{2}$ per cent between the three months ended February and the latest three months.

By volume, exports fell by $3\frac{1}{2}$ per cent between the three months ended February and the latest three months but were 6 per cent higher than in the same period a year ago. Excluding oil and the erratic items, export volume decreased by 4 per cent in the latest three months. In recent months the underlying level of non-oil exports has fallen back slightly from the high levels at the turn of the year.

Imports

Total imports were valued at £21.4 billion in the latest three months, £0.1 billion ($\frac{1}{2}$ per cent) higher than in the previous three months. Imports of oil fell by £0.2 billion between the two periods while imports of the erratic items grew by £0.3 billion. Excluding oil and the erratic items, imports were virtually unchanged between the three months ended February and the latest three months.

By volume, imports fell by $\frac{1}{2}$ per cent between the three months ended February and the latest three months to be 7 per cent higher than a year earlier. Excluding oil and the erratic items the volume of imports was unchanged between the two three-month periods and $7\frac{1}{2}$ per cent up on a year earlier. The figures up to April show a decline in the underlying level of non-oil import volumes compared with the high levels at the end of last year. It is too early to assess whether the sharp increase in May indicates a change in the underlying level or is a random fluctuation.

Terms of trade and unit values

The terms of trade index rose by around 2 per cent between the three months ended February and the latest three months with the export unit value index rising by $\frac{1}{2}$ per cent and the import unit value index falling by 1 per cent. Compared with the same period a year ago, the export unit value^{index} is up by 4 per cent and the import unit value index is up by 3 per cent. As a result, the terms of trade index is now $\frac{1}{2}$ per cent higher than a year ago.

Export unit values for fuels rose by 2 per cent between the three months ended February and the latest three months while the unit value index for non-oil exports increased by just $\frac{1}{2}$ per cent. Export unit values for manufactures rose by $1\frac{1}{2}$ per cent over the three months (excluding the erratic items) while those for food, drink and tobacco fell by $1\frac{1}{2}$ per cent.

Import unit values for fuels were up by $3\frac{1}{2}$ per cent in the latest three months while the index for non-oil imports fell by $1\frac{1}{2}$ per cent. Within the total for non-oil goods, the unit values for manufactures were down by $1\frac{1}{2}$ per cent and those for food, drink and tobacco fell by 2 per cent.

Analysis by area

The value of exports to the developed countries as a whole fell by 2 per cent in the latest three months while exports to the developing countries rose by $8\frac{1}{2}$ per cent. Within the total for the developed countries, exports to Western Europe grew by 3 per cent while exports to North America were down by 16 per cent.

The value of imports from the developed countries rose by 2 per cent between the three months ended February and the latest three months while those from the developing countries fell by $8\frac{1}{2}$ per cent. Within the total for the developed countries, imports from the European Community grew by 3 per cent and imports from North America were up by $2\frac{1}{2}$ per cent. Arrivals from the 'other' developed countries (including Japan) fell by 12 per cent between the two periods.

NOTES TO EDITORS

REVISIONS

1 Estimates of visible trade are derived from a continuous and comprehensive coverage of Customs documents. Revisions to the basic data are infrequent and usually small. Larger revisions, particularly relating to recent periods, occur in the annual review of seasonal adjustment calculations which takes effect in the press notice covering the January figures.

2 Estimates of the invisibles account are based on quarterly and annual inquiries addressed to a sample of those engaging in the relevant transactions. In some parts of the account the information available is incomplete and subject to significant errors of estimation. Monthly figures of the invisibles balance are quarterly estimates and projections, expressed at a monthly rate. For the most recent months, the figures are projections - rounded to the nearest £100 million to emphasise their likely margins of error - which are superseded by figures from the quarterly balance of payments estimates published in early March, June, September and December. If there is strong evidence from early quarterly information that the first quarterly estimates will differ substantially from the latest published projections, a revised set of projections is included in the monthly press notice prior to the issue of the quarterly estimates. A short article on estimates and projections of the monthly invisible balance was published in the December issue of Economic Trends. This article is reproduced in the Standard Notes (see para 7 below).

3 This press notice contains revised figures on invisibles for the first quarter of 1987 as published by the CSO on 4 June.

MONTHLY REVIEW OF EXTERNAL TRADE STATISTICS

4 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 which includes the annual supplement. Individual copies are priced at £3, (£6 for the annual supplement).

AREA (tables 11 and 15)

5 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.

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

STANDARD NOTES

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

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

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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	
1985	+ 3450	78111	80289	- 2178	+ 8104	- 10282	+ 5628
1986	- 120	72843	81096	- 8253	+ 4153	- 12407	+ 8133
1986 Q1	+ 1064	18164	19391	- 1227	+ 1889	- 3116	+ 2291
Q2	+ 163	17786	19337	- 1551	+ 772	- 2324	+ 1714
Q3	- 762	17553	20426	- 2873	+ 646	- 3519	+ 2111
Q4	- 585	19340	21942	- 2602	+ 846	- 3447	+ 2017
1987 Q1	+ 667	19637	20772	- 1135	+ 1164	- 2300	+ 1802
1986 Sept	- 127	6103	6934	- 831	+ 258	- 1088	+ 704b
Oct	- 43	6294	7009	- 715	+ 226	- 941	+ 672b
Nov	- 327	6569	7569	- 1000	+ 354	- 1354	+ 673b
Dec	- 215	6477	7364	- 887	+ 266	- 1153	+ 672b
1987 Jan	+ 84	6235	6752	- 517	+ 383	- 900	+ 601b
Feb	+ 398	6973	7174	- 202	+ 328	- 529	+ 600b
March	+ 184	6429	6846	- 417	+ 454	- 870	+ 601b
Apr	+ 96 a	6572	7076	- 504	+ 419	- 923	+ 600 a
May	- 561 a	6290	7450	- 1161	+ 361	- 1522	+ 600 a
Mar-May 1986	- 150	17684	19595	- 1911	+ 909	- 2820	+ 1761
Dec-Feb 1987	+ 268	19684	21290	- 1605	+ 977	- 2582	+ 1873
Mar-May 1987	- 280 a	19291	21372	- 2081	+ 1234	- 3315	+ 1801 a
% Change							
Latest 3 months							
on previous 3		- 2	+ ½				
months							
Same 3 months		+ 9	+ 9				
one year ago							

a Invisibles for April and May 1987 are projections.

b Monthly figures are one third of the appropriate calendar quarter's estimate or projection.

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	65279	61130	+ 4149	+ 3651	+ 2581	- 2083	60649	52791	+ 7858
1984	76983	71012	+ 5971	+ 3827	+ 4419	- 2275	72086	61932	+ 10154
1985	80349	74721	+ 5628	+ 5705	+ 3393	- 3470	75923	64609	+ 11314
1986	76347	68214	+ 8133	+ 5382	+ 5076	- 2325	71454	58538	+ 12916
1985 Q1	21704	20546	+ 1158	+ 1175	+ 979	- 996	20509	17821	+ 2688
Q2	20266	18615	+ 1651	+ 1563	+ 841	- 753	19303	16362	+ 2941
Q3	19426	17530	+ 1896	+ 1554	+ 1272	- 930	18249	14842	+ 3407
Q4	18953	18030	+ 923	+ 1413	+ 301	- 791	17862	15584	+ 2278
1986 Q1	19058	16767	+ 2291	+ 1217	+ 1175	- 101	17764	14733	+ 3031
Q2	18456	16742	+ 1714	+ 1209	+ 1089	- 584	17198	14323	+ 2875
Q3	19270	17159	+ 2111	+ 1414	+ 1508	- 811	18035	14528	+ 3507
Q4	19563	17546	+ 2017	+ 1542	+ 1304	- 829	18457	14954	+ 3503
1987 Q1	19528	17726	+ 1802	+ 1410	+ 1212	- 820	17956	14659	+ 3297

d ie excluding general Government transactions and all transfers.

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EXPORT AND IMPORT UNIT VALUE AND VOLUME INDEX NUMBERS
(Balance of Payments basis)

Table 4
Indices 1980 = 100

	Unit Value (Not seasonally adjusted)			Volume (seasonally adjusted)	
	Exports	Imports	Terms of Trade ^e	Exports	Imports
1985	143.5	145.2	98.8	118.7	126.0
1986	136.6	134.0	101.9	123.1	133.9
1986 Q1	139.0	137.6	101.0	117.5	124.9
Q2	134.8	131.5	102.6	121.9	128.8
Q3	134.3	130.2	103.1	122.6	138.5
Q4	138.1	137.0	100.8	130.5	143.4
1987 Q1	140.7	140.0	100.5	130.0	133.2
1986 Sept	135.3	132.2	102.3	126.2	139.3
Oct	137.6	135.6	101.5	127.0	139.6
Nov	138.1	136.8	100.9	132.8	146.7
Dec	138.7	138.5	100.1	131.6	143.9
1987 Jan	140.4	140.1	100.2	124.6	131.4
Feb	140.8	140.3	100.4	138.4	138.0
March	141.0	139.8	100.8	126.9	130.2
Apr	141.0	137.7	102.4	130.8	137.1
May	140.9	136.2	103.4	122.5	143.6
Mar-May 1986	135.7	133.6	101.5	119.5	127.9
Dec-Feb 1987	139.9	139.6	100.2	131.5	137.8
Mar-May 1987	141.0	137.9	102.2	126.7	137.0
% Change					
Latest 3 months on					
- previous 3 months	+ ½	- 1	+ 2	- 3½	- ½
- same 3 months					
one year ago	+ 4	+ 3	+ ½	+ 6	+ 7

^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
1985	73819	76749	123.1	133.7
1986	67459	77528	126.0	142.4
1986 Q1	17094	18484	121.6	132.1
Q2	16238	18440	123.0	136.8
Q3	16367	19550	126.5	147.2
Q4	17759	21054	133.0	153.3
1987 Q1	18125	19833	132.9	141.8
1986 Sept	5600	6547	128.8	146.2
Oct	5826	6700	130.2	148.5
Nov	5997	7254	134.9	156.6
Dec	5936	7100	133.9	154.7
1987 Jan	5765	6489	128.3	140.8
Feb	6449	6884	141.2	147.4
March	5910	6461	129.3	137.2
Apr	6105	6691	134.3	144.6
May	5836	7120	125.8	152.5
Mar-May 1986	16270	18610	121.6	135.3
Dec-Feb 1987	18150	20472	134.4	147.6
Mar-May 1987	17851	20272	129.8	144.7
% Change				
Latest 3 month on				
- previous 3 months	- 1½	- 1	- 3½	- 2
- same 3 months				
one year ago	+ 9½	+ 9	+ 7	+ 7

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

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TRADE IN OIL⁹
(Balance of Payments basis)

seasonally adjusted

	Balance of Payments basis											
	Balance of Trade in oil	Exports of Oil					Imports of Oil					
		Total	Crude Oil [SITC (REV 2) 333.0]		Rest of Division 33	Total	Crude Oil [SITC (REV 2) 333.0]		Rest of Division 33			
	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob	
1985	+ 8104	16134	13006	79.6	163.4	3128	8029	4234	26.9	157.6	3796	
1986	+ 4153	8221	6294	82.1	76.7	1927	4068	2321	32.6	71.2	1747	
1986 Q1	+ 1889	3024	2429	22.2	109.3	594	1134	722	6.7	107.1	412	
Q2	+ 772	1783	1211	18.6	65.1	572	1011	550	7.7	71.7	461	
Q3	+ 646	1529	1120	19.7	57.0	408	882	432	8.6	50.0	450	
Q4	+ 846	1886	1533	21.6	71.0	353	1041	617	9.6	64.5	424	
1987 Q1	+ 1164	2225	1824	21.9	83.4	401	1061	624	7.9	79.3	437	
1986 Sept	+ 258	534	394	6.4	61.2	140	276	111	2.0	54.5	166	
Oct	+ 226	629	511	7.2	71.4	118	403	201	3.2	63.5	202	
Nov	+ 354	632	528	7.5	70.6	104	279	178	2.8	62.8	101	
Dec	+ 266	625	494	7.0	71.0	132	359	239	3.6	66.8	121	
1987 Jan	+ 383	731	600	7.4	81.2	131	348	209	2.8	75.2	139	
Feb	+ 328	752	600	7.1	84.3	151	424	241	3.0	81.3	183	
Mar	+ 454	743	624	7.4	84.6	119	289	173	2.1	81.7	116	
Apr	+ 419	833	680	8.0	85.0	153	414	269	3.4	79.2	144	
May	+ 361	630	517	6.4	81.3	112	269	127	1.6	77.5	142	
Mar-May 86	+ 909	1954	1370	19.4	70.8	584	1045	586	7.3	80.1	459	
Dec-Feb 87	+ 977	2108	1694	21.5	79.0	414	1131	689	9.3	73.9	442	
Mar-May 87	+ 1234	2205	1821	21.7	83.8	384	971	570	7.2	79.6	402	
% Change												
Latest 3 months on previous 3 months		+ 4½	+ 7½	+ 1½	+ 6	- 7½	- 14	- 17	- 23	+ 7½	- 9	
- same 3 months one year ago		+ 13	+ 33	+ 12	+ 18	- 34	- 7	- 3	- 2	- ½	- 12	

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
1985	- 10282	61977	72259	141.8	141.8	100.0	110.6	133.0	57685	68719	114.9	142.8
1986	- 12407	64621	77028	145.1	141.5	102.6	115.2	140.5	59238	73460	117.7	151.1
1986 Q1	- 3116	15140	18257	143.0	140.0	102.1	108.2	133.8	14071	17350	111.9	143.3
Q2	- 2324	16003	18326	144.2	139.0	103.7	114.7	135.1	14455	17429	115.1	145.2
Q3	- 3519	16024	19544	145.3	140.5	103.4	114.7	143.5	14839	18668	118.5	154.3
Q4	- 3447	17454	20901	148.1	146.4	101.2	123.1	149.5	15873	20013	125.3	161.7
1987 Q1	- 2300	17411	19711	149.7	148.0	101.1	121.8	139.7	15899	18772	124.4	150.4
1986 Sept	- 1088	5569	6658	145.9	142.0	102.7	119.1	146.6	5065	6271	121.4	155.6
Oct	- 941	5665	6607	147.5	145.0	101.7	119.2	142.2	5197	6298	122.1	153.0
Nov	- 1354	5937	7291	148.1	146.4	101.2	125.5	156.1	5365	6975	127.3	168.7
Dec	- 1153	5852	7004	148.6	147.7	100.6	124.6	150.2	5311	6741	126.5	163.4
1987 Jan	- 900	5504	6404	149.5	148.4	100.7	115.4	137.1	5034	6141	118.7	148.7
Feb	- 529	6221	6750	149.5	148.0	101.0	131.6	142.7	5697	6460	134.2	154.3
Mar	- 870	5686	6557	150.1	147.6	101.7	118.5	139.1	5168	6172	120.5	148.3
Apr	- 923	5739	6662	150.0	145.3	103.3	119.8	142.4	5272	6277	122.7	151.7
May	- 1522	5660	7182	150.2	143.7	104.5	116.9	155.0	5207	6852	120.1	166.8
Mar-May 86	- 2820	15730	18550	144.0	140.1	102.8	111.9	135.2	14316	17565	113.5	144.7
Dec-Feb 87	- 2582	17577	20158	149.2	148.1	100.8	123.8	143.3	16042	19341	126.4	155.5
Mar-May 87	- 3315	17086	20401	150.1	145.5	103.2	118.4	145.5	15646	19301	121.1	155.6
% Change												
Latest 3 months on												
- previous 3 months	- 3	+ 1	+ ½	- 1½	+ 2½	- 4½	+ 1½	- 2½	-	- 4	-	-
- same 3 months one												
year ago	+ 8½	+ 10	+ 4	+ 4	+ ½	+ 6	+ 7½	+ 9½	+ 10	+ 6½	+ 7½	

^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)

£ 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	5-8 less SNAPS	5+6 less PS	6 less PS	7+8 less SNA	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital
985	78392	4971	2128	16795	52506	48473	18458	9412	9046	30015	1343	5257	13475	9940	
1986	73009	5478	2046	8683	54595	49697	18758	9692	9066	30939	1362	5712	13682	10183	
1986 Q1	18198	1228	500	3177	12799	11838	4427	2289	2137	7412	299	1317	3343	2453	
Q2	17832	1284	443	1922	13644	12214	4607	2394	2213	7607	340	1391	3353	2523	
Q3	17632	1394	542	1614	13582	12506	4800	2470	2330	7706	362	1470	3407	2467	
Q4	19347	1571	561	1970	14570	13139	4924	2539	2386	8215	361	1534	3579	2740	
1987 Q1	19637	1372	624	2309	14642	13287	4880	2507	2374	8407	459	1660	3542	2745	
1987 Mar	6444	432	183	767	4902	4419	1635	844	791	2784	165	532	1192	895	
Apr	6623	446	192	864	4921	4463	1602	835	767	2861	182	591	1175	913	
May	6342	459	164	657	4821	4378	1623	835	787	2755	156	534	1165	900	
Dec-Feb 1987	19711	1429	638	2194	14683	13282	4853	2479	2374	8429	423	1639	3565	2802	
Mar-May 1987	19408	1336	539	2289	14643	13259	4860	2514	2346	8400	504	1657	3532	2707	
% change	- 1½	- 6½	- 15	+ 4½	- ½	-	-	+ 1½	- 1	- ½	+ 19	+ 1	- 1	- 3½	

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

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

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	5-8 less SNAPS	5+6 less PS	6 less PS	7+8 less SNA	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147	
1985	119.3	119.2	106.1	171.7	110.8	115.7	118.9	133.3	107.5	113.6	99.4	111.6	121.2	107.6	
1986	123.6	129.6	117.1	175.5	114.0	116.9	121.9	139.4	108.1	113.8	93.2	117.5	120.4	106.9	
1986 Q1	117.6	119	111	178	107	112	115	131	103	109	89	109	117	103	
Q2	122.1	120	102	170	115	116	120	138	106	113	95	116	119	107	
Q3	124.4	134	126	174	113	118	125	143	111	113	97	122	120	102	
Q4	130.5	146	129	179	120	123	127	146	112	120	91	123	126	115	
1987 Q1	130.2	129	145	183	119	122	126	143	112	120	114	133	120	114	
1987 Mar	126.7	120	127	180	120	122	127	145	112	119	123	129	120	111	
Apr	130.9	124	127	203	120	123	124	142	109	122	137	148	119	112	
May	123.4	128	109	160	116	119	125	142	111	116	114	126	116	111	
Dec-Feb 1987	132.0	136	150	182	120	123	125	142	112	122	105	130	123	118	
Mar-May 1987	127.0	124	121	181	119	121	125	143	111	119	124	135	118	111	
% Change	- 4	- 8½	- 19	- 1	- 1½	- 1½	-	+ ½	- ½	- 2	+ 18	+ 3½	- 3½	- 5½	

^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 0-9	Food bever- ages and tobacco 0+1	Basic Mater- ials 2+4	Fuels 3	Total Manufac- tures 5-8	Semi-manufactures excluding precious stones & silver(PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
						Total 5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	Total Pass- enger Motor Cars j	Other Consumer j	Inter- mediate j	Capital j
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1985	143.4	134	140	155	143	142	135	139	132	147	162	147	150	141
1986	136.5	140	123	81	147	148	138	141	135	154	182	157	157	146
1986 Q1	138.9	136	128	113	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	134.2	140	120	62	148	148	137	140	135	155	186	156	159	146
Q4	138.0	142	121	72	151	150	139	141	138	157	198	161	160	148
1987 Q1	140.5	141	122	82	152	153	141	144	139	160	201	164	163	150
1987 Mar	140.9	140	124	81	153	154	141	144	139	162	202	165	166	150
Apr	140.9	140	122	81	153	154	141	145	137	162	203	164	167	150
May	140.8	139	123	80	153	154	141	145	137	163	207	163	169	149
Dec-Feb 1987	139.8	142	121	79	152	152	141	143	140	159	199	163	161	149
Mar-May 1987	140.8	140	123	81	153	154	141	145	137	162	204	164	167	150
% change	+ 1	- 1½	+ 1½	+ 2	+ 1	+ 1½	-	+ 1½	- 1½	+ 2	+ 2	+ 1	+ 4	+ ½

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

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

EXPORTS BY AREA
(Overseas Trade Statistics basis)

Table 11

£ million, fob, seasonally adjusted

	Developed Countries							Developing Countries			Centrally planned economies
	Total K	Total	European Community	Rest of W Europe	North America Total USA	Other	Total	Oil exporting countries	Other		
1985	78392	62787	38226	7438	13332	11519	3791	13876	5952	7924	1587
1986	73009	57709	35004	6963	12128	10380	3614	13139	5495	7644	1721
1986 Q1	18198	14493	8634	1745	3195	2737	919	3219	1389	1830	437
Q2	17832	13799	8328	1710	2880	2494	881	3451	1551	1900	446
Q3	17632	13944	8498	1709	2829	2432	909	3215	1317	1897	368
Q4	19347	15474	9545	1799	3225	2717	905	3254	1238	2016	470
1987 Q1	19637	15715	9330	1747	3676	3153	962	3401	1313	2088	437
1987 Mar	6444	5117	3087	581	1154	967	295	1176	480	697	143
Apr	6623	5346	3355	639	1044	883	308	1143	431	712	129
May	6342	5090	3225	651	894	725	321	1179	459	719	117
Dec-Feb 1987	19711	15830	9418	1795	3662	3116	955	3228	1218	2010	472
Mar-May 1987	19408	15553	9667	1871	3091	2575	924	3498	1370	2128	389
% change	- 1½	- 2	+ 2½	+ 4	- 16	- 17	- 3½	+ 8½	+ 12	+ 6	- 18

K See paragraph 5 of Notes to Editors.

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IMPORTS BY COMMODITY
(Overseas Trade Statistics basis)

TABLE 12

£ 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	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 less SNAPS	5+6 less PS	6 less PS	7+8 less SNA	j	j	j	j		
1985	85027	9337	5388	10664	58312	54934	19611	6901	12710	35322	4165	8884	11623	10649
1986	86066	10067	4988	6294	62833	59472	20713	7346	13367	38759	4809	10177	12706	11067
1986 Q1	20495	2452	1211	1729	14732	13883	5010	1797	3213	8873	1116	2275	2862	2619
Q2	20467	2419	1211	1522	14914	14087	5024	1795	3229	9063	1136	2412	2979	2537
Q3	21836	2564	1190	1502	16041	15199	5207	1831	3376	9992	1279	2653	3268	2792
Q4	23269	2632	1376	1541	17146	16303	5472	1922	3549	10832	1279	2838	3597	3118
1987 Q1	21819	2473	1386	1468	16148	15248	5377	1943	3434	9871	1054	2576	3289	2952
1987 Mar	7245	785	448	431	5462	5090	1813	639	1174	3277	372	885	1101	920
Apr	7482	767	481	552	5561	5190	1827	655	1173	3362	366	870	1166	961
May	7826	899	469	393	5957	5676	2003	700	1303	3674	414	951	1253	1056
*Dec-Feb 87	22360	2613	1410	1548	16396	15605	5398	1943	3455	10207	1038	2663	3367	3090
Mar-May 87	22553	2452	1399	1376	16981	15956	5644	1994	3650	10313	1152	2706	3519	2936
% change	+ 1	- 6	- 1	- 11	+ 3½	+ 2½	+ 4½	+ 2½	+ 5½	+ 1	+ 6	+ 1½	+ 4½	- 5

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

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

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	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 less SNAPS	5+6 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
1985	124.6	114.4	102.2	86.2	140.7	154.4	143.9	176.1	130.6	161.4	127.9	139.5	172.8	187.1
1986	132.8	123.5	108.7	93.4	148.2	163.0	152.0	188.0	137.2	170.4	131.6	158.3	187.0	183.1
1986 Q1	123.5	124	104	70	140	153	147	182	133	157	126	144	170	172
Q2	127.1	120	105	85	143	157	149	187	134	162	125	154	181	169
Q3	138.1	125	106	112	152	168	155	191	140	176	142	165	193	185
Q4	142.4	125	119	106	158	174	157	192	142	186	133	170	205	205
1987 Q1	130.9	120	122	91	146	161	152	191	136	166	103	156	185	187
1987 Mar	129.5	114	117	77	149	161	156	193	141	165	107	162	188	173
Apr	135.6	112	126	101	153	166	158	198	141	171	112	159	198	186
May	141.8	133	121	72	164	182	172	216	154	189	122	178	215	205
Dec-Feb 87	135.1	127	124	100	149	165	152	191	137	173	108	161	189	199
Mar-May 87	135.6	120	121	83	155	170	162	202	145	175	114	166	200	188
% change	+ ½	- 5½	- 2½	- 16	+ 4½	+ 3	+ 6	+ 6	+ 6	+ 1	+ 5½	+ 3½	+ 6	- 5½

^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, North Sea installations and aircraft (SNA)			
						Total	excluding precious stones & silver(PS)		Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital	Total	Other	Inter- mediate	Capital
							5-8 less SNAPS	5+6 less PS									
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94			
1985	143.1	137	130	172	141	141	133	139	130	146	152	147	155	134			
1986	132.5	136	113	97	143	144	133	141	130	152	170	148	158	141			
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	129.1	136	111	78	142	144	132	139	129	152	168	147	159	141			
Q4	135.1	139	115	84	149	150	136	144	133	159	178	155	167	147			
1987 Q1	137.9	138	117	94	151	152	138	147	135	162	189	155	167	151			
1987 Mar	137.7	138	116	95	151	152	138	146	134	162	190	155	166	152			
Apr	135.7	136	117	94	148	150	137	147	133	159	181	152	164	149			
May	134.4	135	116	92	147	149	137	144	134	157	185	147	164	147			
Dec-Feb 87	137.4	139	117	90	151	152	138	148	135	162	186	155	168	150			
Mar-May 87	135.9	136	116	93	149	150	137	146	133	159	186	151	165	149			
% change	- 1	- 2	-	+ 3½	- 1½	- 1½	- 1	- 1½	- 1	- 1½	- ½	- 2½	- 2	- 1			

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

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

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 Total	Other USA	Total	Oil exporting countries	Other		
1985	85027	71665	41474	12102	11709	9926	6379	11327	2815	8512	1893
1986	86066	73285	44506	11864	10054	8468	6861	10514	1877	8637	1856
1986 Q1	20495	17651	10564	3088	2352	1970	1647	2376	498	1878	422
Q2	20467	17360	10566	2729	2420	2030	1645	2540	460	2080	466
Q3	21836	18569	11426	2896	2512	2138	1735	2670	408	2262	456
Q4	23269	19705	11950	3151	2771	2331	1833	2928	511	2418	511
1987 Q1	21819	18625	11411	3060	2435	2025	1720	2540	462	2078	482
1987 Mar	7245	6149	3743	1053	841	686	513	779	146	633	172
Apr	7482	6453	3912	1107	918	787	517	830	135	695	181
May	7826	6696	4265	1036	845	722	550	936	158	778	157
Dec-Feb 87	22360	18950	11571	3055	2536	2112	1788	2784	512	2273	456
Mar-May 87	22553	19298	11919	3196	2604	2195	1579	2545	439	2106	510
% change	+ 1	+ 2	+ 3	+ 4½	+ 2½	+ 4	- 12	- 8½	- 14	- 7½	+ 12

K See paragraph 5 Notes to Editors.

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22 JUL 87

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
1985	4932	8522	- 3591	2144	4795	- 2651	16795	10233	+ 6562
1986	5439	9256	- 3817	2058	4410	- 2353	8683	5865	+ 2819
1985 Q2	1277	2157	- 880	537	1241	- 704	4481	2474	+ 2007
Q3	1260	2126	- 866	532	1173	- 641	3576	2134	+ 1442
Q4	1194	2083	- 889	504	1070	- 566	3862	2237	+ 1625
1986 Q1	1219	2242	- 1023	504	1092	- 588	3177	1637	+ 1540
Q2	1271	2209	- 937	445	1076	- 631	1922	1419	+ 503
Q3	1383	2372	- 989	545	1020	- 475	1614	1368	+ 246
Q4	1565	2433	- 868	564	1223	- 658	1970	1441	+ 530
1987 Q1	1354	2285	- 931	629	1232	- 603	2308	1413	+ 895
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
1985	20051	19949	+ 102	32221	35324	- 3103	52271	55273	- 3002
1986	20946	21559	- 613	33540	38324	- 4784	54486	59883	- 5397
1985 Q2	5207	5076	+ 131	8208	9101	- 893	13415	14177	- 761
Q3	4865	5125	- 260	7962	8379	- 417	12827	13504	- 678
Q4	4952	4900	+ 53	8096	8645	- 549	13048	13545	- 497
1986 Q1	4851	5292	- 441	7925	8745	- 819	12777	14037	- 1260
Q2	5221	5177	+ 43	8395	9047	- 653	13615	14224	- 609
Q3	5290	5361	- 71	8230	9898	- 1668	13520	15259	- 1739
Q4	5585	5729	- 144	8990	10634	- 1645	14575	16363	- 1788
1987 Q1	5474	5652	- 178	9190	9748	- 558	14664	15400	- 736

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

BIF 2317



FROM: CATHY RYDING

DATE: 20 July 1987

MR BOTTRILL

cc PS/Paymaster General
PS/Sir P Middleton
Mr Cassell
Mr Sedgwick**TIMING OF QUARTERLY BALANCE OF PAYMENTS PRESS NOTICE**

The Chancellor has seen Peter Stibbard's minute to PS/Minister for Trade of 17 July and has commented that this seems sensible.

2. The Chancellor would be grateful to know if the Q4 1987 figures will be published by Budget Day. We will want to have the full 1987 outturn in the FSBR.

A handwritten signature in cursive script, appearing to be 'CR'.

CATHY RYDING

PUP

THE CURRENT ACCOUNT - TABLE 2

Balance of payments basis
£ million: seasonally adjusted

	CURRENT BALANCE fob	EXPORTS fob	IMPORTS fob	VISIBLE TOTAL	BALANCES: OIL	NON-OIL	INVISIBLE BALANCE
1985	3450	78111	80289	-2178	8104	-10282	5628
1986	-120	72843	81096	-8253	4153	-12407	8133
1986 Q1	1064	18164	19391	-1227	1889	-3116	2291
Q2	163	17786	19337	-1551	772	-2324	1714
Q3	-762	17553	20426	-2873	646	-3519	2111
Q4	-585	19340	21942	-2602	846	-3447	2017
1987 Q1	667	19637	20772	-1135	1164	-2300	1802
1986 SEP	-127	6103	6934	-831	258	-1088	704
OCT	-43	6294	7009	-715	226	-941	672
NOV	-327	6569	7569	-1000	354	-1354	673
DEC	-215	6477	7364	-887	266	-1153	672
1987 JAN	84	6235	6752	-517	383	-900	601
FEB	398	6973	7174	-202	328	-529	600
MAR	184	6429	6846	-417	454	-870	601
APR	96	6572	7076	-504	419	-923	600
MAY	-561	6290	7450	-1161	361	-1522	600
MAR-MAY 86	-150	17684	19595	-1911	909	-2820	1761
DEC-FEB 87	268	19684	21290	-1605	977	-2582	1873
MAR-MAY 87	-280	19291	21372	-2081	1234	-3315	1801

PERCENTAGE CHANGES:-

LATEST 3 MONTHS ON PREVIOUS 3 MONTHS	-2.0%	0.5%
SAME 3 MONTHS ONE YEAR AGO	9.0%	9.0%

JAN-MAY 86	1267	30083	32250	-2167	2425	-4591	3434
JAN-MAY 87	202	32498	35298	-2800	1944	-4744	3002

Ch
(full note on imports later. main increase is in volume of manufs.)

Cathy
State in this will say if this is the highest for months, current a/c deficit/trade deficit/non-m trade deficit.

MA

The X is budget day is budgeted for 15 March, but at 15 March, take in like jobs for 1984 Budget in 15 March.

FROM: A BOTTRILL

DATE: 22 July 1987

CHANCELLOR

cc: PS/Paymaster-General
PS/Sir P Middleton
Mr Cassell
Mr Sedgwick
Mr Hibbert - CSO
Mr Wells - CSO
Mr Stibbard - DTII

TIMING OF QUARTERLY BALANCE OF PAYMENTS PRESS NOTICE

I have checked with Mr Wells, Assistant Director at the CSO, and have been assured that as long as the Budget is not before 13 March, then it should be possible to publish the fourth quarter balance of payments figures by Budget Day. Budget dates in the past five years are set out below:

1987	17 March
1986	18 March
1985	19 March
1984	13 March
1983	15 March

The CSO will take account of the need to have the fourth quarter figures published in time for the Budget in setting their timetable each year.

2. The important consideration is to ensure that the balance of payments numbers published in the Budget forecast and FSBR are consistent with those appearing in the balance of payments press notice. This requires the numbers to be available about a week before Budget Day. The CSO therefore will endeavour to ensure that the numbers in the FSBR are consistent with any balance of payments figures published around the time of the Budget.

2. The CSO will normally announce the publication date for the fourth quarter figures in the press notice on release dates that appears in mid-February.

ABottrill

A BOTTRILL

X

(No 10 Briefing. P.2)
PM Questions
PWP

BALANCE OF PAYMENT FIGURES

	MAY	APRIL
VISIBLE TRADE DEFICIT	1161 ✓	504 ✓
INVISIBLE SURPLUS	*600 ✓	*600 ✓
CURRENT ACCOUNT	-*561 ✓	+*96 ✓

SO FAR THIS YEAR THE CURRENT ACCOUNT IS IN SURPLUS BY SOME £200 MILLION COMPARED WITH A DEFICIT OF OVER £1.3 BILLION IN THE SECOND HALF OF 1986. THAT IS A PERFORMANCE WHICH FEW WOULD HAVE PREDICTED. IT IS NOT POSSIBLE TO SET ANY GREAT STORE ON ONE MONTH'S FIGURES, BUT IN ANY CASE THE FORECAST, AS SET OUT AT THE TIME OF THE BUDGET, WAS FOR A DEFICIT OF £2.5 BILLION THIS YEAR OR 1/2 PER CENT OF GDP. 1/2 % GDP.

THE ECONOMY HAS COME THROUGH A YEAR LONG COAL STRIKE AND MAJOR FLUCTUATIONS IN THE PRICE OF OIL WITHOUT CRISIS.

WE ARE NOW IN THE 7TH SUCCESSIVE YEAR OF GROWTH WITH LOW INFLATION.

EXPORTS

- EXPORT VOLUMES (EXCLUDING OIL AND ERRATICS) IN THE THREE MONTHS TO MAY WERE 6 1/2 PER CENT HIGHER THAN A YEAR AGO. OUR EXPORT GROWTH IS STRONGER THAN IN MOST OF OUR COMPETITOR COUNTRIES. THE CBI SURVEY FOR JUNE SHOWED THAT EXPORT ORDER BOOKS WERE BUOYANT.
- MANUFACTURED EXPORTS HAVE INCREASED THEIR MARKET SHARE OF WORLD TRADE IN VOLUME TERMS SINCE 1981.
- LAST YEAR EXPORTS WERE AT A RECORD LEVEL IN VOLUME TERMS.
- ALL THE EVIDENCE IS THAT BRITISH BUSINESS IS NOW ABLE TO RESPOND TO OPPORTUNITIES BETTER THAN FOR VERY MANY YEARS. [THE CAR INDUSTRY SHOWS WHAT IS BEING ACHIEVED. [FIGURES TO COME.]] *we suggest you leave this out. Imports figure v bad + 5 1/2% 3mths on 3mths*

IMPORTS

*OR, but may be too technical
Semi-manufactured and intermediate goods rising as industry expands (6% 3mths on 3mths)*

- THERE HAS BEEN SOME RISE IN IMPORTS WHICH REFLECTS THE STRONG GROWTH IN OUR ECONOMY AND RISING REAL INCOMES. IMPORTS OF MATERIALS AND OTHER INPUTS TO MANUFACTURING ARE RISING AS INDUSTRY EXPANDS
- THE FORECAST FOR THE ECONOMY THIS YEAR IS A VERY BALANCED ONE, WITH CONSUMER EXPENDITURE, INVESTMENT AND MANUFACTURING OUTPUT ALL FORECAST TO GROW BY 4 PER CENT.
- IMPORT VOLUMES IN THE LAST THREE MONTHS HAVE RISEN BY 7 1/2 PER CENT ON A YEAR AGO, EXPORT VOLUMES BY 6 1/2 PER CENT.

LABOUR'S RECORD

- SINCE 1979 THERE HAS BEEN A CUMULATIVE SURPLUS ON CURRENT ACCOUNT OF £20 BILLION. BETWEEN 1974 AND 1979 THERE WAS A DEFICIT ON CURRENT ACCOUNT OF OVER £5 BILLION.

*PROVISIONAL

22/7/87 KK10/16



FROM: A C S ALLAN
DATE: 24 July 1987

pus

MR BOTTRILL

cc: PS/PMG
PS/Sir P Middleton
Mr Cassell
Mr Sedgwick

TIMING OF QUARTERLY BALANCE OF PAYMENTS PRESS NOTICE

The Chancellor was grateful for your minute of 22 July. He notes that so long as the Budget is not before 13 March then it should be possible to publish to the fourth quarter balance of payments figures by Budget day. This seems satisfactory.

ACSA

A C S ALLAN

1 Andre
2 pup



FROM: A C S ALLAN
DATE: 24 July 1987

CHANCELLOR

cc Mr Culpin

CURRENT ACCOUNT FIGURES

I learn from Tony Bottrill that we are pretty likely to see the current account deficit for 1986 revised back to £1 billion. This is about half because of revised Bank of England estimates of banks' overseas earnings and half because of revised DTI figures for imports of goods (they have found another oil platform).

2. This will leak out in dribs and drabs: the CSO publish figures for the overseas earnings of the City next Thursday, (30 July). And the revised import figures will be in the CSO **P**ink **B**ook published on 21 August. It is not yet clear when the CSO would next revise their figures for 1987: probably not until the next quarterly balance of payments figures in September.

AA

A C S ALLAN



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

✓
6 August 1987

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

Publication is set for Tuesday 11 August at 11.30 am and I should be grateful if you would arrange for the Notice to be cleared by 12.00 noon Monday 10 August and to inform me accordingly.

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

Yours sincerely

W. E. Boyd

W E BOYD

SECRET AND PERSONAL until release of Press Notice

on 11/8/87 at 11.30 am

The current account of the United Kingdom balance of payments

JUNE 1987

The current account for June, seasonally adjusted, was estimated to have been in deficit by £168 million compared with a deficit of £527 million in May. In June, exports - seasonally adjusted on a balance of payments basis - were valued at £6373 million and imports at £7140 million so that trade in goods was in deficit by £768 million.

The balance on invisibles 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.

SECOND QUARTER 1987

In the second quarter of 1987, the current account showed a deficit of £0.6 billion compared with a surplus of £0.7 billion in the first quarter. There was a deficit on visible trade of £2.4 billion in the second quarter compared with a deficit of £1.1 billion in the first quarter. The surplus on invisibles in the second quarter of this year 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	
1985	+ 3450	-2178	78111	80289	+ 5628
1986	- 120	-8253	72843	81096	+ 8133
1986 Q1	+ 1064	-1227	18164	19391	+ 2291
Q2	+ 163	-1551	17786	19337	+ 1714
Q3	- 762	-2873	17553	20426	+ 2111
Q4	- 585	-2602	19340	21942	+ 2017
1987 Q1	+ 667	-1135	19637	20772	+ 1802
Q2	- 630 ^a	-2430	19323	21753	+ 1800 ^a
1987 Jan	+ 84	- 517	6235	6752	+ 601
Feb	+ 398	- 202	6973	7174	+ 600
March	+ 184	- 417	6429	6846	+ 601
April	+ 64 ^a	- 536	6604	7140	+ 600 ^a
May	- 527 ^a	-1127	6347	7473	+ 600 ^a
June	- 168 ^a	- 768	6373	7140	+ 600 ^a
Jan-June 1987	+ 37 ^a	-3565	38960	42525	+ 3602 ^a

^a Invisibles for April to June 1987 are projections.

^b 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.

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VISIBLE TRADE IN JUNE 1987

There was a deficit on visible trade in June of £768 million compared with a deficit of £1127 million in May. At £242 million, the surplus on oil was £119 million less than in May. The deficit on non-oil trade was reduced by £478 million.

At £6373 million, exports in June were £26 million ($\frac{1}{2}$ per cent) higher than in May. Exports of both oil and of the erratic items were little changed in June and excluding these exports increased by $\frac{1}{2}$ per cent between May and June.

Total imports were valued at £7140 million in June which was £333 million ($4\frac{1}{2}$ per cent) less than in May. Imports of oil rose by £105 million between the two months and imports of the erratic items increased by £18 million. Excluding oil and the erratic items, imports fell by $6\frac{1}{2}$ per cent between May and June to a level about 1 per cent higher than in April.

RECENT TRENDS

Visible balance

In the second quarter of this year there was a deficit on visible trade of £2.4 billion - a surplus on trade in oil of £1.0 billion offset by a deficit on non-oil trade of £3.5 billion. Between the first and second quarters of the year, the visible trade balance deteriorated by £1.3 billion - the surplus on oil fell by £0.1 billion while the deficit on non-oil trade rose by £1.2 billion.

Exports

Exports amounted to £19.3 billion in the second quarter, £0.3 billion ($1\frac{1}{2}$ per cent) less than in the first quarter. Exports of oil fell by £0.1 billion between the two quarters and exports of the erratic items also fell by £0.1 billion. Excluding oil and the erratic items, exports showed virtually no change in value terms between the first and second quarters.

By volume, exports fell by 3 per cent between the first and second quarters to a level $3\frac{1}{2}$ per cent higher than that of the second quarter of last year. Excluding oil and the erratic items, export volume decreased by $1\frac{1}{2}$ per cent between the first and second quarters but stands 6 per cent up on the second quarter of 1986. Examination of the underlying trend suggests that non-oil exports have settled at a level a little below the high totals reached at the end of last year.

Imports

Total imports were valued at £21.8 billion in the second quarter, £1.0 billion ($4\frac{1}{2}$ per cent) higher than in the first quarter. Imports of oil were little changed between the two quarters while imports of the erratic items grew by £0.1 billion. Excluding oil and the erratic items, the value of imports increased by $4\frac{1}{2}$ per cent between the first and second quarters.

By volume, imports increased by $5\frac{1}{2}$ per cent between the two most recent quarters to be 9 per cent higher than in the second

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quarter of last year. Excluding oil and the erratic items, the growth in import volume between the first and second quarters of this year was also $5\frac{1}{2}$ per cent with the second quarter of this year $9\frac{1}{2}$ per cent up on the second quarter of 1986. Recent figures of imports have fluctuated so much that the trend is difficult to discern. A tentative broad assessment is that the underlying level during the first half of 1987 has been flat, slightly below the peak in the last quarter of 1986.

Terms of trade and unit values

The terms of trade index rose by around 3 per cent between the first and second quarters with the export unit value index increasing by $\frac{1}{2}$ per cent and the import unit value index falling by $2\frac{1}{2}$ per cent. Compared with the second quarter of last year, the export unit value index is up by $4\frac{1}{2}$ per cent and the import unit value index is up by 4 per cent. As a result the terms of trade index is now $\frac{1}{2}$ per cent higher than a year ago.

Export unit values for fuels fell by 1 per cent between the first quarter of this year and the second quarter while the unit value index for non-oil exports increased by $\frac{1}{2}$ per cent. Within the total for non-oil exports, the unit values for finished manufactures grew by $1\frac{1}{2}$ per cent between the two quarters accounting for most of the rise.

Import unit values for fuels were down by 1 per cent in the second quarter while those for the total of non-oil goods were

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down by $2\frac{1}{2}$ per cent. Consumer goods, including cars, showed the largest fall in unit values (about 4 per cent).

Analysis by area

The value of exports to the developed countries fell by $1\frac{1}{2}$ per cent and exports to the developing countries increased by $1\frac{1}{2}$ per cent. Within the total for the developed countries, exports to Western Europe grew by $5\frac{1}{2}$ per cent while deliveries to North America were down by 21 per cent.

Imports from the developed countries grew by 5 per cent between the two quarters with imports from Western Europe up $5\frac{1}{2}$ per cent, imports from North America up $7\frac{1}{2}$ per cent and imports from the other developed countries down by 2 per cent. Imports from the developing countries increased by $5\frac{1}{2}$ per cent between the two quarters.

NOTES TO EDITORS

REVISIONS

1 An investigation by Customs and Excise into the effects of industrial action on the processing of import and export entries has resulted in some adjustments to the figures for April and May to take account of unprocessed documents attributable to those months. These adjustments have been made to the Balance of Payments based figures (tables 1 to 7 and 16), but not to the OTS figures (tables 8 to 15). The figures for June incorporate a similar adjustment. The amounts involved are as follows:

	<u>Adjustment for unprocessed documents</u>			
	April	May	June	£ million
Exports	+32	+57	+72	
Imports	+64	+23	+35	

2 Estimates of the invisibles account are based on quarterly and annual inquiries addressed to a sample of those engaging in the relevant transactions. In some parts of the account the information available is incomplete and subject to significant errors of estimation. Monthly figures of the invisibles balance are quarterly estimates and projections, expressed at a monthly rate. For the most recent months, the figures are projections - rounded to the nearest £100 million to emphasise their likely margins of error - which are superseded by figures from the quarterly balance of payments estimates published in early March, June, September and December. If there is strong evidence from early quarterly information that the first quarterly estimates will differ substantially from the latest published projections, a revised set of projections is included in the monthly press notice prior to the issue of the quarterly estimates. A short article on estimates and projections of the monthly invisible balance was published in the December issue of Economic Trends. This article is reproduced in the Standard Notes (see para 7 below).

MONTHLY REVIEW OF EXTERNAL TRADE STATISTICS

4 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 which includes the annual supplement. Individual copies are priced at £3, (£6 for the annual supplement).

AREA (tables 11 and 15)

5 Low value consignments ie items of an individual values 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.

STANDARD NOTES

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

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

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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	
1985	+ 3450	78111	80289	- 2178	+ 8104	- 10282	+ 5628
1986	- 120	72843	81096	- 8253	+ 4153	- 12407	+ 8133
1986 Q2	+ 163	17786	19337	- 1551	+ 772	- 2324	+ 1714
Q3	- 762	17553	20426	- 2873	+ 646	- 3519	+ 2111
Q4	- 585	19340	21942	- 2602	+ 846	- 3447	+ 2017
1987 Q1	+ 667	19637	20772	- 1135	+ 1164	- 2300	+ 1802
Q2	- 630a	19323	21753	- 2430	+ 1022	- 3452	+ 1800a
1986 Oct	- 43	6294	7009	- 715	+ 226	- 941	+ 672
Nov	- 327	6569	7569	- 1000	+ 354	- 1354	+ 673
Dec	- 215	6477	7364	- 887	+ 266	- 1153	+ 672
1987 Jan	+ 84	6235	6752	- 517	+ 383	- 900	+ 601
Feb	+ 398	6973	7174	- 202	+ 328	- 529	+ 600
March	+ 184	6429	6846	- 417	+ 454	- 870	+ 601
Apr	+ 64 a	6604	7140	- 536	+ 419	- 955	+ 600 a
May	- 527 a	6347	7473	- 1127	+ 361	- 1488	+ 600 a
June	- 168 a	6373	7140	- 768	+ 242	- 1009	+ 600 a
% Change							
Latest 3 months							
- on previous 3 months		- 1½	+ 4½				
- Same 3 months one year ago		+ 8½	+12				

a Invisibles for April to June 1987 are projections.

b Monthly figures are one third of the appropriate calendar quarter's estimate or projection.

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	65279	61130	+ 4149	+ 3651	+ 2581	- 2083	60649	52791	+ 7858
1984	76983	71012	+ 5971	+ 3827	+ 4419	- 2275	72086	61932	+ 10154
1985	80349	74721	+ 5628	+ 5705	+ 3393	- 3470	75923	64609	+ 11314
1986	76347	68214	+ 8133	+ 5382	+ 5076	- 2325	71454	58538	+ 12916
1985 Q1	21704	20546	+ 1158	+ 1175	+ 979	- 996	20509	17821	+ 2688
Q2	20266	18615	+ 1651	+ 1563	+ 841	- 753	19303	16362	+ 2941
Q3	19426	17530	+ 1896	+ 1554	+ 1272	- 930	18249	14842	+ 3407
Q4	18953	18030	+ 923	+ 1413	+ 301	- 791	17862	15584	+ 2278
1986 Q1	19058	16767	+ 2291	+ 1217	+ 1175	- 101	17764	14733	+ 3031
Q2	18456	16742	+ 1714	+ 1209	+ 1089	- 584	17198	14323	+ 2875
Q3	19270	17159	+ 2111	+ 1414	+ 1508	- 811	18035	14528	+ 3507
Q4	19563	17546	+ 2017	+ 1542	+ 1304	- 829	18457	14954	+ 3503
1987 Q1	19528	17726	+ 1802	+ 1410	+ 1212	- 820	17956	14659	+ 3297

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
1985	143.5	145.2	98.8	118.7	126.0
1986	136.6	134.0	101.9	123.1	133.9
1986 Q2	134.8	131.5	102.6	121.9	128.8
Q3	134.3	130.2	103.1	122.6	138.5
Q4	138.1	137.0	100.8	130.5	143.4
1987 Q1	140.7	140.0	100.5	130.0	133.2
Q2	141.2	136.7	103.3	126.0	140.4
1986 Oct	137.6	135.6	101.5	127.0	139.6
Nov	138.1	136.8	100.9	132.8	146.7
Dec	138.7	138.5	100.1	131.6	143.9
1987 Jan	140.4	140.1	100.2	124.6	131.4
Feb	140.8	140.3	100.4	138.4	138.0
March	141.0	139.8	100.8	126.9	130.2
Apr	141.0	137.7	102.4	131.4	138.4
May	140.9	136.2	103.4	123.5	144.0
June	141.6	136.2	104.0	123.1	138.7
% Change					
Latest 3 months on					
- previous 3 months	+ ½	- 2½	+ 3	- 3	+ 5½
- same 3 months					
one year ago	+ 4½	+ 4	+ ½	+ 3½	+ 9

^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
1985	73819	76749	123.1	133.7
1986	67459	77528	126.0	142.4
1986 Q2	16238	18440	123.0	136.8
Q3	16367	19550	126.5	147.2
Q4	17759	21054	133.0	153.3
1987 Q1	18125	19833	132.9	141.8
Q2	17942	20691	129.3	148.6
1986 Oct	5826	6700	130.2	148.5
Nov	5997	7254	134.9	156.6
Dec	5936	7100	133.9	154.7
1987 Jan	5765	6489	128.3	140.8
Feb	6449	6884	141.2	147.4
March	5910	6461	129.3	137.2
Apr	6137	6755	135.0	145.9
May	5893	7143	126.9	153.0
June	5912	6793	126.1	146.9
% Change				
Latest 3 months on				
- previous 3 months	- 1	+ 4½	- 2½	+ 5
- same 3 months				
one year ago	+10	+12	+ 5	+ 8½

^f These are defined as ships, North Sea installations, aircraft, precious stones, and silver.**SECRET**and personal
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TRADE IN OIL⁹
(Balance of Payments basis)

seasonally adjusted

	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				Avg value					Avg value	
	£	£	£	million	per tonne	£	£	£	million	per tonne	£
	million	million	million	million	£ fob	million	million	million	million	£ fob	million
	fob	fob	fob	tonnes		fob	fob	fob	tonnes		fob
1985	+ 8104	16134	13006	79.6	163.4	3128	8029	4234	26.9	157.6	3796
1986	+ 4153	8221	6294	82.1	76.7	1927	4068	2321	32.6	71.2	1747
1986	Q2 + 772	1783	1211	18.6	65.1	572	1011	550	7.7	71.7	461
	Q3 + 646	1529	1120	19.7	57.0	408	882	432	8.6	50.0	450
	Q4 + 846	1886	1533	21.6	71.0	353	1041	617	9.6	64.5	424
1987	Q1 + 1164	2225	1824	21.9	83.4	401	1061	624	7.9	79.3	437
	Q2 + 1022	2078	1662	19.9	83.7	416	1056	658	8.3	79.3	398
1986	Oct + 226	629	511	7.2	71.4	118	403	201	3.2	63.5	202
	Nov + 354	632	528	7.5	70.6	104	279	178	2.8	62.8	101
	Dec + 266	625	494	7.0	71.0	132	359	239	3.6	66.8	121
1987	Jan + 383	731	600	7.4	81.2	131	348	209	2.8	75.2	139
	Feb + 328	752	600	7.1	84.3	151	424	241	3.0	81.3	183
	Mar + 454	743	624	7.4	84.6	119	289	173	2.1	81.7	116
	Apr + 419	833	680	8.0	85.0	153	414	269	3.4	79.2	144
	May + 361	630	517	6.4	81.3	112	269	127	1.6	77.5	142
	June + 242	615	465	5.5	84.5	151	374	261	3.3	80.2	112
% Change											
Latest 3											
months on											
- previous		- 6½	- 9	- 9	+ ½	+ 3½	- ½	+ 5½	+ 5½	-	- 9
3 months											
- same 3											
months one		+17	+37	+ 6½	+29	-27	+ 4½	+20	+ 8½	+10	-14
year ago											

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)		
				Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
	Balance of non oil trade	Exports	Imports	Exports	Imports	Terms of Trade ^e	Exports	Imports	Exports	Imports	Exports	Imports	
1985	- 10282	61977	72259	141.8	141.8	100.0	110.6	133.0	57685	68719	114.9	142.8	
1986	- 12407	64621	77028	145.1	141.5	102.6	115.2	140.5	59238	73460	117.7	151.1	
1986	Q2	- 2324	16003	18326	144.2	139.0	103.7	114.7	135.1	14455	17429	115.1	145.2
	Q3	- 3519	16024	19544	145.3	140.5	103.4	114.7	143.5	14839	18668	118.5	154.3
	Q4	- 3447	17454	20901	148.1	146.4	101.2	123.1	149.5	15873	20013	125.3	161.7
1987	Q1	- 2300	17411	19711	149.7	148.0	101.1	121.8	139.7	15899	18772	124.4	150.4
	Q2	- 3452	17246	20697	150.3	144.1	104.3	119.1	148.4	15864	19635	122.3	159.0
1986	Oct	- 941	5665	6607	147.5	145.0	101.7	119.2	142.2	5197	6298	122.1	153.0
	Nov	- 1354	5937	7291	148.1	146.4	101.2	125.5	156.1	5365	6975	127.3	168.7
	Dec	- 1153	5852	7004	148.6	147.7	100.6	124.6	150.2	5311	6741	126.5	163.4
1987	Jan	- 900	5504	6404	149.5	148.4	100.7	115.4	137.1	5034	6141	118.7	148.7
	Feb	- 529	6221	6750	149.5	148.0	101.0	131.6	142.7	5697	6460	134.2	154.3
	Mar	- 870	5686	6557	150.1	147.6	101.7	118.5	139.1	5168	6172	120.5	148.3
	Apr	- 955	5771	6726	150.0	145.3	103.3	120.4	143.8	5304	6341	123.5	153.3
	May	- 1488	5717	7205	150.2	143.7	104.5	118.0	155.5	5264	6875	121.4	167.3
	June	- 1009	5757	6767	150.6	143.3	105.1	118.9	146.0	5296	6419	122.0	156.4
% Change													
Latest 3 months on													
- previous 3 months													
- same 3 months one													
year ago													
		+ 8	+13	+ 4	+ 3½	+ ½	+ 4	+10	+ 9½	+13	+ 6	+ 9½	

^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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£ 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	Chem- icals	Other	Total	Pass- enger 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
985	78392	4971	2128	16795	52506	48473	18458	9412	9046	30015	1343	5257	13475	9940
1986	73009	5478	2046	8683	54595	49697	18758	9692	9066	30939	1362	5712	13682	10183
1986 Q2	17832	1284	443	1922	13644	12214	4607	2394	2213	7607	340	1391	3353	2523
Q3	17632	1394	542	1614	13582	12506	4800	2470	2330	7706	362	1470	3407	2467
Q4	19347	1571	561	1970	14570	13139	4924	2539	2386	8215	361	1534	3579	2740
1987 Q1	19637	1372	624	2309	14642	13287	4880	2507	2374	8407	459	1660	3542	2745
Q2	19316	1347	543	2158	14614	13260	4880	2498	2381	8380	488	1653	3517	2722
1987 Apr	6623	446	192	864	4921	4463	1602	835	767	2861	182	591	1175	913
May	6342	459	164	657	4821	4378	1623	835	787	2755	156	534	1165	900
June	6351	443	188	636	4872	4420	1655	828	827	2764	150	527	1178	909
Percentage change Q2/Q1	- 1½	- 2	- 13	- 6½	-	-	-	- ½	+ ½	- ½	+ 6½	- ½	- ½	- 1

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

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

EXPORTS BY 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	Chem- icals	Other	Total	Pass- enger 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	69	31	136	735	658	252	112	141	406	18	71	170	147
1985	119.3	119.2	106.1	171.7	110.8	115.7	118.9	133.3	107.5	113.6	99.4	111.6	121.2	107.6
1986	123.6	129.6	117.1	175.5	114.0	116.9	121.9	139.4	108.1	113.8	93.2	117.5	120.4	106.9
1986 Q2	122.1	120	102	170	115	116	120	138	106	113	95	116	119	107
Q3	124.4	134	126	174	113	118	125	143	111	113	97	122	120	102
Q4	130.5	146	129	179	120	123	127	146	112	120	91	123	126	115
1987 Q1	130.2	129	145	183	119	122	126	143	112	120	114	133	120	114
Q2	125.7	124	120	171	118	121	125	140	113	118	120	133	118	112
1987 Apr	130.9	124	127	203	120	123	124	142	109	122	137	148	119	112
May	123.4	128	109	160	116	119	125	142	111	116	114	126	116	111
June	123.0	121	124	149	118	121	127	136	119	117	109	125	118	112
Percentage change Q2/Q1	- 3½	- 3½	-17	- 7	- 1	- 1	- ½	- 2½	+ 1½	- 1½	+ 5½	-	- 1½	- 2½

^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	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	69	31	136	735	658	252	112	141	406	18	71	170	147
1985	143.4	134	140	155	143	142	135	139	132	147	162	147	150	141
1986	136.5	140	123	81	147	148	138	141	135	154	182	157	157	146
1986 Q2	134.7	141	124	74	146	147	138	142	134	153	179	156	156	145
Q3	134.2	140	120	62	148	148	137	140	135	155	186	156	159	146
Q4	138.0	142	121	72	151	150	139	141	138	157	198	161	160	148
1987 Q1	140.5	141	122	82	152	153	141	144	139	160	201	164	163	150
Q2	141.0	140	123	81	153	154	141	145	137	162	204	163	168	150
1987 Apr	140.9	140	122	81	153	154	141	145	137	162	203	164	167	150
May	140.8	139	123	80	153	154	141	145	137	163	207	163	169	149
June	141.5	140	124	82	153	154	141	146	138	162	203	163	169	150
Percentage change Q2/Q1	+ ½	- 1	+ ½	- 1	+ ½	+ 1	- ½	+ 1	- 1½	+ 1½	+ 2	- ½	+ 3½	-

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

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

EXPORTS BY AREA
(Overseas Trade Statistics basis)

Table 11

£ million, fob, seasonally adjusted

	Total K	Developed Countries					Developing Countries			Centrally planned economies	
		Total	European Community	Rest of W Europe	North America Total USA	Other	Total	Oil exporting countries	Other		
1985	78392	62787	38226	7438	13332	11519	3791	13876	5952	7924	1587
1986	73009	57709	35004	6963	12128	10380	3614	13139	5495	7644	1721
1986 Q2	17832	13799	8328	1710	2880	2494	881	3451	1551	1900	446
Q3	17632	13944	8498	1709	2829	2432	909	3215	1317	1897	368
Q4	19347	15474	9545	1799	3225	2717	905	3254	1238	2016	470
1987 Q1	19637	15715	9330	1747	3676	3153	962	3401	1313	2088	437
Q2	19316	15515	9789	1903	2886	2407	937	3445	1306	2139	337
1987 Apr	6623	5346	3355	639	1044	883	308	1143	431	712	129
May	6342	5090	3225	651	894	725	321	1179	459	719	117
June	6351	5079	3210	613	949	800	308	1123	416	707	91
Percentage change Q2/Q1	- 1½	- 1½	+ 5	+ 9	- 21	- 24	- 2½	+ 1½	- ½	+ 2½	- 23

K See paragraph 5 of Notes to Editors.

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IMPORTS BY COMMODITY
(Overseas Trade Statistics basis)

Table 12

£ 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	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	
1985	85027	9337	5388	10664	58312	54934	19611	6901	12710	35322	4165	8884	11623	10649
1986	86066	10067	4988	6294	62833	59472	20713	7346	13367	38759	4809	10177	12706	11067
1986 Q2	20467	2419	1211	1522	14914	14087	5024	1795	3229	9063	1136	2412	2979	2537
Q3	21836	2564	1190	1502	16041	15199	5207	1831	3376	9992	1279	2653	3268	2792
Q4	23269	2632	1376	1541	17146	16303	5472	1922	3549	10832	1279	2838	3597	3118
1987 Q1	21819	2473	1386	1468	16148	15248	5377	1943	3434	9871	1054	2576	3289	2952
Q2	22819	2450	1411	1465	17176	16183	5686	2024	3662	10497	1196	2785	3549	2967
1987 Apr	7482	767	481	552	5561	5190	1827	655	1173	3362	366	870	1166	961
May	7826	899	469	393	5957	5676	2003	700	1303	3674	414	951	1253	1056
June	7511	783	460	520	5658	5317	1856	669	1186	3461	416	964	1131	950
Q2/Q1														
Percentage change	+ 4½	- 1	+ 2	-	+ 6½	+ 6	+ 5½	+ 4	+ 6½	+ 6½	+13	+ 8	+ 8	+ ½

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

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

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	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
1985	124.6	114.4	102.2	86.2	140.7	154.4	143.9	176.1	130.6	161.4	127.9	139.5	172.8	187.1
1986	132.8	123.5	108.7	93.4	148.2	163.0	152.0	188.0	137.2	170.4	131.6	158.3	187.0	183.1
1986 Q2	127.1	120	105	85	143	157	149	187	134	162	125	154	181	169
Q3	138.1	125	106	112	152	168	155	191	140	176	142	165	193	185
Q4	142.4	125	119	106	158	174	157	192	142	186	133	170	205	205
1987 Q1	130.9	120	122	91	146	161	152	191	136	166	103	156	185	187
Q2	137.8	120	122	90	158	173	163	205	146	179	121	172	203	192
1987 Apr	135.6	112	126	101	153	166	158	198	141	171	112	159	198	186
May	141.8	133	121	72	164	182	172	216	154	189	122	178	215	205
June	136.1	114	120	97	156	171	160	203	143	178	128	178	196	184
Q2/Q1														
Percentage change	+ 5½	- ½	+ ½	- 1	+ 8	+ 7½	+ 7	+ 7½	+ 7	+ 8	+18	+10	+ 9½	+ 2½

^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 beverages and tobacco				Basic Materials	Fuels	Total Manufactures	Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)					
		0-9	0+1	2+4	3				5-8	5-8 less SNAPS	5+6 less PS	6 less PS	7+8 less SNA	Passenger Motor Cars	Other Consumer	Inter-mediate	Capital
1985	143.1	137	130	172	141	141	133	139	130	146	152	147	155	134			
1986	132.5	136	113	97	143	144	133	141	130	152	170	148	158	141			
1986 Q2	130.1	135	113	96	140	142	131	139	128	148	169	144	153	139			
Q3	129.1	136	111	78	142	144	132	139	129	152	168	147	159	141			
Q4	135.1	139	115	84	149	150	136	144	133	159	178	155	167	147			
1987 Q1	137.9	138	117	94	151	152	138	147	135	162	189	155	167	151			
Q2	134.8	136	117	93	147	149	137	145	133	157	183	149	164	148			
1987 Apr	135.7	136	117	94	148	150	137	147	133	159	181	152	164	149			
May	134.4	135	116	92	147	149	137	144	134	157	185	147	164	147			
June	134.3	136	117	94	146	148	137	145	133	156	181	147	164	147			
Q2/Q1																	
Percentage change	- 2	- 2	-	- 1	- 3	- 2	- 1	- 1½	- 1	- 3	- 3½	- 4	- 2	- 2½			

^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 Total	Other USA	Total	Oil exporting countries	Other		
1985	85027	71665	41474	12102	11709	9926	6379	11327	2815	8512	1893
1986	86066	73285	44506	11864	10054	8468	6861	10514	1877	8637	1856
1986 Q2	20467	17360	10566	2729	2420	2030	1645	2540	460	2080	466
Q3	21836	18569	11426	2896	2512	2138	1735	2670	408	2262	456
Q4	23269	19705	11950	3151	2771	2331	1833	2928	511	2418	511
1987 Q1	21819	18625	11411	3060	2435	2025	1720	2540	462	2078	482
Q2	22819	19602	12100	3202	2616	2223	1684	2683	432	2251	497
1987 Apr	7482	6453	3912	1107	918	787	517	830	135	695	181
May	7826	6696	4265	1036	845	722	550	936	158	778	157
June	7511	6453	3923	1059	853	715	617	917	139	778	159
Q2/Q1											
Percentage change	+ 4½	+ 5	+ 6	+ 4½	+ 7½	+10	- 2	+ 5½	- 6½	+ 8½	+ 3

K See paragraph 5 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
1985	4932	8522	- 3591	2144	4795	- 2651	16795	10233	+ 6562
1986	5439	9256	- 3817	2058	4410	- 2353	8683	5865	+ 2819
1985 Q3	1260	2126	- 866	532	1173	- 641	3576	2134	+ 1442
Q4	1194	2083	- 889	504	1070	- 566	3862	2237	+ 1625
1986 Q1	1219	2242	- 1023	504	1092	- 588	3177	1637	+ 1540
Q2	1271	2209	- 937	445	1076	- 631	1922	1419	+ 503
Q3	1383	2372	- 989	545	1020	- 475	1614	1368	+ 246
Q4	1565	2433	- 868	564	1223	- 658	1970	1441	+ 530
1987 Q1	1354	2285	- 931	629	1232	- 603	2308	1413	+ 895
Q2	1347	2267	- 921	552	1261	- 709	2159	1404	+ 755
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
1985	20051	19949	+ 102	32221	35324	- 3103	52271	55273	- 3002
1986	20946	21559	- 613	33540	38324	- 4784	54486	59883	- 5397
1985 Q3	4865	5125	- 260	7962	8379	- 417	12827	13504	- 678
Q4	4952	4900	+ 53	8096	8645	- 549	13048	13545	- 497
1986 Q1	4851	5292	- 441	7925	8745	- 819	12777	14037	- 1260
Q2	5221	5177	+ 43	8395	9047	- 653	13615	14224	- 609
Q3	5290	5361	- 71	8230	9898	- 1668	13520	15259	- 1739
Q4	5585	5729	- 144	8990	10634	- 1645	14575	16363	- 1788
1987 Q1	5474	5652	- 178	9190	9748	- 558	14664	15400	- 736
Q2	5476	5810	- 333	9139	10679	- 1540	14615	16489	- 1873

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

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FORECASTS FOR THE UK ECONOMY

A comparison of independent forecasts

Compiled by
EB Division
HM Treasury

8 August 1987

No. 9

This issue of the comparison includes new forecasts from: Alexanders Laing and Cruickshank; Goldman Sachs; Henley Centre for Forecasting; Hoare Govett; James Capel; National Institute; Oxford Economic Forecasting; Phillips & Drew; Scrimgeour Vickers & Co; and Wood Mackenzie & Co.

The main points are:

	Independent average		City average	
	1987	1988	1987	1988
GDP growth (per cent)	3.2	2.5	3.3	2.4
RPI inflation rate (Q4; per cent)	4.0	4.7	3.9	4.8
Unemployment (Q4; million)	2.89	2.84	2.85	2.81
Current account (£bn)	- 1.1	- 2.2	- 0.7	- 1.9
PSBR (FY; £bn)	3.4	3.8	2.7	3.7

Please note that this comparison is a summary of published material reflecting the views of the forecasting organisations themselves and does not in any way provide new information on the Treasury's own views. The comparison contains only a selection of forecasters which is kept continually under review. No significance should be attached to the inclusion or exclusion of any particular forecasting organisation. HM Treasury accepts no responsibility for the accuracy of the material published in this comparison.

Subscription enquiries should be addressed to Committee Section, HM Treasury, Parliament Street, London SW1P 3AG (01-270-4561). An invoice for the annual subscription fee of £50 will be sent on receipt of application. Distribution enquiries should be addressed to Meena Henson (01-270-5212). Enquiries on contents to Ross Kerley (01-270-5206).

COMPARISON OF FORECASTS

SUMMARY TABLES

FORECASTS FOR 1987/1987-88

* New forecast

Except where specified figures are percentage changes on previous year

(GDP components in constant 1980 prices)

Date of Forecast	IAFo	NIESR	LBS	Phillips & Drew	Goldman Sachs	Henley	C'bridge Econ (r)	L'pool	CBI	OECD	Oxford	EC	INDEPENDENT AVERAGE	INDEPENDENT RANGE	CITY AVERAGE	
	Mar '87	Aug '87	Jun '87	Aug '87	Aug '87	Aug '87	Apr '87	Jun '86	Mar '87	Jun '87	Jul '87	May '87				
Forecasts for calendar year 1987																
GDP	3 (A)	3.3 (O)	3.3 (O)	3.4 (A)	3.2 (A)	3.0 (A)	3.0 (O)	2.9 (E)	3.0 (O)	3.25 (A)	3.4 (A)	3.1 (E)	3.2	2.9 (LIV)	3.4 (P&D, OXF)	3.3
Consumers' Expenditure	4	3.5	3.5	4.0	3.6	3.3	4.3	2.5c	4.5	3.75	3.7	3.8	3.8	3.3 (HENLEY)	4.5 (CBI)	3.9
General Govt Consumption	1	1.5	1.2	1.6	2.5	1.8	2.3	2.7d	1.5	1.5	1.0	1.5	1.6	1.0 (OXF)	2.5 (GS)	1.7
Gross Fixed Investment	4	4.1	2.8	3.4	3.6	3.3	3.0	5.4e	1.8	2.75	4.3	3.8	3.3	1.8 (CBI)	4.3 (OXF)	3.6
Stockbuilding (bn pounds)	1.4	1.2	0.8	1.2	1.1	1.2	2.0	-	0.7	0.0n	0.6	1.0	1.1	0.6 (OXF)	2.0 (CAM)	1.0
Exports (goods & services)	4	3.3	6.7	4.4	4.0	4.6	4.2	-	3.5	4.5	6.2	5.3	4.7	3.3 (NIESR)	6.7 (LBS)	4.9
Imports (goods & services)	6	3.4	4.4	5.6	3.7	4.3	6.8	-	4.6	4.5	5.1	6.7	4.9	3.4 (NIESR)	6.8 (CAM)	5.0
Forecasts for financial year 1987-1988																
RPI (CPI) - 4th Qtr	4	3.8	3.6	4.1	3.7	3.9	(4.3)k	(3.7)k	4.6	(4.0)k	4.4	(3.9)k	4.0	3.6 (LBS)	4.6 (CBI)	3.9
Average Earnings & RPD1	-	7.8	7.8	7.7	7.6	7.1	7.2	7.0	-	-	7.7	6.9	7.4	6.9 (EC)	7.8 (NIESR, LBS)	7.5
Employment Growth	-	4.9	3.9	4.1	4.4	3.9	-	-	2.2	-	4.6	3.1	3.9	2.2 (CBI)	4.9 (NIESR)	4.4
Unemployment (UK adults million - 4th Qtr)	-	1.2s	1.0	0.9	1.4	1.4	-	-	0.9	1.0	1.0s	1.0	1.1	0.9 (P&D, CBI)	1.4 (GS, HENLEY)	1.0
Industrial Production	-	2.8	2.94	2.85	2.78	2.92	3.1kw	2.94k	3.07	-	2.83	2.95	2.89	2.78 (GS)	3.07 (CBI)	2.85
Manufacturing Output	4	4.0	4.5	4.3	3.9	4.0	4.4	-	3.3	-	4.4	3.8	4.1	1.5 (GS)	4.25 (OECD)	2.4
														3.3 (CBI)	4.5 (LBS)	4.1
Forecasts for financial year 1987-1988																
World trade & Current Account (bn pounds) - 2 1/2	3 1/2	3.3	2.4	3.6	4.0	2.8	-	3.7	3.5	2.25	5.0	3.6	3.4	2.25 (OECD)	5.0 (OXF)	3.1
Sterling Index (1975=100) Q4	-	-1.1	1.4	-0.8	-1.4	-1.1	-3.2	-0.2	-2.0	-1.6	0.8	-3.0	-1.1	-3.2 (CAM)	1.4 (LBS)	-0.7
Short term interest rate - 4th Qtr &	-	73.3	71.0	72.5	73.0	70.5	70.6k	70.5k	70.8	-	71.0	-	71.7	70.5 (HENLEY)	73.3 (NIESR)	71.9
Oil Price (\$ per barrel)&	15	9.5	8.5	9.0	10.0	9.3	-	9.1k	9.0	-	9.3	9.0	9.2	8.5 (LBS)	10.0 (GS)	9.3
		18.0	18.0	18.8	19.1	18.0	-	-	16.25	18.0	18.2	15.0	17.7	15.0 (EC)	19.1 (GS)	18.2
Forecasts for financial year 1987-1988																
M0 growth	2-6 y	-	5.8	4.9k	4.7u	5.6	-	4.5k	-	-	-	5.8u	-	-	-	-
M3 growth	-	-	16.0	20.8k	16.7u	17.1	-	-	-	-	10.6q	14.3u	-	-	-	-
PSBR (billion pounds)	4	3.7	4.2	2.2	2.2	4.0	7.5k	2.6	4.0	-	4.3	3.8	3.4	2.2 (P&D, GS)	4.3 (OXF)	2.7

NOTES:

-----	&	for definition see individual forecasts	(c)	non durable consumption	(k)	calendar year 1987	(w)	including school leavers
(A)	o	Industry Act forecast	(d)	current and capital including stockbuilding	(n)	change in stockbuilding as a % of GDP in previous period	(y)	target range set in 1987 FSBR
(O)	o	interpreted variously by forecasters as either residual or as target	(e)	private sector investment, stockbuilding and durable consumption	(q)	198EQ2 on 1987Q2	(z)	Cambridge Econometrics forecast taken from longer term disaggregate forecast

*Average's defined as an unweighted average of comparable independent forecasts

*City Average' is an unweighted average of nine City forecasts. See City summary tables for details

COMPARISON OF FORECASTS

SUMMARY TABLES

FORECASTS FOR 1988/1988-89

* New forecast

Except where specified figures are percentage changes on previous year

(GDP components in constant 1980 prices)

Date of Forecast	IAFo	NIESR	LBS	Phillips		Goldman		C'bridge		CBI	OECD	Oxford	EC	INDEPENDENT AVERAGE	INDEPENDENT RANGE		CITY AVERAGE
				& D'ew	Sachs	Henley	Econ (z)	L'pool	Mar						Jun	Mar	
		Aug '87	Jun '87	Aug '87	Aug '87	Aug '87	Apr '87	Jun '86	Mar '87	Jun '87	Jul '87	May '87					
Forecasts for calendar year 1988																	
GDP	2 1/2h	2.2 (O)	2.9 (O)	2.0 (A)	2.3 (A)	2.5 (A)	2.2 (O)	2.9 (E)	3.0 (O)	2.25 (A)	2.2 (A)	2.6	2.5	2.0 (P&D)	3.0 (CBI)	2.4	
Consumers' Expenditure	3 1/2h	4.0	4.5	3.7	3.7	2.6	2.8	2.6c	3.7	3.5	3.2	3.2	3.5	2.6 (HENLEY)	4.5 (LBS)	3.5	
General Govt Consumption	1h	1.0	0.7	1.4	1.6	1.5	.0	0.6d	1.2	1.0	1.4	1.0	1.2	0.7 (LBS)	1.6 (GS)	1.4	
Gross Fixed Investment	3h	5.9	6.1	1.8	5.8	4.8	5.3	4.1e	4.9	3.5	5.4	3.4	4.7	1.8 (P&D)	6.1 (LBS)	4.4	
Stockbuilding (bn pounds)	0.6b	1.1	0.5	1.4	1.1	2.6	2.3	-	0.2	0.0n	0.7	1.0	1.2	0.2 (CBI)	2.6 (HENLEY)	1.0	
Exports (goods & services)	2h	0.3	3.1	0.7	1.7	2.2	3.8	-	3.6	1.5	3.4	3.9	2.4	0.3 (NIESR)	3.9 (EC)	2.6	
Imports (goods & services)	2 1/2h	4.9	6.4	4.3	5.3	4.3	4.9	-	4.4	4.25	6.6	4.7	5.0	4.25 (OECD)	6.6 (OXF)	5.3	

RPI (CPI) - 4th Qtr	4f	4.9	3.5	4.5	4.8	5.4	(4.2)k	(2.7)k	5.6	(4.25)a	4.2	(4.2)k	4.7	3.5 (LBS)	5.6 (CBI)	4.8	
Average Earnings & RPDI	-	7.6	7.0	7.8	7.6	7.1	5.9	5.2	-	-	7.5	6.7	6.9	5.2 (LIV)	7.8 (P&D)	7.3	
Employment Growth	-	1.2s	1.3	0.7	1.0	1.2	-	-	1.4	1.0	0.7s	0.9	1.1	0.7 (P&D)	1.4 (CBI)	0.8	
Unemployment (UK adults million - 4th Qtr)	-	2.7	2.92	2.94	2.69	2.83	3.0kw	2.72k	2.92	-	2.79	2.89	2.84	2.69 (GS)	2.94 (P&D)	2.81	
Industrial Production	-	-	2.3	0.4	0.5	1.7	1.6	-	-	3.25	-	1.5	1.6	0.4 (P&D)	3.25 (OECD)	0.9	
Manufacturing Output	3h	1.5	3.6	2.7	2.4	2.6	3.7	-	3.2	-	4.0	2.9	3.0	1.5 (NIESR)	4.0 (OXF)	2.2	

World trade & Current Account (bn pounds)	4h	3.8	5.9	3.5	3.75	3.5	-	4.7	3.5	4.0	4.2	4.1	4.1	3.5 (P&D,HENL,CBI)	5.9 (LBS)	3.5	
Sterling Index(1975=100) Q4	-	72.0	70.0	70.7	71.5	67.7	68.1k	68.6k	70.8	-	71.3	-	70.6	67.7 (HENLEY)	72.0 (NIESR)	70.7	
Short term interest rate - 4th Qtr & Oil Price (\$ per barrel)&	-	7.9	8.5	9.5	9.0	10.0	-	9.2k	9.0	-	8.5	8.0	8.8	7.9 (NIESR)	10.0 (HENLEY)	9.8	

Forecasts for financial year 1988-1989																	
M0 growth	-	-	5.3	5.0k	4.3u	6.5	-	4.0k	-	-	-	5.3u	-	-	-	-	
M3 growth	-	-	9.6	21.0k	15.1u	15.9	-	-	-	-	9.2q	13.3u	-	-	-	-	
PSBR (billion pounds) scope for fiscal change (billion pounds)°	-	1.3	4.3	2.1	3.3	6.0	11.3h	2.4	4.0	-	6.9	4.0	3.8	1.3 (NIESR)	6.9 (OXF)	3.7	

NOTES: & for definition see individual forecasts (a) first half 1988 at annual rate (f) 1988Q2 (w) including school leavers
 (A) average measure (b) 1988H1 (h) first half 1988 on first half 1987 (z) Cambridge Econometrics forecast
 (O) output measure (c) non durable consumption (k) calendar year 1988 taken from longer term
 (E) expenditure measure (d) current and capital including stockbuilding (n) change in stockbuilding as a % of GDP in previous period disaggregate forecast
 (e) private sector investment, stockbuilding and durable consumption (s) employees in employment (u) and 1988

'Average' is defined as an unweighted average of comparable independent forecasts

'City Average' is an unweighted average of nine City forecasts. See City summary tables for details

COMPARISON OF FORECASTS - SUMMARY TABLES

CITY FORECASTS FOR 1987/1987-88 * New forecast

Except where specified figures are percentage changes on previous year (GDP components in constant 1980 prices)

Date of Forecast	IAFo	Phillips & Drew	Goldman Sachs	Hoare Govett	Wood Mack	James Capel	Alex Laing	Scrim- geour	Capel- Cure	Midland Bank	CITY AVERAGE
	Mar '87	Aug '87	Aug '87	Aug '87	Aug '87	Aug '87	Aug '87	Aug '87	May '87	May '87	
Forecasts for calendar year 1987											
GDP	3 (A)	3.4 (A)	3.2 (A)	3.0 (E)	3.7 (A)	3.0 (A)	3.7 (A)	3.2 (A)	3.2 (A)	3.7 (O)	3.3
Consumers' Expenditure	4	4.0	3.6	4.0	3.6	3.8	4.2	3.9	4.3	3.3	3.9
General Govt Consumption	1	1.6	2.5	1.1	1.5	1.6	1.5	1.2	2.0	2.2	1.7
Gross Fixed Investment	4	3.4	3.6	3.3	3.2	4.4	3.4	3.7	-	4.0	3.6
Stockbuilding (bn pounds)	1.4	1.2	1.1	1.0	1.0	0.6	1.4	1.0	1.2	0.8	1.0
Exports (goods & services)	4	4.4	4.0	5.2	4.8	5.7	5.0	4.6	3.5	7.0	4.9
Imports (goods & services)	6	5.6	3.7	6.5	2.4	6.4	4.3	5.4	6.0	4.7	5.0

RPI (CPI) - 4th Qtr	4	4.1	3.7	3.9	3.7	3.9	4.3	3.8	4.1z	3.8	3.9
Average Earnings & RPDI	-	7.7	7.6	7.6	7.5	7.5	7.7	7.8	7.3	7.1	7.5
Employment Growth	-	4.1	4.4	4.3	4.1	-	5.2	5.2	4.1	3.8	4.4
Unemployment (UK adults million - 4th Qtr)	-	0.9	1.4	1.1	0.7	1.2	0.8	1.0	-	-	1.0
Industrial Production	-	2.85	2.78	2.81	2.8	2.84z	2.91	2.81	2.92u	3.0	2.85
Manufacturing Output	-	2.5	1.5	-	2.6	-	2.8	-	-	-	2.4
	4	4.3	3.9	-	4.3	-	4.4	3.9	3.7	-	4.1

World trade & Current Account (bn pounds)	3 1/2	3.6	4.0	-	2.8	2.5	-	3.1	1.5	4.0	3.1
Sterling Index(1975=100)Q4	- 2 1/2	-0.8	-1.4	-0.7	1.3	-1.2	-1.6	-1.2	-1.5	1.0	-0.7
Short term interest rate - 4th Qtr &	-	72.5	73.0	-	72.7	72.3	70.2	72.0	70.7u	70.3	71.9
Oil Price(\$ per barrel) &	-	9.0	10.0	8.5	8.6	10.0	10.0	10.0	8.5u	8.0	9.3
	15	18.8	19.1	-	18.0	18.25	18.3	18.8	18.1	16.0	18.2

Forecasts for financial year 1987-1988											
M0 growth	2-6 y	4.9k	4.7u	4.1	5.0	5.0	-	5.7	5.0	-	-
M3 growth	-	20.8k	18.7u	16.0	15.0	17.25	18.1	16.4	-	-	-
PSBR (billion pounds)	4	2.2	2.2	2.0	3.0	2.0	2.8	3.5	3.5	3.0	2.7

NOTES:

(A) average measure	& for definition see individual forecasts	(s) employees in employment
(O) output measure	~ interpreted variously by forecasters as either residual or target	(u) end 1987
(E) expenditure measure	(k) calendar year 1987	(w) financial year 1987-88
o Industry Act forecast		(y) target range set in 1987 FSBR
		(z) 1987H2

'City Average' is defined as an unweighted average of comparable City forecasts

COMPARISON OF FORECASTS - SUMMARY TABLES

CITY FORECASTS FOR 1988/1988-89 * New forecast

Except where specified figures are percentage changes on previous year

(GDP components in constant 1980 prices)

Date of Forecast	IAFo	Phillips & Drew	Goldman Sachs	Hoare Govett	Wood Mack	James Capel	Alex Laing	Scrim- geour	Capel- Cure	Midland Bank	CITY AVERAGE
	Mar '87	Aug '87	Aug 87	Aug '87	Aug '87	Aug '87	Aug '87	Aug '87	May '87	May '87	
Forecasts for calendar year 1988											
GDP	2 1/2h	2.0 (A)	2.3 (A)	2.6 (3)	2.5 (A)	2.6 (A)	1.8 (A)	1.9 (A)	2.7 (A)	3.0 (O)	2.4
Consumers' Expenditure	3 1/2h	3.7	3.7	3.5	2.7	3.6	2.8	3.7	4.0	3.8	3.5
General Govt Consumption	1h	1.4	1.6	1.0	1.3	1.2	1.7	1.7	1.2	1.9	1.4
Gross Fixed Investment	3h	1.8	5.8	4.5	6.3	5.1	2.4	3.6	-	5.9	4.4
Stockbuilding (bn pounds)	0.6b	1.4	1.1	0.7	1.2	0.8	1.3	0.4	1.4	0.7	1.0
Exports (goods & services)	2h	0.7	1.7	3.9	2.7	2.9	2.9	2.5	2.5	3.4	2.6
Imports (goods & services)	2 1/2h	4.3	5.3	5.0	5.4	6.2	4.5	6.3	5.0	5.9	5.3

RPI (CPI) - 4th Qtr	4f	4.5	4.8	4.8	4.5	3.6	6.3	5.3	4.2z	3.7k	4.8
Average Earnings & RPDI	-	7.8	7.6	7.5	7.3	7.0	8.0	7.8	7.0	5.9	7.3
Employment Growth	-	2.7	2.6	4.5	2.9	-	2.2	3.0	3.9	3.8	3.2
Unemployment (UK adults million - 4th Qtr)	-	0.7	1.0	1.0	0.7	0.7	0.5	0.7	-	-	0.8
Industrial Production	-	2.94	2.69	2.60	2.8	2.72z	2.92	2.80	2.86u	2.9	2.81
Manufacturing Output	3h	0.4	0.5	-	1.5	-	1.1	-	-	-	0.9
		2.7	2.4	-	2.8	-	2.0	1.5	1.5	-	2.2

World trade & Current Account (bn pounds)	4h	3.5	3.75	-	3.7	3.4	-	4.3	2.0	3.8	3.5
Sterling Index(1975=100)Q4	-2a	-1.7	-3.0	-1.0	-0.1	-2.3	-2.4	-2.8	-4.0	0.0	-1.9
Short term interest rate - 4th Qtr & Oil Price(\$ per barrel) &	-	70.7	71.5	-	71.7	72.5	68.5	69.2	67.3u	68.5k	70.7
	-	9.5	9.0	-	9.0	9.0	12.0	10.0	9.5u	8.0k	9.8
	15E	20.9	20.0	-	19.0	19.0	18.0	20.0	20.0	16.0	19.1

Forecasts for financial year 1988-1989											
M0 growth	-	5.0k	4.3j	-	5.0	-	-	5.3	5.0	-	-
M3 growth	-	21.0k	15.1u	-	12.0	-	-	14.2	-	-	-
PSBR (billion pounds) scope for fiscal change (billion pounds)^	-	2.1	3.3	-	3.8	-	-	3.2	4.0	6.0	3.7
	-	1.0	1.0	-	1.0	-	-	1.2	-	-	-

NOTES:

(A) average measure	&	for definition see individual forecasts	(a)	first half 1988 at annual rate	(s)	employees in employment
(O) output measure	~	interpreted variously by forecasters as either residual or target	(b)	1988H1	(u)	end 1988
(E) expenditure measure			(f)	1988Q2	(z)	1988H2
o Industry Act forecast			(h)	first half 1988 on first half 1987		
			(k)	calendar year 1988		

'City Average' is defined as an unweighted average of comparable City forecasts

Independent forecasting organisations covered in this comparison

Alexanders Laing & Cruickshank (Alex Laing Cr)
Cambridge Econometrics (C'bridge Econ)
Capel-Cure Myers (Capel-Cure)
Commission of the European Communities (EC)
Confederation of British Industry (CBI)
Goldman Sachs (GS)
Henley Centre for Forecasting (Henley)
Hoare Govett
James Capel & Co
Liverpool Research Group in Macroeconomics (Liverpool)
London Business School (LBS)
Midland Bank plc
National Institute for Economic and Social Research (NIESR)
Organisation for Economic Cooperation and Development (OECD)
Oxford Economic Forecasting (Oxford)
Phillips and Drew (P&D)
Scrimgeour Vickers & Co (Scrimgeour)
Wood Mackenzie & Co (Wood Mack)

8/8/87. B

DTI Press Notice

Department of Trade and Industry
1 Victoria Street SW1H 0ET

Press Office:

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UNTIL 11.30 HOURS
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CAPITAL EXPENDITURE IN THE SECOND QUARTER OF 1987: PROVISIONAL ESTIMATES

The provisional estimate of capital expenditure by the manufacturing, construction, distribution and financial industries* in the second quarter of 1987 is £5069 million, at 1980 prices seasonally adjusted; nearly 4 per cent higher than in the preceding quarter, and almost 10 per cent higher than in the second quarter of 1986.

The volume of investment in the last twelve months was 3 per cent higher than in the preceding twelve months.

The most recent trends in capital expenditure are shown in the following table:-

INVESTMENT IN THE MANUFACTURING, CONSTRUCTION, DISTRIBUTION AND FINANCIAL INDUSTRIES*

£ million at 1980 prices, seasonally adjusted

	Manufacturing industries** (including leased assets \emptyset)	Construction, distribution and financial industries*** (excluding assets leased to manufacturers)	Total
1983	5559	9490	15049
1984	6588	10865	17453
1985	7531	12041	19572
1986	7145 (38%)	11890 (62%)	19035
1983 Q1	1320	2353	3673
Q2	1368	2334	3702
Q3	1387	2320	3707
Q4	1484	2484	3968
1984 Q1	1519	2558	4077
Q2	1609	2746	4355
Q3	1698	2794	4492
Q4	1763	2768	4531
1985 Q1	1972	3413	5385
Q2	1834	2769	4603
Q3	1850	2960	4810
Q4	1875	2899	4774
1986 Q1	1952 } 3682	2889	4841 } 9452
Q2	1730	2881	4611
Q3	1788	2968	4756
Q4	1675	3152	4827
1987 Q1	1679 } 3552	3211	4890 } 9959
Q2 (p)	1873	3196	5069

* Divisions 2, 3, 4, 5, 6 and 8 of the Standard Industrial Classification (Revised 1980)

** Divisions 2, 3 and 4

*** Divisions 5, 6 and 8

\emptyset Assets leased from owners in the financial industries. The effect of leasing on manufacturing investment is described in Note 3.

p Provisional



MANUFACTURING INDUSTRIES (REVISED DEFINITION)

The provisional estimate of manufacturers' direct expenditure in the second quarter of 1987 is £1682 million, at 1980 prices seasonally adjusted. In addition, it is important to take account of the leasing of assets to manufacturers from the financial industries. This is taken to amount to £191 million in the second quarter, at 1980 prices seasonally adjusted, giving a total investment in the manufacturing industries of £1873 million; 11½ per cent higher than in the previous quarter and nearly 8½ per cent higher than in the second quarter of 1986.

The volume of investment (including leased assets) in the last twelve months was almost 5½ per cent lower than in the preceding twelve months. On the same annual basis of comparison, expenditure (including leasing) on individual assets increased by 11½ per cent for new building work, but decreased by almost 10½ per cent for vehicles, and by over 7½ per cent for plant and machinery.

CONSTRUCTION, DISTRIBUTION AND FINANCIAL INDUSTRIES

The provisional estimate of investment by these industries (excluding leasing to manufacturers) in the second quarter of 1987 is £3196 million, at 1980 prices seasonally adjusted; ½ per cent lower than in the preceding quarter, but nearly 11 per cent higher than in the second quarter of 1986.

The volume of investment (excluding leasing to manufacturers) in the last twelve months was over 7½ per cent higher than in the preceding twelve months. On the same basis, expenditure (excluding leasing to manufacturers) on individual assets rose by 6½ per cent for new building work, by 10 per cent for vehicles and by over 7½ per cent for plant and machinery.

TOTAL INVESTMENT Ø

Capital expenditure estimates for Division 0 (Agriculture, Forestry and Fishing), certain industries in Division 1 (Energy and Water Supply), Division 7 (Transport and Communication) and Division 9 (Other Miscellaneous Services) for the second quarter of 1987 are not yet available. Consequently, the analysis of investment in this section is confined to trends up to and including the first quarter of 1987.

In the first quarter of 1987 total capital expenditure in Divisions 0 to 9 was £8858 million, at 1980 prices seasonally adjusted; over $\frac{1}{2}$ per cent higher than in the previous quarter, but more than $\frac{1}{2}$ per cent lower than expenditure in the same quarter a year ago. In the last twelve months expenditure was almost $\frac{1}{2}$ per cent lower than expenditure in the previous twelve months.

Expenditure in Division 0 in the first quarter of 1987 was £195 million, at 1980 prices seasonally adjusted; 14 per cent higher than in the previous quarter but $1\frac{1}{2}$ per cent lower than in the same quarter a year ago. In the last twelve months expenditure in Division 0 was $9\frac{1}{2}$ per cent below expenditure in the previous twelve months.

Expenditure in Division 1 in the first quarter of 1987 was £1208 million, at 1980 prices seasonally adjusted; over $1\frac{1}{2}$ per cent lower than in the previous quarter, and nearly $9\frac{1}{2}$ per cent lower than in the same quarter a year ago. In the last twelve months expenditure in Division 1 was more than 6 per cent below expenditure in the previous twelve months.

Expenditure in Division 7 in the first quarter of 1987 was £819 million, at 1980 prices seasonally adjusted; $9\frac{1}{2}$ per cent lower than in the previous quarter and nearly $9\frac{1}{2}$ per cent lower than in the same quarter a year ago. In the last twelve months expenditure in Division 7 was 2 per cent higher than expenditure in the previous twelve months.

Expenditure in Division 9 in the first quarter of 1987 was £1745 million, at 1980 prices seasonally adjusted; 5 per cent higher than in the previous quarter and almost 6 per cent higher than in the same quarter a year ago. In the last twelve months expenditure in Division 9 was over $2\frac{1}{2}$ per cent higher than expenditure in the previous twelve months.

Ø Divisions 0 to 9 of the Standard Industrial Classification (Revised 1980)

NOTES

1. REVISIONS TO SERIES

Since the publication on 18 June 1987 of revised capital expenditure estimates for the first quarter, the series have been revised, as they are each year, to take account of the results of annual surveys, with their more comprehensive coverage, and of quarterly returns received too late for the original calculations. On this occasion the main sources of the revisions were the results of the Census of Production for 1985, Censuses of Construction for 1984 and 1985 and inquiries for 1985 into distributive and other trades. Amendments have also been made to figures for earlier years where improved information became available. Seasonal adjustment factors have been recalculated to incorporate these revisions.

2. The main effect of these revisions has been to raise the volume of investment in the manufacturing, construction, distribution and financial industries (Divisions 2, 3, 4, 5, 6 and 8 of the Standard Industrial Classification (Revised 1980)) by £275 million (1½%) over the previously published figure for 1985, comprising an increase of over £550 million (8%) in the manufacturing industries (including leased assets) and a fall of almost £300 million (2½%) in the construction, distribution and financial industries. The consequences of these changes have carried forward into 1986, producing a marginal overall increase of £28 million in the previously published figures for these industries, comprising an increase of £500 million (7½%) in the manufacturing industries and a fall of almost £475 million (4%) in the construction, distribution and financial industries. As a result, in 1986 the manufacturing industries accounted for 38% of the total investment in these industries; an increase of 3% on the figure published on 18 June 1987.

3. EFFECT OF LEASING ON MANUFACTURING INVESTMENT

Assets have traditionally been classified to the industries of their ownership. Since capital goods acquired for leasing out are mainly bought by the service industries, leasing to manufacturers produces an apparent switch in investment to the service industries from the manufacturing industries. The following table illustrates the effect of leasing from the financial industries. In 1986 assets leased from owners in the financial industries represented an addition of almost 13 per cent of manufacturers' capital expenditure. Assets leased from owners in other industries outside manufacturing are not included in this analysis.

INVESTMENT BY MANUFACTURING INDUSTRIES (REVISED DEFINITION)

£ million at 1980 prices

	Capital Expenditure	Estimated Volume of assets leased from financial industries	Total Expenditure
1976	6470	370	6840
1977	6774	480	7254
1978	7220	684	7904
1979	7495	734	8229
1980	6478	834	7312
1981	4865	832	5697
1982	4704	894	5598
1983	4779	780	5559
1984	5752	836	6588
1985	6424	1107	7531
1986	6329	816	7145

4. An analysis of leased assets by user industry within manufacturing is not available.

5. ASSET COVERAGE OF THE CAPITAL EXPENDITURE ESTIMATES

The nett figures given in the Press Notice cover acquisitions less disposals of vehicles and of plant and machinery, and expenditure on new building work. Spending on land and existing buildings is excluded from the figures.

6. The industrial coverage of the capital expenditure estimates is as follows:-

- i. The latest quarter's estimates relate to Divisions 2 to 4 (Manufacturing Industries - revised definition), Division 5 (Construction), Division 6 (Distribution etc), and Division 8 (Finance and Business Services).
- ii. The previous quarter's figures cover those Divisions listed in (i) plus Division 0 (Agriculture, Forestry and Fishing), Division 1 (Energy and Water Supply), Division 7 (Transport and Communication) and Division 9 (Other Miscellaneous Services).

7. These estimates of capital expenditure in the second quarter of 1987, together with current price data will be published in British business on 28 August 1987. More detailed estimates for the second quarter will be published in British Business on 25 September 1987.

Press and broadcast calls to 01-215-4471
Other calls to 0633-222149 or 0633-222215

TABLE 1a: FIXED CAPITAL EXPENDITURE AT 1980 PRICES: £m seasonally adjusted

Analysis by ownership												Analysis by type of asset		
Divisions	Total	Agriculture forestry and fishing	Energy and water supply	Mineral extraction metal, mine-ral and chemical industries	Metal goods engineer-ing and vehicles industries	Other manufac-turing industries	Construct-ion	Distribut-ion etc	Transport and communica-tion	Financial and business services etc	Other services	New building work	Vehicles	Plant and machin-ery
0-9	0	1	2	3	4	5	6	7	8	9	----- 0-9 -----			
Period														
1979	32,895	1,145	5,562	2,220	2,758	2,516	670	3,593	4,141	5,163	5,126	12,453	5,450	14,992
1980	31,330	1,023	5,680	1,869	2,379	2,230	467	3,236	3,907	5,533	5,007	11,816	4,566	14,947
1981	28,762	885	5,980	1,346	1,807	1,712	411	2,969	3,071	5,901	4,680	11,307	3,556	13,899
1982	30,127	1,049	6,034	1,239	1,706	1,758	464	3,177	2,822	6,507	5,370	12,386	3,650	14,091
1983	31,044	1,137	6,017	1,269	1,749	1,761	503	3,282	3,230	6,486	5,610	12,498	3,763	14,782
1984	34,110	1,078	5,714	1,479	2,110	2,163	418	3,783	3,703	7,500	6,162	13,772	4,302	16,036
1985	35,942	850	5,316	1,681	2,361	2,382	401	4,116	3,809	8,631	6,395	13,596	4,568	17,777
1986	35,161	753	5,091	1,606	2,277	2,446	377	4,191	3,699	8,139	6,582	13,703	3,994	17,463
1983 Q1	7,677	280	1,584	324	396	402	102	797	754	1,652	1,385	3,098	913	3,665
Q2	7,586	279	1,474	306	436	426	145	809	780	1,580	1,351	3,000	939	3,647
Q3	7,656	269	1,450	322	439	440	124	802	808	1,579	1,421	3,087	900	3,668
Q4	8,126	309	1,509	316	479	493	131	874	888	1,675	1,452	3,312	1,012	3,802
1984 Q1	8,246	283	1,450	349	487	524	94	916	844	1,708	1,592	3,378	1,082	3,786
Q2	8,471	277	1,477	378	509	525	111	927	877	1,904	1,485	3,507	964	4,001
Q3	8,655	259	1,397	371	538	531	108	977	967	1,966	1,540	3,432	1,102	4,121
Q4	8,738	259	1,390	381	577	583	104	963	1,014	1,923	1,545	3,455	1,155	4,128
1985 Q1	9,674	220	1,357	413	611	576	117	1,047	1,170	2,621	1,542	3,360	1,526	4,788
Q2	8,692	228	1,304	404	585	610	100	1,014	941	1,889	1,616	3,473	1,041	4,178
Q3	8,863	211	1,358	428	571	602	95	1,045	876	2,070	1,608	3,387	1,045	4,431
Q4	8,712	191	1,296	436	594	594	89	1,010	822	2,051	1,630	3,376	956	4,380
1986 Q1	8,923	198	1,332	403	591	612	103	958	903	2,176	1,649	3,475	995	4,453
Q2	8,555	195	1,228	397	524	594	88	1,047	895	1,962	1,625	3,337	964	4,253
Q3	8,890	189	1,303	405	586	650	95	1,052	997	1,969	1,646	3,458	1,034	4,398
Q4	8,793	171	1,227	402	577	591	92	1,134	905	2,032	1,663	3,433	1,000	4,359
1987 Q1	8,858	195	1,208	432	516	550	89	1,070	819	2,233	1,745	3,590	956	4,312
Q2p	N/A	N/A	N/A	436	542	704	92	1,106	N/A	2,189	N/A	N/A	N/A	N/A

The estimates are shown to the nearest £ million but should not be regarded as accurate to this degree.

Figures in the table have been rounded to the nearest final digit where necessary and, in these instances, the sum of the constituent items may not always agree exactly with the total shown.

N/A - not available

TABLE 1b: FIXED CAPITAL EXPENDITURE AT 1980 PRICES: £m seasonally adjusted

Analysis by ownership								Analysis by user			
Divisions	Total for Divisions 1-8	Production and construction industries 1-5	Manufacturing industries (revised definition) 2-4	Distribution and financial services, transport etc. 6-8	Analysis by type of asset Divisions 1-8			Assets leased to manufacturers	Divisions 2-4 (Manufacturing) including assets leased to manufacturers	Divisions 5,6 and 8 excluding assets leased to manufacturers	Divisions 5,6,7 and 8 excluding assets leased to manufacturers
					New building work	Vehicles	Plant and machinery				
Period	1-8	1-5	2-4	6-8	New building work	Vehicles	Plant and machinery				
1979	26,624	13,727	7,495	12,897	8,070	5,022	13,532	734	8,229	8,693	12,833
1980	25,300	12,624	6,478	12,675	7,591	4,185	13,524	834	7,312	8,401	12,308
1981	23,197	11,256	4,865	11,940	7,395	3,197	12,604	832	5,697	8,448	11,519
1982	23,708	11,202	4,704	12,507	7,785	3,253	12,670	894	5,598	9,254	12,076
1983	24,297	11,299	4,779	12,998	7,803	3,366	13,128	780	5,559	9,490	12,721
1984	26,870	11,885	5,752	14,986	8,491	3,931	14,449	836	6,588	10,865	14,568
1985	28,697	12,141	6,424	16,556	8,383	4,196	16,118	1,107	7,531	12,041	15,850
1986	27,826	11,797	6,329	16,028	8,416	3,636	15,773	816	7,145	11,890	15,590
1983 Q1	6,011	2,808	1,121	3,203	1,988	807	3,216	198	1,320	2,353	3,107
Q2	5,956	2,787	1,168	3,169	1,877	835	3,244	200	1,368	2,334	3,113
Q3	5,965	2,776	1,201	3,189	1,876	814	3,275	185	1,387	2,320	3,128
Q4	6,365	2,928	1,288	3,437	2,062	910	3,393	196	1,484	2,484	3,372
1984 Q1	6,371	2,904	1,360	3,467	1,995	984	3,392	160	1,519	2,558	3,402
Q2	6,709	3,000	1,412	3,709	2,216	866	3,628	197	1,609	2,746	3,623
Q3	6,856	2,946	1,440	3,910	2,123	1,015	3,718	257	1,698	2,794	3,762
Q4	6,934	3,034	1,541	3,900	2,157	1,066	3,711	222	1,763	2,768	3,782
1985 Q1	7,913	3,074	1,600	4,838	2,092	1,431	4,390	372	1,972	3,413	4,583
Q2	6,848	3,004	1,599	3,844	2,153	938	3,758	235	1,834	2,769	3,710
Q3	7,045	3,054	1,601	3,991	2,075	962	4,008	249	1,850	2,960	3,837
Q4	6,891	3,009	1,623	3,883	2,063	866	3,962	251	1,875	2,899	3,720
1986 Q1	7,076	3,040	1,605	4,036	2,147	902	4,027	347	1,952	2,889	3,792
Q2	6,735	2,831	1,515	3,904	2,032	874	3,828	215	1,730	2,881	3,776
Q3	7,056	3,038	1,640	4,018	2,142	940	3,974	148	1,788	2,968	3,965
Q4	6,959	2,888	1,569	4,070	2,095	920	3,944	106	1,675	3,152	4,057
1987 Q1	6,917	2,795	1,498	4,122	2,172	868	3,877	181	1,679	3,211	4,030
Q2 p	N/A	N/A	1,682	N/A	N/A	N/A	N/A	191	1,873	3,196	N/A

The estimates are shown to the nearest £ million but should not be regarded as accurate to this degree.

Figures in the table have been rounded to the nearest final digit where necessary and, in these instances, the sum of the constituent items may not always agree exactly with the total shown.

N/A - not available

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JAPANESE BALANCE OF PAYMENTS

1. THE FOLLOWING ARE SEMI-FINAL JAPANESE BALANCE OF PAYMENTS FIGURES FOR JUNE 1987 ANNOUNCED BY THE MINISTRY OF FINANCE. CUSTOMS CLEARANCE FIGURES ARE EXPORTS FOB, IMPORTS CIF, AND INCLUDE NON-MONETARY GOLD, US DOLLARS MILLIONS, YEN BILLION. THE FIGURES IN BRACKETS SHOW PERCENTAGE CHANGE OVER THE SAME PERIOD LAST YEAR. VOLUME FIGURES ARE ONLY AVAILABLE FOR GLOBAL EXPORTS AND IMPORTS. FURTHER DETAILS FOLLOW IN MONTHLY ECONOMIC REPORT.

H.M. TREASURY.

PS/CHANCELLOR

(A) JUNE

	US DOLLARS		YEN	
2. TRADE ACCOUNT (CUSTOMS CLEARANCE)	6607 (-10.3)		943.8 (-24.1)	
TRADE ACCOUNT (IMF BASIS, NSA)	7983 (1.8)		1153.4 (-12.5)	
CURRENT ACCOUNT (IMF, NSA)	7497 (-2.6)		1083.2 (-16.2)	

3. CUSTOMS CLEARANCE FIGURES FOR TRADE WITH UK:

	US DOLLARS		YEN	
EXPORTS	711 (30.2)		101 (9.8)	
IMPORTS	260 (-6.2)		37 (-21.0)	
BALANCE	451 (67.8)		64 (41.8)	

(B) JANUARY - JUNE

4. IMF BASIS, NOT-SEASONALLY ADJUSTED:

TRADE ACCOUNT	48196 (25.3)		7116 (5.4)
CURRENT ACCOUNT	43532 (21.7)		6427 (2.7)

5. CUSTOMS CLEARANCE FIGURES:

	US DOLLARS		YEN	VOLUME CHANGE
TOTAL EXPORTS	108424 (9.9)		16118 (-9.4)	(-2.1)
TOTAL IMPORTS	68297 (6.0)		10156 (-13.4)	(5.7)
BALANCE	40127 (-13.5)		5962 (-21.1)	

EXPORTS

EXPORTS TO:

US	39190	(4.2)	5821	(-14.1)
EC	18445	(28.9)	2748	(6.3)
UK	4007	(26.8)	595	(4.2)
FRANCE	1926	(29.3)	287	(6.4)
W GERMANY	6403	(31.3)	956	(8.6)

RS

IMPORTS FROM:

US	14549	(-0.2)	2165	(-17.5)
EC	7943	(32.4)	1180	(8.8)
UK	1352	(0.8)	200	(-16.9)
FRANCE	1209	(49.3)	179	(22.8)
W GERMANY	2826	(43.7)	420	(17.9)

BALANCE WITH:

US	24641	(7.0)	3656	(-12.0)
EC	10502	(26.3)	1568	(4.5)
UK	2655	(45.9)	395	(19.5)
FRANCE	717	(5.2)	108	(-13.0)
W GERAMANY	3577	(22.9)	536	(2.3)

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MONTHLY NOTE ON THE BALANCE OF PAYMENTS - SEPTEMBER 1987

- * The visible trade deficit rose to £0.9 billion in July compared with £0.7 billion in June and an average visible deficit of £0.9 billion a month in the second half of 1986. Combined with an unchanged invisibles projection of £0.6 billion, the current account showed a deficit of £0.3 billion in July, and for the year so far the deficit is £0.4 billion.
- * UK competitiveness has deteriorated since the fourth quarter of 1986 with the appreciation of 6 per cent in the effective exchange rate and a slight acceleration in UK labour costs reversing nearly half of the gains which occurred during 1986.
- * G5 countries' domestic demand are thought to have grown a little in the second quarter. Industrial production has been rising only slowly so far this year.
- * UK domestic demand was broadly unchanged in the first quarter but growth in consumers' expenditure picked up sharply in the second quarter. Retail sales continued to show strong growth in July.
- * Export volumes (excluding oil and erratics) rose sharply in July, and although recent monthly figures have been very erratic, the underlying level may be growing again after the pause earlier in the year.
- * Import volumes (excluding oil and erratics) rose rapidly in July and the underlying trend appears firmly upwards after the puzzling fall in the early months of 1987. Imports of intermediate goods and semi manufactures continued to rise strongly in the latest three months, reflecting the growth in activity though consumer goods imports, particularly cars, have also risen.
- * The terms of trade have continued on an upward trend in recent months with a gradual rise in export prices and flat or falling import prices.
- * The £0.4 billion current deficit so far in 1987 compares with the FSBR forecast for a current deficit of £2½ billion in 1987. Independent forecasts now point on average to a £1.1 billion current account deficit in 1987.

D OWEN

EA2 DIVISION

MONTHLY NOTE ON THE BALANCE OF PAYMENTS - SEPTEMBER 1987

Current account

1. The July trade figures, published on 1 September showed a deficit on non-oil trade of £1.2 billion, partially offset by a surplus on oil trade of £0.3 billion. The value of non-oil exports rose by £0.3 billion whilst the value of non-oil imports rose by £0.5 billion leading to an increase of £0.2 billion in the non-oil deficit compared with June. The oil trade surplus rose 16 per cent to just under £0.3 billion.

TABLE 1: CURRENT ACCOUNT

		Current balance	Visible total	of which: oil	manufactures	Other goods	Invisibles balance	£ billion
1985		2.9	-2.2	8.1	-3.0	-7.3	5.1	
1986		-1.0	-8.5	4.1	-5.5	-7.0	7.5	
1986	Q2	0.1	-1.6	0.8	-0.7	-1.7	1.7	
	Q3	-0.9	-2.9	0.6	-1.7	-1.8	2.0	
	Q4	-0.9	-2.7	0.8	-1.8	-1.7	1.8	
1987	Q1	0.5	-1.1	1.2	-0.7	-1.6	1.6	
	Q2	-0.6	-2.4	1.0	-1.9	-1.5	1.8*	
May		-0.5	-1.1	0.4	-0.9	-0.6	0.6*	
June		-0.1	-0.7	0.2	-0.5	-0.5	0.6*	
July		-0.3	-0.9	0.3	-0.6	-0.6	0.6*	

*CSO projection

CHART 1: CURRENT ACCOUNT

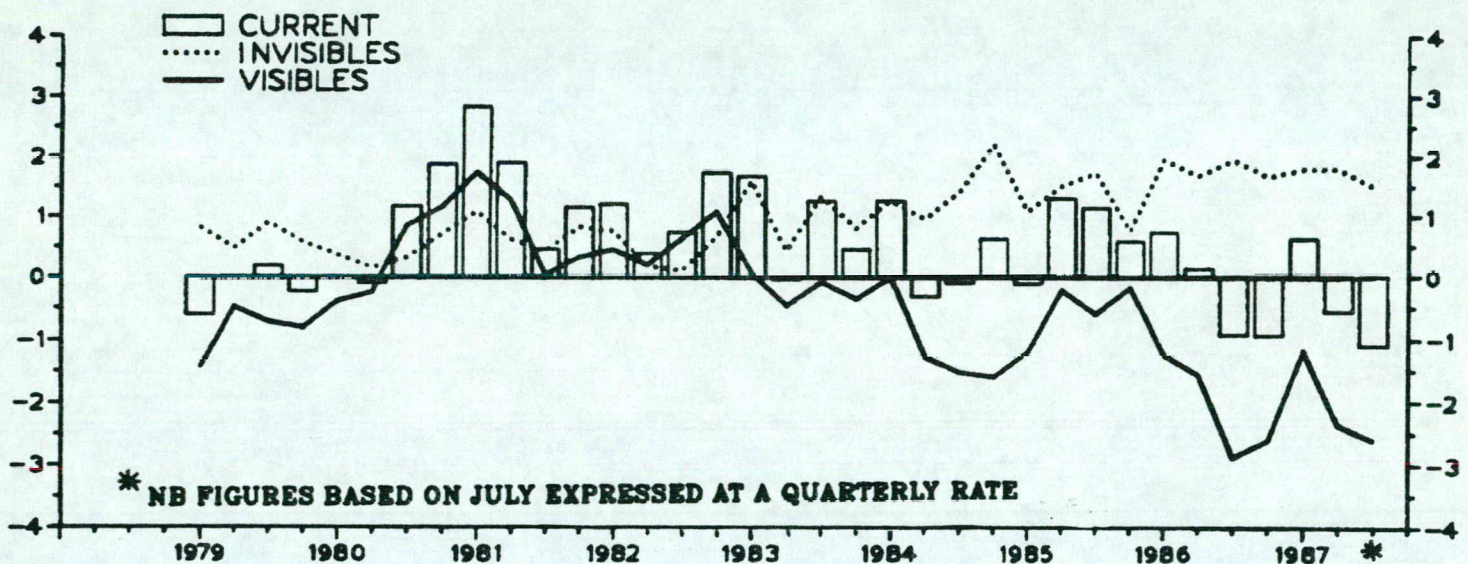
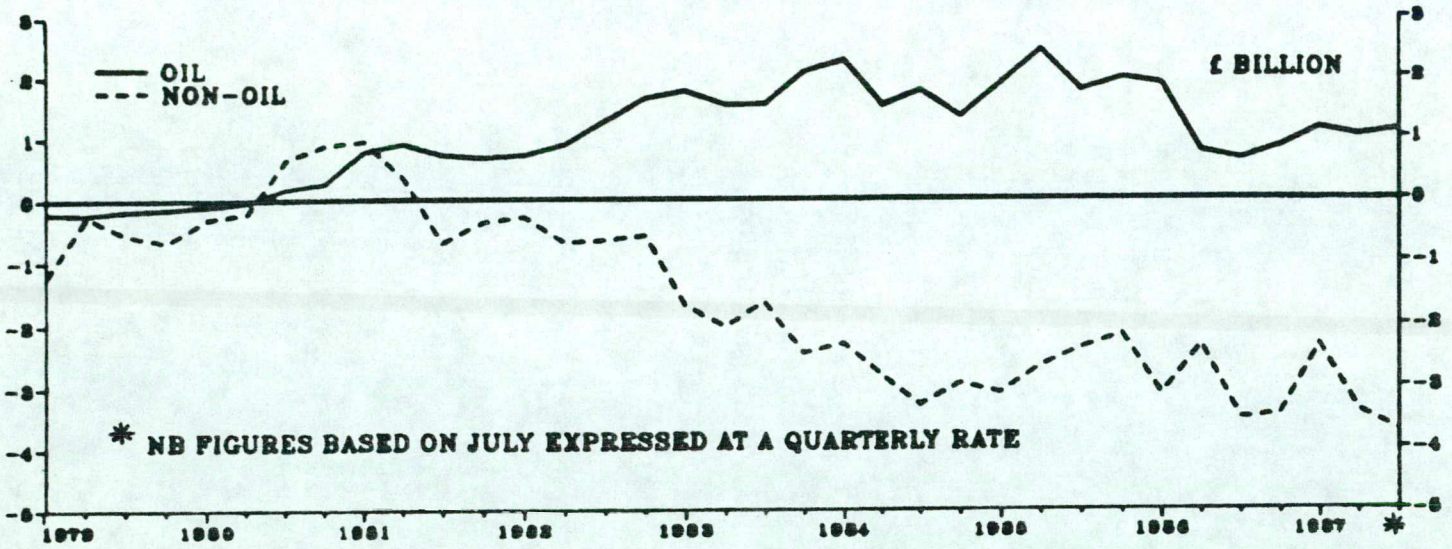


CHART 1A: VISIBLE BALANCE



DETERMINANTS OF UK TRADE

Competitiveness

2. UK competitiveness (as measured by relative actual unit labour costs in manufacturing) has deteriorated by perhaps 7-8 per cent since the fourth quarter of 1986, reversing about half of the gain in competitiveness which occurred during 1986. The exchange rate is currently around 6 per cent higher than in the fourth quarter, while UK unit labour costs have probably grown a little faster than those elsewhere.

CHART 2: UNIT LABOUR COSTS IN MANUFACTURING

1980=100

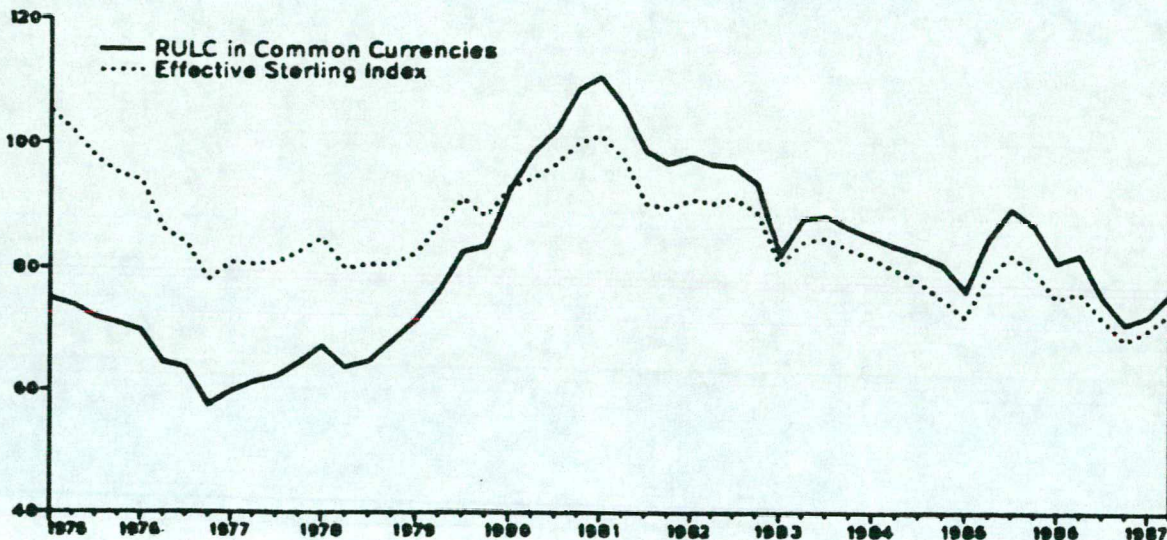


TABLE 2: RELATIVE UNIT LABOUR COSTS IN MANUFACTURING
 (% changes on a year earlier in brackets)

		Relative unit labour costs indomestic currencies 1980=100		Export weighted exchange rate index 1975=100		Relative unit labour costs in common currencies 1980=100		Sterling exchange rate index 1975=100	
1985		100.4	(2.6)	79.0	(-0.6)	84.5	(1.9)	78.2	(-0.6)
1986		103.1**	(3.6)	70.8	(-10.4)	77.4	(-8.4)	72.8	(-7.0)
1986	Q2	104.8	(5.2)	74.1	(-8.4)	82.3	(-1.5)	76.1	(-3.5)
	Q3	103.5*	(1.5)	68.6	(-16.6)	75.3	(-15.8)	71.9	(-12.4)
	Q4	102.6**	(0.8)	65.2	(-17.6)	70.9	(-18.3)	68.2	(-14.6)
1987	Q1	102.5**	(-1.1)	66.2	(-10.3)	72.0*	(-11.7)	69.7	(-7.2)
	Q2	103.9**	(1.8)	73.1**	(-1.3)	76.0	(-7.7)	72.8	(-4.3)
	June							72.7	(-4.1)
	July							72.8	(-1.6)
	August							72.3	(+1.3)
*	estimate								
**	projection								

World trade and domestic demand

3. G5 industrial production, which grew only slowly during 1986 and the first quarter of 1987, has picked up more strongly in the second quarter. US GDP growth in the second quarter was relatively moderate (+2.3 per cent on a quarter earlier at an annual rate), but GDP in West Germany recovered having fallen sharply in the previous quarter. No information, however is available as to whether G5 export volume growth picked up in the second quarter after the pause in the first quarter. UK domestic demand which was flat in the first quarter also appears to have risen in the second quarter with consumers' expenditure increasing by 2 per cent. Retail sales continued grow strongly in July.

TABLE 3: INDICATORS OF DEMAND

	G5 Countries			Indices 1980=100 UK		
	Export volumes*	Domestic demand	Industrial production	Export volumes**	Domestic demand	Manufacturing production
1985	110	113.3	112.0	114.9	111.0	103.8
1986	110	117.5	113.1	117.7	115.0	104.7
1986	1	107	112.7	111.9	114.2	102.8
	2	112	112.8	115.1	113.7	104.0
	3	106	113.4	118.5	115.5	105.0
	4	115	113.4	125.3	116.4	107.1
1987	1	107	113.8	124.4	116.2	107.2
	2		114.8	122.4		108.9
May			114.7	120.5		109.0
June			115.3	122.7		109.5
July			-	120.1		

* Not seasonally adjusted

** Excluding oil and erratics

+ Provisional

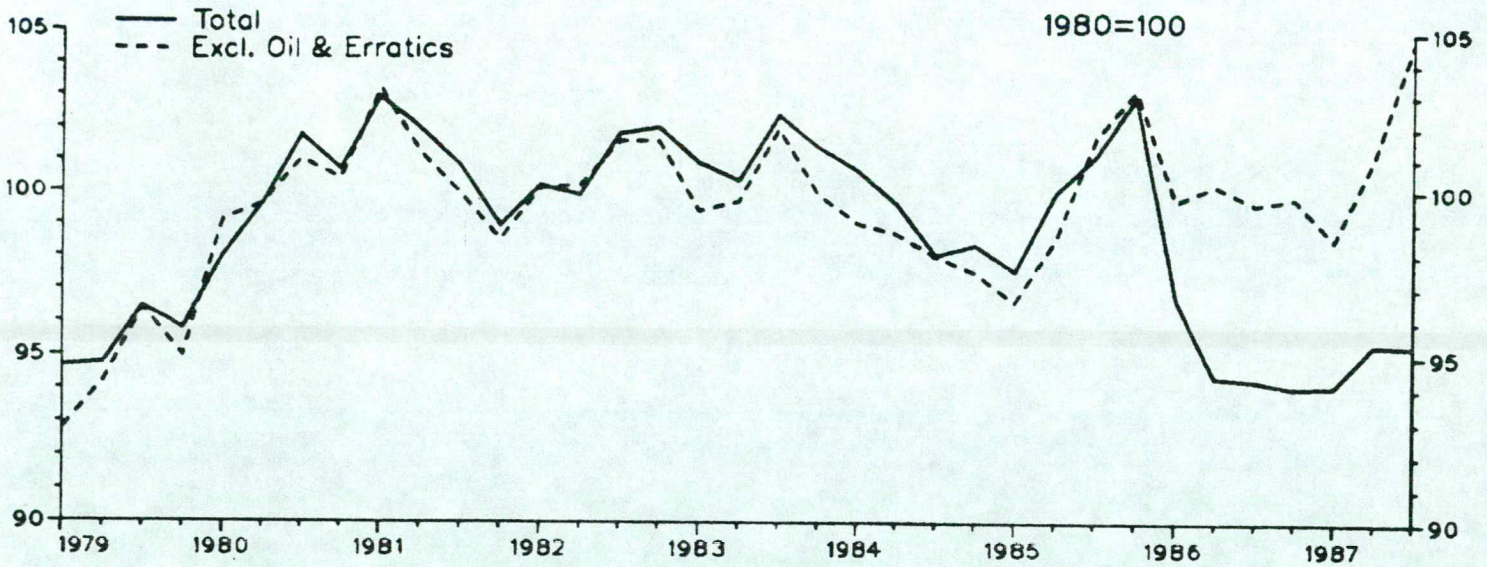
VISIBLE TRADE

TABLE 4: VISIBLE TRADE VALUES, VOLUMES AND TERMS OF TRADE

	£ billion			Ratio: Terms of Trade*		
	Exports	Imports	Balance	Export volume/ Import volume		
1985	78.1	80.3	-2.2	100.4	94.2	
1986	72.8	81.3	-8.5	94.9	91.7	
1986	2	17.8	19.4	-1.6	94.4	94.4
	3	17.6	20.4	-2.9	94.4	88.2
	4	19.3	22.1	-2.7	95.0	90.6
1987	1	19.6	20.8	-1.1	94.9	97.6
	2	19.4	21.7	-2.4	96.5	89.8
May	6.4	7.5	-1.1	96.5	85.9	
June	6.4	7.1	-0.7	98.1	88.8	
July	6.8	7.7	-0.9	96.2	89.1	
% change						
3 months July on same period year earlier	10	13		2	-4½	
3 months July on previous three months	-2½	5½		3	-10	
July on June	6	7½		-2	½	

* based on average value indices

CHART 3: TERMS OF TRADE



Exports

4. The volume of non-oil exports (excluding erratics) rose by 6 per cent in July. Within the total, fuel exports rose by about 9 per cent reflecting the recovery in North Sea output following summer maintenance and there were increases in all the other major categories with the exception of basic materials which fell by 8 per cent.

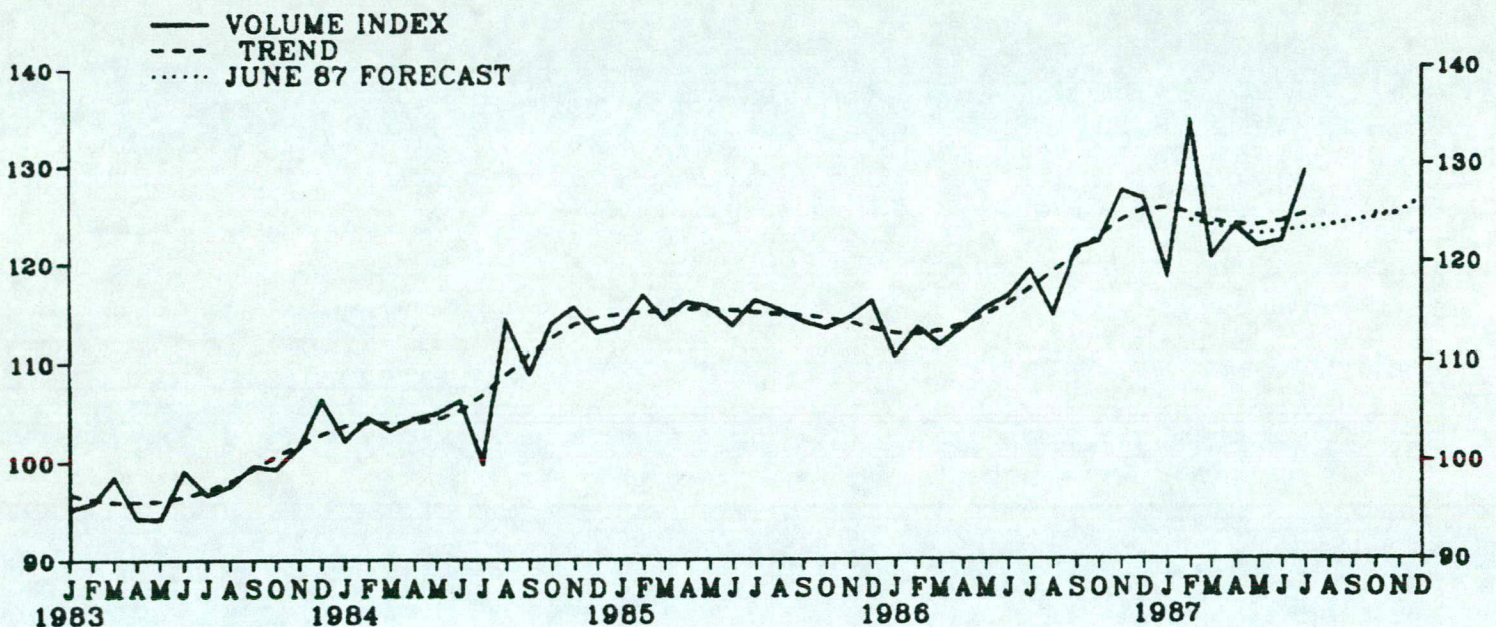
5. In the three months ending in July, non-oil export volumes (excluding erratics) fell by 1½ per cent compared with the previous three months, but they were still 6 per cent higher than a year earlier. To date in 1987 they have been 2 per cent higher than during the second half of 1986. The three month on three month fall reflects in part a 14 per cent fall in exports of basic materials. The volume of exports of manufactures (excluding erratics) also fell, by 1½ per cent, in the three months to July, but the underlying level of total non-oil exports remains close to the high level seen at the end of 1986. The June forecast projected a resumption of growth in manufacturing exports in the second half of 1987 and the latest CBI monthly survey showed continuing buoyancy in firms' export order books.

TABLE 5: EXPORT VOLUMES

		1980 = 100					
	Total exports*	Total exports (excluding oil and erratics*)	Manufactures (excluding erratics)	Food, drink and tobacco	Basic materials	Fuel	
1985	118.7	114.9	115.7	119.2	106.1	171.7	
1986	123.1	117.7	116.9	129.6	117.1	175.5	
1986	2 121.9	115.1	115.8	119.8	102.3	170.3	
	3 122.6	118.5	117.6	133.5	126.3	174.3	
	4 130.5	125.3	122.6	146.2	128.9	178.9	
1987	1 130.0	124.4	122.2	129.0	144.8	183.1	
	2 126.3	122.4	121.0	124.4	120.3	170.7	
May	123.9	121.6	119.4	128.1	109.3	160.0	
June	123.5	122.1	120.8	121.3	124.3	149.2	
July	131.3	129.3	128.8	134.6	114.4	162.3	
3 months to July on same period year earlier	3	6	4½	5½	8½	-9	
3 months to July on previous	-4½	-1½	-1½	½	-14	-17	
3 months July on June	6½	6	6½	11	-8	9	

* BOP basis

CHART 4: NON OIL EXPORT VOLUMES EXCLUDING ERRATICS



Export prices

7. Manufacturers' export prices rose by $\frac{1}{2}$ per cent in the three months to July compared with the previous three months to a level $3\frac{1}{2}$ per cent higher than a year earlier. Manufacturers have been taking advantage of exchange rate depreciation to raise domestic and export profit margins at a similar rate over the past year. The price of fuel fell slightly in the three months to end-July but remains substantially higher than during the same period last year, reflecting the strengthening of crude oil prices since then.

TABLE 7: EXPORT PRICES*

		Exports**	Exports** (excluding oil and erratics)	Manufactures (excluding erratics)	1980=100 Food, drink and tobacco	Basic materials	Fuel
1985		138.8	134.2	134.4	128.1	138.5	152.1
1986		124.8	134.5	136.3	129.7	120.7	76.3
1986	2	123.1	134.2	135.4	131.7	119.2	70.0
	3	120.7	133.9	136.3	128.4	118.4	57.4
	4	125.0	135.5	137.6	131.8	120.4	68.4
1987	1	127.4	136.6	139.5	130.8	119.2	78.5
	2	129.5	138.7	140.5	133.1	124.8	78.5
May		130.1	139.0	141.1	132.0	124.3	79.6
June		131.1	139.3	140.8	134.6	125.3	79.6
July		130.6	138.0	139.5	136.9	123.1	80.2
% change							
3 months							
to July							
	7		$3\frac{1}{2}$	$3\frac{1}{2}$	$1\frac{1}{2}$	6	$21\frac{1}{2}$
on same period							
year earlier							
3 months to							
	$2\frac{1}{2}$		1	$\frac{1}{2}$	$2\frac{1}{2}$	1	-1
July on							
previous 3 months							

* average value indices

** BOP basis

Exports by geographical destination

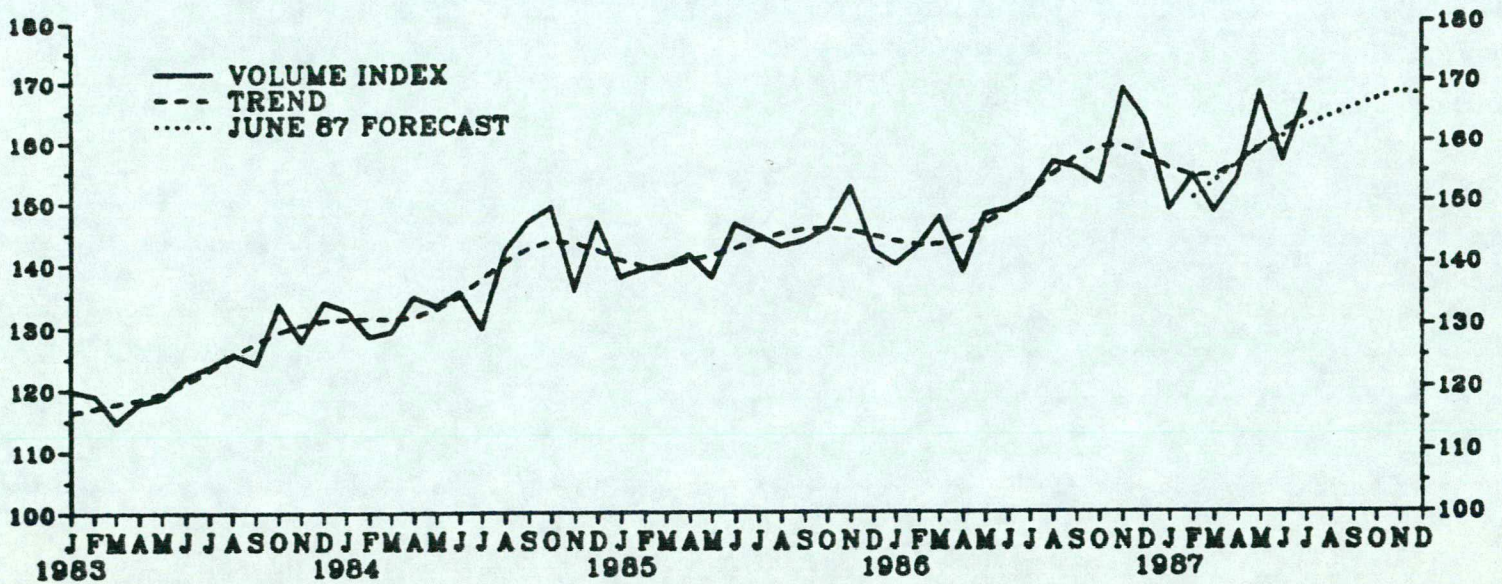
8. The value of exports to the US recovered sharply in July but in the three months to July it remained 17 per cent lower than in the previous three months. Exports to the EC also fell by 1 per cent over the same period. Exports to developing countries were up $2\frac{1}{2}$ per cent, though oil exporters took a smaller share of this than in the previous three months.

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Imports

9. Import volumes (excluding oil and erratics) recovered sharply in July from the low June level. Imports of semi manufactures and intermediate goods continue to grow, reflecting the rise in domestic output, though consumer goods imports, particularly passenger motor cars, have also picked up strongly in the past few months. In the three months to July the underlying volume rose by about 3 per cent. The figures continue to provide support for the FSBR and June forecasts of a rising trend through 1987.

CHART 6: NON OIL IMPORT VOLUMES EXCLUDING ERRATICS



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TABLE 8: IMPORT VOLUMES

		Goods*	Goods less oil and erratics*	Food, drink and tobacco	Basic materials	1980=100 Fuels [†]	Manufactures less erratics
1985		126.0	142.8	114.4	102.2	86.2	154.4
1986		134.2	150.9	123.5	108.7	93.4	163.0
1986	2	129.1	145.0	119.7	105.4	85.3	156.9
	3	139.0	154.4	125.5	106.1	111.9	167.6
	4	144.0	161.4	125.3	119.4	106.2	174.4
1987	1	133.2	150.4	120.2	121.5	90.8	160.5
	2	140.7	159.6	119.5	122.2	89.8	172.8
May		144.3	167.9	133.2	121.2	72.3	181.9
June		139.1	156.9	113.8	119.8	96.5	170.9
July		147.6	167.5	123.5	115.7	102.8	184.0
% change							
3 months to July on same period a year earlier		8	10	1	13	-9	11
3 months to July on previous three months		6	8	4	-2½	-3½	10
July on June		6	7	8½	-3½	6½	7½

† Figures affected by coal strike

* Balance of payments basis

TABLE 9: IMPORT VOLUMES OF MANUFACTURES

		Semi manufactures	Finished manufactures	of which: Passenger motor cars	Other consumer goods	1980 = 100 Inter- mediate goods	Capital goods
1985		143.9	161.4	127.9	139.5	172.8	187.1
1986		152.0	170.4	131.6	158.3	187.0	183.1
1986	2	149.2	162.1	125.0	154.2	180.8	169.5
	3	154.8	176.0	142.2	164.6	192.6	185.2
	4	156.6	186.4	133.0	170.1	204.9	205.4
1987	1	152.3	166.0	102.6	156.0	184.9	186.8
	2	163.2	179.3	120.8	171.6	202.8	191.5
May		171.7	188.5	122.4	177.7	214.8	204.9
June		160.4	178.0	128.1	177.8	196.1	184.2
July		165.7	196.2	142.6	178.6	221.7	213.9
% change							
3 months to July on same period year earlier		9½	11	-3	11	12	16
3 months to July on previous 3 months		6	13	27	10	12	11
July on June		3½	10	11	½	13	16

Import prices

10. In the three months to July import prices (excluding oil and erratics) were about 1 per cent lower than in the previous three months. Fuel prices fell by 2½ per cent while a firm exchange rate contributed to falls of 1½ and ½ per cent in prices of manufactures and food, drink and tobacco respectively. The effect of the exchange rate on basic materials prices was more than offset by continued rises in commodity prices in SDR terms.

TABLE 10: IMPORT PRICES*

	Imports**	Imports** (excluding oil and erratics)	Manufactures (excluding erratics)	1980=100			
				Food, drink and tobacco	Basic materials	Fuel	
1985	138.3	134.1	131.7	132.6	130.2	180.0	
1986	131.5	135.4	135.0	132.4	113.3	101.4	
1986	2	130.4	133.9	131.4	113.6	102.8	
	3	127.9	134.4	132.3	111.7	80.7	
	4.	131.6	136.9	137.0	135.7	113.0	82.2
1987	1	134.2	138.7	140.3	134.3	112.4	90.4
		134.2	137.2	138.7	133.3	114.0	94.9
May	134.8	136.9	138.6	131.6	114.7	94.9	
June	133.7	136.8	138.2	134.2	113.8	94.1	
July	135.7	138.8	139.4	135.0	116.0	92.7	
% change							
3 months							
to July	5	3	4½	1	2½	5½	
on same period							
year earlier							
3 months to	-½	-1	-1½	-½	½	-2½	
July on							
previous 3 months							

* average value indices

** BOP basis

Export shares and import penetration

11. On the basis of available information to the second quarter of 1987 it appears that UK manufactures have broadly maintained their volume share of developed countries' exports over the past year. This maintains the underlying improvement in UK relative performance, which has been evident since 1982. In the second quarter of 1987 imports grew less quickly than total final expenditure, hence there was a rise in import penetration in both value and volume terms back roughly to the levels in the second half of 1986.

TABLE 11: UK EXPORT AND IMPORT PERFORMANCE

		(Per cent)		Imports (less oil) share in total final expenditure	
		UK share of developed countries exports*			
		Volume	Value	Volume	Value
1985		9.4	8.2	16.6	16.0
1986		9.5	8.0	17.0	16.2
1986	1	9.1	7.8	16.2	15.6
	2	9.5	8.3	16.4	15.6
	3	9.3	7.8	17.2	16.3
	4	9.9	7.9	17.5	16.8
1987	1	9.7+	7.9+	16.4	15.9
	2	9.6+	8.2+	17.3	16.4

* Manufactures, weighted by UK markets

+ Estimated

PROSPECTS

19. The FSBR projected a current account deficit of £2½ billion in 1987. [NOT FOR USE: This was revised to a £½ billion deficit in the internal June forecast]. If the trend of recent months continues for the rest of the year, then the deficit for the year might be close to £2 billion. This compares with independent forecasts which are now on average projecting a deficit of £1.1 billion in 1987 and £2.2 billion in 1988.

TABLE 14: CURRENT ACCOUNT (£ billion)

	1987	1988	1989	1990
CBI (August)	-1.3	-2.6		
OECD (June)	-0.5	-2.5	-	-
National Institute (August)	-1.1	-3.4	-	-
LBS (June)	1.4	-0.9	-1.6	-1.5
Phillips and Drew (August)	-0.8	-1.7	-1.5	-2.9
Goldman Sachs (August)	-1.4	-3.0	-1.9	-2.9
Henley (August)	-1.1	-2.7	-1.3	-2.8
Oxford (July)	0.8	-0.8	-2.4	-1.5
Liverpool (June)	-0.2	2.3	6.7	7.6
Independent Average [†]	-1.1	-2.2		
HMT (June)	-½*	-1*		

[†] Based on sample used in regular EB comparison - latest edition; August.

* Not for use.

CONFIDENTIAL

INTERNATIONAL COMPARISONS

20. The US current account deficit rose further in the second quarter of 1987. German and Japanese surpluses have remain strong so far this year, but France recorded a £0.2 billion deficit in the first quarter.

TABLE 15 CURRENT ACCOUNTS OF THE G5*

		US	Japan	Germany	France	UK	\$ billion
1983		-46.0	20.8	4.1	-4.2	3.3	
1984		-107.4	35.0	7.0	-0.8	1.5	
1985		-117.7	49.2	13.2	-0.2	2.9	
1986		-141.6	86.0	35.8	3.7	-1.0	
1986	1	-33.0	15.9	7.7	1.0	0.7	
	2	-33.8	21.6	7.7	1.0	0.1	
	3	-36.6	23.8	11.3	0.8	-0.9	
	4	-38.0	24.3	9.3	1.0	-0.9	
1987	1	-38.8	24.5	11.0	-0.2	0.5	
	2	-39.5	-	10.7	-	-0.6	

* Seasonally adjusted

FROM: PAUL DAVIS

DATE: 16 September 1987

1. MR BOTTRILL
 2. CHANCELLOR OF THE EXCHEQUER

cc: Chief Secretary
 Financial Secretary
 Minister of State
 Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr Peretz
 Mr Sedgwick
 Mr Culpin
 Miss O'Mara
 Mr Barrell
 Mr Owen
 Mr Segal

12/2
 9/Content with press briefing?

*Provisional 12
 Contents X CR 16/9!
 in the main item Mr.*

Mr Cresswell CSO
 Mr Norgrove No 10

BALANCE OF PAYMENTS FIGURES: SECOND QUARTER 1987

1. The invisibles and capital account figures for the second quarter will be published at 11.30 am on 17 September, together with revisions to the first quarter. Figures presented for earlier years are consistent with those given in the Pink Book and figures for visible trade are the same as those published on 1 September in the DTI press notice on the July trade figures. These are the first figures prepared under the revised timetable which has involved a delay of approximately two weeks in the publication of the estimates.

X [2. The current account is now estimated to have been in deficit by £174 million in the second quarter compared with a projected deficit of £561 million shown in the DTI press notice of 1 September. At the same time the current account surplus in the first quarter has been revised up by £201 million, giving an estimated surplus for the first half of the year of £498 million. The figures reflect an estimated invisibles surplus of £2187 million in the second quarter compared with the previous projection of £1800 million, and an upward revision of £1807 million for the first quarter. The balance of payments estimates are summarised in the table below.

Summary Table

	£ billion						
	1985	1986	1986			1987	
			Q2	Q3	Q4	Q1	Q2
Visible balance	-2178	-8463	-1607	-2891	-2725	-1135	-2361
Invisibles	5097	7483	1753	1981	1765	1807	2187
- Services	5381	4990	1188	1251	1286	1241	1554
- IPD†	2992	4686	1118	1505	1271	1349	1258
- Transfers	-3276	-2193	-553	-775	-792	-783	-625
Current Account	2919	-980	146	-910	-960	672	-174
Net transactions in external assets and liabilities*	-7421	-10747	-2868	73	-5417	3490	877
Balancing item*	4502	11727	3179	954	5262	-3732	-357

† Interest, profit and dividends

* Not seasonally adjusted

Services (Table C)

3. The surplus on services in the second quarter of 1987 is estimated at £1.6 billion, about £0.3 billion higher than in the previous quarter. This increase reflects improvements in the balances on sea transport (£50 million), travel (£80 million) and financial and other services (£190 million). The improvement in the travel balance reflects a sharp rise in credits but the present estimates are based on monthly data and are subject to considerable revision when more complete quarterly information becomes available. The rise in financial service earnings is largely due to a recovery in net premiums earned by Lloyds, but it is possible that as claims respond with a lag to higher premiums this improvement may not be sustained.

Interest profits and dividends (IPD) (Table D)

4. The IPD surplus is estimated to have fallen by £0.1 billion to £1.3 billion in the second quarter. The estimate for the first quarter has been revised up by nearly £0.2 billion, reflecting higher net interest earnings on banks' foreign currency business, information on which was not available in time for the press notice on 1 September.

5. In the second quarter, on the credit side, earnings on direct investment fell back by about £0.1 billion and portfolio credits fell back by a similar amount, in part as a result of the firming of the exchange rate earlier in the year. On the debits side, profits due abroad on inward investment by oil companies and miscellaneous fell by £0.5 billion, although there is some suspicion of seasonality in this series. This was offset however by a sharp rise in net debits on bank foreign currency business, implying a severe squeeze on banks' margins. Earnings on the official reserves and other central government assets however rose by £43 million, reflecting in part an increase in reserves.

Transfers

6. The transfers deficit fell by £0.2 billion to £0.6 billion in the second quarter. Net payments to the EC fell back a little and multilateral aid and contributions to the European Development Fund fell approximately £0.1 billion to an abnormally low level.

Transactions in external assets and liabilities (Tables G and H)

7. Net capital inflows of £0.9 billion were recorded in the second quarter, compared with inflows of £3.5 billion in the first quarter. With recorded capital inflows exceeding the small current deficit in the second quarter there was a negative balancing item (reflecting unrecorded outflows) of only £0.4 billion, compared with unrecorded outflows of £3.7 billion in the previous quarter.

Net Transactions

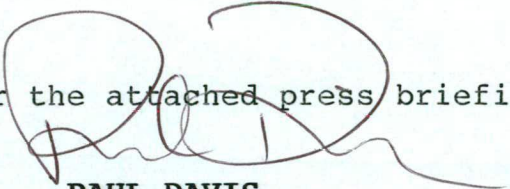
	1985	1986	£ million				
			1986 Q2	Q3	Q4	1987 Q1	Q2
Direct Investment	-4400	-5966	-674	-1704	-4061	-604	-4297
Portfolio Investment	-10751	-14668	-5003	-3379	-1843	+1912	+2608
Banks' net foreign currency lending abroad	+4900	+10494	+2880	+5830	+993	+3195	+4127
Banks' net sterling lending abroad	+2513	-343	-1389	-793	+6	+1198	+1354
Other	+2075	+2626	+1613	+2440	-818	-688	+1554
Official reserves	-1758	-2891	-296	-2321	+306	-1523	-4469
Total	-7421	-10747	-2868	+73	-5417	+3490	+877

8. On the assets side overseas direct investment increased by £2.6 billion in the second quarter, much of which was accounted for by the BP buy-out of a minority holding in Standard Oil (reported as £4.5 billion in the press, but not all of this is treated as a balance of payments transaction). However there was a small disinvestment in overseas portfolio assets in the second quarter, compared with outward investment of £1.1 billion in the previous quarter and nearly £23 billion during 1986: for the second quarter running securities dealers and banks reduced their holdings of overseas assets, the latter probably as a result of continued weakness in the floating rate note market. On the liabilities side, there was a sharp fall in inward direct investment compared with the first quarter, as a result of a £0.6 billion disinvestment by overseas oil companies. Portfolio inflows fell by £0.6 billion, reflecting a fall in purchases of UK company securities from the high first quarter level partly offset by an increase in overseas gilt purchases. There was a sharp rise in UK banks' foreign currency borrowing and lending and an increase in the net inflows, although this series tends to be erratic.

Assessment

9. The improvement in the invisibles balance to £2.2 billion in the second quarter, and the upward revisions to the first quarter, bring the invisibles surplus for the first half of 1987 to £4.0 billion compared with the FSBR forecast of £8½ billion for the year as a whole. Although the figures are clearly encouraging, the CSO warns that a number of improvements between the first and second quarter may not be sustained. These include an unusually high credit figure for travel and for financial and other services (caused by the improvement in Lloyds net premiums), together with an abnormally low transfers deficit. The CSO will take these factors into account when preparing the projection of the invisibles surplus for July and August which will be published with the August trade figures on 24 September.

10. I would appreciate clearance for the attached press briefing.


PAUL DAVIS
EA2

Draft Press Briefing for IDT

1. Invisibles surplus for 1987Q2 estimated at £2187 million, well above CSO projection of £1800 million.
2. Invisibles balance of 1987Q2 implies projection for July too low. Not necessarily. Projection for July and August will be assessed in light of latest information and will be published in current account press notice for August on 24 September.
3. Why such large upward revisions to invisibles surplus in first half of 1987? Previous figure for second quarter was only a projection, rounded to nearest £100 million. Revisions to first quarter estimate reflect new information on direct investment earnings and banks' interest receipts and payments.
4. Invisibles balance for 1987Q2 erratically high? Quarterly figures always include erratic factors. Present estimates for second quarter are preliminary - too soon to judge whether substantial improvement recorded reflects rise in the underlying invisibles surplus.
5. Second quarter estimates published about fortnight later than usual. New timetable ensures fuller response to quarterly surveys and reduces need for revisions within relatively short periods.
6. Further revisions to recent quarters' estimates are likely as new information becomes available. Figures for latest quarter are particularly liable to change.

M



FROM: CATHY RYDING
DATE: 17 September 1987

MR P DAVIS

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Peretz
Mr Sedgwick
Mr Bottrill
Mr Culpin
Miss O'Mara
Mr Barrell
Mr Owen
Mr Segal

Mr Cresswell - CSO
Mr Norgrove - No.10

BALANCE OF PAYMENTS FIGURES: SECOND QUARTER 1987

The Chancellor was grateful for your minute of 16 September.

2. The Chancellor has noted the first two sentences of paragraph 2 of your minute, ie that the current account is now estimated to have been in deficit by £174 million in Q2 compared with a projected deficit of £561 million and that the current account surplus in Q1 has been revised by £201 million to give an estimated surplus for the first half of the year of £498 million. The Chancellor thinks this should be the main item of the press briefing. He was otherwise content.

CR

CATHY RYDING

To:

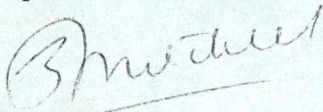
cc Mr Liesner
Mr WardPS/PRIME MINISTER
PS/SECRETARY OF STATE
PS/MINISTERS OF STATE
PS/PARLIAMENTARY UNDER SECRETARIES OF STATE
PS/PERMANENT SECRETARY

From:

B MITCHELL
Deputy Director
BSO
Newport
GTN 2411 225218th August 1987CAPITAL EXPENDITURE PRESS NOTICE

A press notice giving revised figures for the second quarter of 1987 is attached for information. The notice will be published at 11.30 am on Thursday 20 August. As usual, the contents should be treated as confidential until then.

Since the publication on 18 June 1987 of revised capital expenditure estimates for the first quarter, the series have been revised, as they are each year, to take account of the results of annual surveys, with their more comprehensive coverage. The main effects of these revisions are dealt with in note 2 of the notes attached to the press notice.



B MITCHELL

From: Paul Dawson
Date: 17 September 1987

Chancellor of the Exchequer

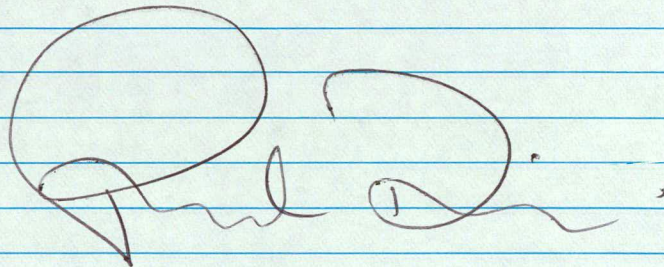
M

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir P. Middleton
Sir T. Burns
Mr Penetz
Mr Sedgwick
Mr Bottrell
Mr Culpin
Miss O'Mara
Mr Barrell
Mr Owen
Mr Segal

Mr Casswell CSO
Mr Norgrave No 10

Balance of Payments Figures - Second Quarter 1987.

1. I attach a revised press briefing, incorporating your suggestions.



EAZ.

Draft Press Briefing for IDT

1. Current account deficit now £174 million in 1987Q2 compared with previous projected deficit of £561 million. Current account surplus in 1987Q1 revised up £201 million to give £498 million surplus in first half of this year.
2. Invisibles surplus for 1987Q2 estimated at £2187 million, well above CSO projection of £1800 million.
3. Invisibles balance of 1987Q2 implies projection for July too low. Not necessarily. Projection for July and August will be assessed in light of latest information and will be published in current account press notice for August on 24 September.
4. Why such large upward revisions to invisibles surplus in first half of 1987? Previous figure for second quarter was only a projection, rounded to nearest £100 million. Revisions to first quarter estimate reflect new information on direct investment earnings and banks' interest receipts and payments.
5. Invisibles balance for 1987Q2 erratically high? Quarterly figures always include erratic factors. Present estimates for second quarter are preliminary - too soon to judge whether substantial improvement recorded reflects rise in the underlying invisibles surplus.
6. Second quarter estimates published about fortnight later than usual. New timetable ensures fuller response to quarterly surveys and reduces need for revisions within relatively short periods.
7. Further revisions to recent quarters' estimates are likely as new information becomes available. Figures for latest quarter are particularly liable to change.

SECRET AND PERSONAL

FROM: M G RICHARDSON

DATE: 17 September 1987

1. MR PERETZ
2. CHANCELLOR

cc: EST
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Kelly
Mr Grice
Mr Pickford
Mr Pike
Mr Brook o/r

*G
OK?*
AA
(wait for current etc!)
The market seems to be in a mood to look on the bright side of most figures at the moment, and I imagine the bank lending figure will be well received. The points in para 13 look well worth making.

DEP 17/9

Think - one or 2 shall check in 2 days this before.

PROVISIONAL MONEY FIGURES - AUGUST

(All figures are unadjusted unless specified otherwise)

The provisional money supply figures for August will be published by the Bank at 11.30 on Friday 18 September. As usual at this stage broad money figures - M4 and M5 as well as M3 - are subject to revision.

Summary

2. The annual growth rate of MO to August was 4.5 per cent (4.7 per cent seasonally adjusted (sa)) - the same as in the "first guess". The fall from the July figure of 5.4 per cent is due to the behaviour of bankers balances, notes and coins maintaining their steady recent annual growth rate of around 4¾ per cent. In August MO grew by 0.1 per cent (0.3 per cent s.a), giving a 3 month annualised increase of 9.4 per cent (7.1 per cent s.a).

3. The annual growth rate of M3 in August is estimated to be 22.1 per cent - at the bottom of the "first guess" range. For the second month in succession, this is the highest annual growth rate for M3 recorded in calendar month data. Growth of M3 in August is estimated to be 1.3 per cent (1.5 per cent s.a) - rather lower than the average in recent months (but M3 in August 1986 was very low: 0.3 per cent).

SECRET AND PERSONAL

SECRET AND PERSONAL

4. The annual growth rates for M4 and M5 to August are 15.5 and 14.9 per cent respectively. These are both a good percentage point above the average for recent months, and the highest rates since November. In August M4 increased by 0.9 per cent (1.4 per cent s.a) and M5 by 0.8 per cent (1.3 per cent s.a).

5. Table 1 below gives the growth rate of all four aggregates for August:

Table 1: Provisional monetary aggregates for August (per cent)

	<u>M0</u>	<u>M3</u>	<u>M4</u>	<u>M5</u>
Annual	+4.5	+22.1	+15.6	+14.9
One month	+0.1	+1.3	+0.9	+0.8
One month (s.a)	(+0.3)	(+1.5)	(+1.3)	(+1.3)

Table 2 attached gives the historical growth rates for M0, M3, M4, M5, NIBM1, M1, and the wider sterling aggregate.

6. Bank lending to the private sector in August rose by £0.9 billion (£2.0 billion seasonally adjusted). The unadjusted figure is the lowest since April 1986, though the s.a. figure is merely the lowest since April this year. In percentage terms the increase was 0.5 per cent (0.9 per cent s.a), giving an annual growth rate to August of 21.4 per cent (21.3 per cent s.a).

7. Bank and building society lending to the private sector - as defined in the M4 counterpart - rose by about £2.1 billion (£3.1 billion s.a). This is less than half the £5 billion average of the previous three months. The twelve month growth rate has fallen to 18.9 per cent for the first time since ^{September} 1986. Building society lending alone was about £1.3 billion, in line with the average of recent months.

Broad Money Counterparts and Components

8. Tables 3 and 4 (attached) show respectively the components and counterparts for broad money in August, together with the average changes over the previous twelve months.

Special Factors

9. A note by the Bank on the figures is annexed. The main points of note appear to be as follows:

- a. The Bank believe that the cumulative effect of this year's privatisations (and other capital issues) may continue to inflate the M3 growth until after the BP sale; but the specific impact on the August figure of BAA (oversubscribed at the end of July) is unclear.
- b. There was a small underfund on the PSBR of £0.3 billion. The cumulative underfund this financial year to date is £2.3 billion.
- c. With the public sector and bank lending accounting for only half the August growth of M3, the remainder is caused by the unusually expansionary "other counterparts" (ie other externals and nndls). These are usually negative, although the series is very erratic. As usual, it is not at all clear what is happening within the banks' externals, although £0.5bn (nearly half the "other counterparts") is explained by a switch in banks' net foreign currency position out of sterling - which perhaps in past reflects further foreign currency borrowing by their customers after last month's net repayment.
- d. There are no notable features to bank lending, not surprisingly in view of its lower level. The only special factor to be identified increases it slightly.

A more detailed commentary on the money figures will be given in the Monthly Monetary Assessment.

Presentation

10. This section concentrates on seasonally adjusted M0 and M3, in line with commentators' practice.

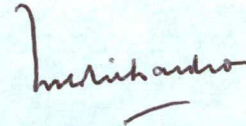
11. The median of commentators' forecasts for M0 in August is about 0.4 per cent, suggesting a twelve month rate around $4\frac{1}{2}$ - $4\frac{3}{4}$ per cent. The outturn is in line with or slightly below these forecasts, and should help to confirm that the July M0 figures were abnormally high.

12. The median of forecasts for M3 in August is about 1.5 per cent, with annual growth around 21-22 per cent. The outturn is much the same. Forecasts for bank lending however range from £2- $3\frac{1}{2}$ billion, with the median about £2.8 billion. This is rather higher than the outturn of £2 billion.

13. The market should therefore be pleasantly surprised by the sterling lending figure. For the most part, the briefing allows the figures to speak for themselves (broad money growth is still high, and the £2 billion bank lending figure is not low in absolute terms). It may be useful to remind commentators that M3 growth is boosted by abnormally expansionary "other counterparts" (banking externals and nndls), a series which is erratic and hard to interpret - and for which no breakdown is given in the provisionals. And it might help to dissipate "credit boom" fears further by referring them to the month's figure for combined bank and building society lending, and to its twelve month growth rate (which has been steady/in slight decline over the last year). Banks have been competing effectively for mortgage lending business, and this has tended to increase bank lending at the expense of building societies over a run of months; ^{and} it is always useful to take opportunities to emphasise the danger of looking at one month's figures in isolation.

Press Briefing

14. The attached draft press briefing follows this line. I should be grateful for comments on it first thing tomorrow Friday 18 September. The Bank's draft press notice is also attached.



M G RICHARDSON

MONEY SUPPLY IN AUGUST: PRESS BRIEFING

A. FACTUAL

(i) Changes in main monetary aggregates

	per cent			
	M0	M3	M4	M5
Annual growth rate	+4.5	+22.1	+15.5	+14.9
one month change	+0.1 (+0.3)	+1.3 (+1.5)	+0.9 (+1.3)	+0.8 (+1.3)

(figures in brackets seasonally adjusted)

(ii) Monetary Policy - Recent Statements

(a) Chancellor's speech to CBI annual dinner 19 May

"... my consistent aim has been to keep the economy on a track which will gradually squeeze out inflation and facilitate steady, sustained growth."

(b) Chancellor's speech to FHA annual dinner, 17 June

"Certainly it is necessary to take account of changes in the level and composition of credit, along with all other indicators, in assessing monetary conditions. In the past I have not hesitated to act when I judged that there was a risk of being pushed off the path which I had set for inflation. Nor shall I do so in future."

"....the instrument of monetary policy can only be the level of interest rates, which - along with the level of the exchange rate - has to be such as to maintain downward pressure on inflation."

(c) Chancellor in response to question whether "too much consumer credit" was reason for rise in interest rates in August (BBC TV News 6 August)

"No, it's looking at the economic and financial indicators as a whole and deciding that to maintain the sound monetary conditions which have brought inflation down and kept it down it's necessary to have a slight tightening of monetary conditions which means putting interest rates up by 1%."

(d) Chancellor in response to question whether 1 per cent increase in interest rates would hold (BBC Radio 4 World at One, 2 September)

"I think that recent events have fully vindicated the increase in interest rates which I made during the early part of August. That is now seen to have been right." ~~And I think that most people now recognise that that is sufficient."~~

(iii) Funding: underfund in August of around £0.3 billion. Underfund of PSBR so far in this financial year around £2.3 billion. PSBR April/August 1987 about £1.4 billion; debt sales outside monetary sector and external finance of public sector minus £0.9 billion.

B. POSITIVE

(i) Commitment: Government remains committed to maintaining sound monetary conditions as key to ~~further progress towards stable prices.~~

?
keeping from downward pressure on inflation

(ii) Bank and building society lending. Twelve month growth rate steady over last six months; ~~(about 19½ per cent); declined to just below 19 per cent last month.~~

MG should keen on this, & perhaps let them have the. But doesn't seem great full part to highlight

no evidence of acceleration.

stead 19½ pa growth.

C. DEFENSIVE

- (i) Growth of credit/liquidity inflationary? Experience of a number of years shown that high rate of growth of lending and liquidity consistent with lower inflation because increased liquidity willingly held. But Government remain committed to maintaining monetary conditions that keep downward pressure on inflation and has not hesitated to act if necessary.
- (ii) Consumer credit boom?
- No evidence that rate of lending to consumers accelerating in recent months.
 - Vast bulk of personal borrowing takes form of mortgages, which represented over $\frac{3}{4}$ of outstanding personal debt at end of 1986. Increase overall as percentage of GDP in 1980s entirely attributable to growth in mortgage borrowing, as result of $2\frac{1}{2}$ million increase in households buying own home. Consumer credit only some 15 per cent of total personal debt, and proportion if anything has come down slightly. [Within this, less than 5 per cent of personal debt takes form of credit card lending]. (See Chancellor's speech to FHA, 17 June).
- (iii) Role of M0? M0 has had stable relationship with money GDP over number of years. Proved reliable indicator. If underlying growth of M0 threatened to move outside target range, presumption that action taken on interest rates unless other indicators clearly suggest monetary conditions satisfactory.

- (iv) Role of exchange rate. Continuing desire to see exchange rate stability. Balance struck between exchange rate and domestic monetary growth consistent with aims for money GDP and inflation.
- (v) Role of broad money. With changes in financial practices, no simple relationship between broad money growth and money GDP. Government therefore decided should be no formal broad money target in 1987-88. But growth of broad money (M3 and wider measures) and credit counterparts, still taken into account in assessing monetary conditions.
- (vi) Funding policy. remains to fund PSBR fully, and no more, over the financial year as a whole. (Not a full fund every month - impracticable - so temporary over/under funding will occur). Intervention included in funding - buying dollars equals negative funding.
- (vii) Large other counterparts figure? A series that is erratic and always hard to interpret. Further breakdown available with full money figures.

Table 2

MONETARY AGGREGATES 1986-87

	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG
<u>M0</u>									
Averaged weekly									
Monthly change (£ million)	+1,129	-1,034	-228	+115	+325	+42	-93	+423	+13
Monthly % change	+7.6	-6.5	-1.5	+0.8	+2.2	+0.3	-0.6	+2.8	+0.1
	(+1.4)	(-0.6)	(-0.8)	(+0.4)	(+0.4)	(+0.5)	(+0.2)	(+1.2)	(+0.3)
12 Monthly % change	+5.2	+4.1	+4.1	+3.5	+5.3	+4.4	+4.2	+5.3	+4.5
<u>M3</u>									
(Exc Public sector deposit)									
Monthly change (£ million)	+267	-1,225	+2,945	+6,813	+3,203	+3,263	+1,904	+4,173	+2,248
Monthly % change	+0.2	-0.8	+2.0	+4.4	+2.0	+2.0	+1.1	+2.5	+1.3
	(+0.2)	(+1.1)	(+2.3)	(+3.3)	(+1.9)	(+2.1)	(+1.0)	(+2.3)	(+1.5)
12 Monthly % change	+18.1	+17.6	+19.0	+19.0	+20.5	+19.0	+19.2	+20.9	+22.1
<u>M4</u>									
Monthly change (£ million)	+1,692	-325	+2,470	+6,668	+3,555	+3,454	+4,044	5,279	+2,666
Monthly % change	+0.7	-0.1	+0.9	+2.5	+1.3	+1.3	+1.5	+1.9	+0.9
	(+0.2)	(+0.6)	(+1.4)	(+2.1)	(+1.4)	(+1.4)	(+1.3)	(+1.8)	(+1.4)
12 Monthly % change	+15.2	+13.9	+13.9	+13.9	+14.6	+13.7	+13.9	14.9	+15.6
<u>M5</u>									
Monthly change (£ million)	+1,547	-666	+2,616	+6,977	+3,575	+4,121	+4,154	+5,323	+2,525
Monthly % change	+0.6	-0.2	+0.9	+2.5	+1.3	+1.4	+1.4	+1.8	+0.8
	(+0.1)	(+0.6)	(+1.3)	(+1.9)	(+1.2)	(+1.6)	(+1.3)	(+1.7)	(+1.3)
12 Monthly % change	+14.4	+13.3	+13.3	+13.5	+14.1	+13.5	+13.6	+14.4	+14.9
<u>NIBMI</u>									
Monthly change (£ million)	+410	-1,842	+516	+1,055	+474	+1,167	+1,469	+100	-82
Monthly % change	+1.0	-4.4	+1.3	+2.6	+1.2	+2.8	+3.4	+0.2	-0.2
	(+0.8)	(+1.0)	(+1.7)	(-0.6)	(-0.2)	(+3.5)	(+3.8)	(-0.4)	(+0.6)
12 Monthly % change	+11.2	+10.8	+10.5	+10.3	+11.8	+12.0	+13.5	+12.4	+12.3
<u>M1</u>									
Monthly change (£ million)	-871	-237	+409	+4,381	+724	+2,984	+2,120	+986	+1,127
Monthly % change	-1.2	-0.3	+0.5	+5.8	+0.9	+3.7	+2.5	+1.2	+1.3
	(-1.4)	(+2.8)	(+0.8)	(+4.0)	(+0.2)	(+4.1)	(+2.6)	(+0.9)	(+1.7)
12 Monthly % change	+21.2	+23.2	+21.2	22.6	+23.3	+23.8	+23.9	+22.7	+23.9
Net £ deposits from banks abroad	+719	+1,004	-845	-1,395	+724	+987	-947	+493	-965
Overseas non-bank £ deposits	+180	+475	+550	+742	-194	+765	-427	+490	+139
<u>WIDER £ AGGREGATE</u>									
Monthly change (£ million)	+1,166	+254	+2,650	+6,160	+3,733	+5,015	+530	+5,156	+1,422
Monthly % change	+0.7	+0.1	+1.5	+3.4	+2.0	+2.6	+0.3	+2.6	+0.7
	(+0.7)	(+1.7)	(+1.8)	(+2.5)	(+1.9)	(+2.8)	(+0.2)	(+2.5)	(+0.9)

NB Figures in brackets are seasonally adjusted.

SECRET AND PERSONAL

TABLE 3: PROVISIONAL BROAD MONEY COMPONENTS

	£ million	Growth in 12 months to July	
		Monthly Rate	Percentage Increase
Notes and coins in circulation (nbps)	18	70	6.3
Bank deposits (nbps)			
Retail			
non-interest bearing	-100	340	15.3
interest bearing	211	420	12.1
Wholesale	2072	1650	32.4
Change in M3	2201	2480	20.9

Less building society holdings of M3	-287	-440	69.2
Buildings society deposits (nbnbsps)			
Retail	704	990	10.5
Wholesale	1	70	56.2
Change in M4	2619	3100	14.9

Money market instruments (nbnbsps)	-203	0	0.8
National Savings Bank (nbnbsps)	61	70	9.3
Change in M5	2477	3170	14.5

nbnbsps = non-bank, non-building-society private sector

SECRET AND PERSONAL

TABLE 4: PROVISIONAL BROAD MONEY COUNTERPARTS

August 1987 (£ million)

	M3	M4	M5
1. PSBR	751	751	751
2. Debt sales to private sector (-)			
Gilts	149	263	263
Treasury bills	-23	60	
National Savings	-228	-228	-167
CTD's	20	22	
Other CG debt	5	5	5
LA and PC debt	356	276	107
3. External finance of public sector (-)	-727	-727	-727
4. Public sector contribution (1+2+3)	303	422	232
5. Sterling lending to private sector	935	2115	2163
6. Externals	859	794	794
7. £NNDLs	104	-712	-712
8. Total change (4+5+6+7)	2201	2619	2477
(Percentage change)	(1.3)	(0.9)	(0.8)

Average growth 10 months to July 1987 (£ million)

1. PSBR	-170	-170	-170
2. Debt sales to private sector (-)			
Gilts	-40	-170	-170
Other public debt	40	-170	-150
3. External finance of public sector (-)	150	150	150
4. Public sector contribution (1+2+3)	-20	-360	-340
5. Sterling lending to private sector	3060	4420	4480
6. Externals	-310	-410	-410
7. £NNDLs	-240	-430	-430
8. Total change (4+5+6+7)	2490	3220	3300
(Percentage change)	(1.6)	(1.2)	(1.2)

Footnotes (see overleaf)

THE GOVERNOR'S
PRIVATE SECRETARY

From: C R Mann

Copies to

DGPS

Mr Loehnis
Mr George
Mr Flemming
Mr Coleby
Mr Taylor
Mr Gill
Mr Warland
Mr Plenderleith
Mr W A Allen

Mr T A Clark
Mr Collins
Mr Bull
Mr Midgley
Mr Mortimer-Lee
Mr Pennington
Mr Sheppard
Mr Thorp
Mr Townend
Mr M St J Wright

Mr Kelly HMT

Mr Brook

Mr Peretz

PRESS STATEMENT: AUGUST BANKING AND MONEY FIGURES
£ million

1 The preliminary monetary aggregates press release for calendar August will be published by the Bank at 11.30 am on Friday. A copy of the press release is attached. It covers M0 and M3 (formerly £M3), M4 and M5, and counterparts to M3, M4 and M5. Figures for member bank groups will be published by the CLSB at the same time. The full banking and money supply figures will be published on Tuesday, 29 September.

2 Attention is likely to focus on bank lending, which will probably be seen as "low", if only in relation to the last two months' very high figures.

The aggregates

3 The growth rates of the main aggregates are summarised below.

% changes	M0 ⁽¹⁾	M1	M2	M3	M4	M5
August (nsa)	+0.1	+ 1.3	0.0	+ 1.3	+ 0.9	+ 0.8
(sa)	+0.3	+ 1.7	+ 0.6	+ 1.5	+ 1.3	+ 1.3
12 months to						
August (nsa)	+4.5	+23.9	+10.9	+22.1	+15.5	+14.9
(sa)	+4.7	+24.5	+11.0	+22.2	+15.5	+14.9
12 months to						
July (nsa)	+5.3	+22.7	+11.0	+20.9	+14.9	+14.5
(sa)	+5.4	+22.8	+10.9	+20.8	+14.8	+14.3

(1) Calculated as an average of Wednesdays in the month.

The target for M0 set in the Budget is 2%-6%.

4 There are several points to note about these figures.

- (a) Within M0, bankers' operational balances fell by 50, continuing their erratic path of recent months and masking another strong increase of 110 in the note circulation; they account for the fall in the 12-month growth rate of M0 between July and August.
- (b) Within M3, most of the increase was in interest-bearing deposits (2,300 out of the 2,550 increase in M3), and within IB deposits most of the increase was in "wholesale" deposits (1,810). The latter includes about 60 of building society deposits, and also 150 arising from a special transaction within a group of companies that includes a bank (that also has the effect of boosting bank lending).
- (c) Retail inflows to building societies were buoyant (1,370 including interest credited) but to a large extent this reflects the recouping of some £0.4 bn withdrawn in July for the BAA sale. However, the percentage increase in societies' deposits was not as great as that for banks, so that M4 and M5 grew a little more slowly than M3.
- (d) Private holdings of foreign currency deposits rose by only 30 (a rise of 410 in transactions terms being offset by a fall of 380 due to exchange rate movements). M3c therefore rose by 2,580 (+1.3%, sa).

5 The overall effect of the BAA share sale in July on the monetary aggregates remains unclear. The issue was heavily oversubscribed, and a substantial amount of balance cheques (some £1/2 billion-worth) were still outstanding at the beginning of August. Although there were no further heavily oversubscribed share sales in August, some anticipation of the BP sale may have been developing as a result of early advertising. It is becoming increasingly hard to say what effect, if any, these sales have had on the aggregates. We are inclined to think that there was little effect on the August flows, but that the cumulative effect

of earlier sales (beginning with Rolls Royce in early May) may be to inflate the 12-month growth rate at least until after the BP sale in October. In addition to the spate of share sales, there has been over the last three months a very large amount of capital issues by private sector companies; but we have no evidence of how, if at all, this may have affected the money and banking aggregates.

Counterparts

6 Among the counterparts to broad money, only sterling lending is published in seasonally adjusted form. The public sector in August showed a deficit of 750, more than accounted for by the central government's own account but largely due to seasonal influences. The deficit would have been larger but for £0.4 bn of receipts from the call on BA shareholders. (Seasonally adjusted - not published - there was a public sector surplus of 20 in the month.) On the financing side, the non-bank private sector reduced gilt holdings by 150, the overseas sector having bought 400 in a month when net official sales were only 270. The reserves also fell by 340, so that external transactions contributed some £0.7 billion to funding. Altogether, there was underfunding of 300 in July (nsa - an overfund of 350 in seasonally adjusted terms, not published), increasing the cumulative underfund in the financial year to 2,250 (1,840 seasonally adjusted).

7 Within the "other" counterparts (published as a single figure, +£1.0 billion, in the provisional press release), the banks' sterling transactions with overseas residents were expansionary by about £0.3 billion (ie in net terms overseas residents borrowed more in sterling from the banks than they added to sterling deposits), and the banks switched about 550 into foreign currency (this, in itself, is an expansionary influence on money, as if the banks bought the foreign currency from the private sector in exchange for sterling deposits or CDs). One large item had offsetting effects in the externals and sterling nndls with no (direct) effect on money: having announced higher provisions against ldc loans, a bank redesignated about £1/2 billion of sterling capital as foreign currency capital (this transaction is

identical in nature to a transaction of almost £1 billion made by another bank in July, and to yet another worth £0.4 billion in June that we have only now learned about).

Bank lending

8 The seasonally adjusted increase of 1,960 in bank lending comes after two months of very large figures indeed (£3.9 bn in June and £4.9 bn in August). We know of a factor which may inflate the figure: a bank has lent 150 to a related non-bank company (funded by a deposit from another related company - see paragraph 4(b)). The "underlying" bank lending figure may therefore be nearer £1.8 bn. This is not, however, an exceptionally low figure (cf £1.7 bn in January 1987, and £0.9 bn in September 1986). The main turnaround between July and August was in bill finance (+1,670 in July, -1,600 in August). Advances in August at 2,680 were actually higher than in July: other elements in lending - market loans to GEMMS, etc, banks' holdings of CDs and time deposits issued by building societies, banks' investments in the nbps and holdings of sterling commercial paper, in total fell by 90.

9 Following rises in foreign currency borrowing by the nbps averaging £2.0 bn per month between January and June, this series fell by £2.2 bn in July, and this was advanced as an explanation of the high July sterling borrowing figure. In August, nbps foreign currency borrowing grew by £1.0 bn, and the total of sterling and foreign currency borrowing was £3.0 bn compared with £2.7 bn in July (but still well below the monthly average of £4.5 bn in the period January to May).

10 Lending by building societies was 1,290, not far out of line with the average of recent months. The "bill leak" (estimated holdings of bills outside the banking system) rose by only 90. Thus the low increase in the M3 lending counterpart was further reflected in modest increases in the M4 and M5 lending counterparts.

11 The main message from the CLSB banks' analysis of their loans and acceptances is that lending to persons for house purchase was

again very strong at 770. The CLSB banks have lent £2.5 bn for house purchase over the past three months, almost as much as they lent in the six months to May. This almost doubling of the rate of CLSB banks' house purchase lending must be attributable to promotional campaigns earlier in the summer and may also represent in part a change in the seasonal pattern, with more lending being concentrated in the summer months. But building society lending, whilst subdued in 1987 compared with 1986, does not seem to have changed sharply in the past three months nor, in so far as we can measure it, has such lending by non-CLSB banks. Lending to persons for consumption was modest at 210. The CLSB figures shed little further light on the overall total of bank lending, except that most categories of borrower show falls or only modest increases. The main exceptions seem to be lending to leasing companies, up by 300 (but this is largely seasonal due to new car registrations), and lending to "other services" (which embraces a variety of small service businesses) up by 240 in line with recent months. One cannot read much into all this except to say that apart from leasing companies the pause in sterling borrowing seems to be widely spread amongst all larger businesses and financial companies.

Financial Statistics Division
17 September 1987

C R Mann (4764) BB-1

CRM

SECRET (until publication 11.30 am Friday 18 Sept.)

PROVISIONAL ESTIMATES OF MONETARY AGGREGATES: CALENDAR AUGUST 1987

1 Provisional information suggests the following:

% changes	M0	M3	M4	M5
12 months to August (not seasonally adjusted)	+4.5	+22.1	+15.5	+14.9
August - not seasonally adjusted	+0.1	+ 1.3	+ 0.9	+ 0.8
seasonally adjusted	+0.3	+ 1.5	+ 1.3	+ 1.3

2 Provisional counterparts to the changes in August in broad money (M3, M4 and M5) are:

£ billion, <u>not seasonally adjusted</u>	M3		M4		M5	
	Aug	Latest 12 months	Aug	Latest 12 months	Aug	Latest 12 months
A PSBR	+0.8	+ 1.2	+0.8	+ 1.2	+0.8	+ 1.2
B debt sales to private sector(-) (1)	+0.2	+ 0.7	+0.3		+0.1	
C external flows to public sector(-)	<u>-0.7</u>	<u>+ 0.8</u>	<u>-0.7</u>		<u>-0.7</u>	
D public sector contribution (A+B+C)	+0.3	+ 2.7	+0.4		+0.2	
E sterling lending (2)	+0.9	+33.6	+2.1	+49.7(4)	+2.2	+50.5(4)
F other counterparts(3)	<u>+1.0</u>	<u>- 4.7</u>	<u>+0.1</u>		<u>+0.1</u>	
Total (D+E+F)	+2.2	+31.6	+2.6	+38.8	+2.5	+39.4
Sterling lending (seasonally adjusted)	+2.0		+3.1		+3.1	
(average of previous 6 months)	+3.1		+4.3		+4.4	

- (1) Sales of public sector debt to the private sector other than banks (and, for M4 and M5, building societies), with an adjustment in the case of M5 for private holdings of certain liquid government debt.
- (2) Lending by banks (and, for M4 and M5, by building societies) to the rest of the private sector; includes Issue Department holdings of commercial bills. For M5, an adjustment is necessary for private holdings of certain money-market instruments etc.
- (3) External and foreign currency transactions and net non-deposit liabilities of banks (and, for M4 and M5, of building societies).
- (4) Partly estimated. It is not possible to estimate all the counterparts over the last 12 months because full Building Society balance sheets for end-August 1986 are not available.

An article in the May 1987 Quarterly Bulletin discusses the broad money aggregates and their counterparts (see especially pages 214 and 217).

3 Full money and banking figures for August, including revised estimates of the figures given above, will be published on 29 September.



FROM: CATHY RYDING

DATE: 18 September 1987

MR RICHARDSON

cc Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Peretz
Mr Kelly
Mr Grice
Mr Pickford
Mr Pike
Mr Brook

PROVISIONAL MONEY FIGURES - AUGUST

The Chancellor was grateful for your minute of 17 September.

2. He had the following comments on the draft press briefing:-
- Factual (ii)(d): Delete "And I think that most people now recognise that that is sufficient".
- Positive (i): Replace "further progress towards stable prices" with "keeping firm downward pressure on inflation".
- Positive (ii): Redraft to read "Twelve month growth rate steady over last six months: no evidence of acceleration."

A handwritten signature in cursive script, appearing to be 'CR'.

CATHY RYDING

14.20

SECRET AND PERSONAL
UNTIL 11.30 AM FRIDAY 18 SEPTEMBER 1987

W

FROM: M G RICHARDSON
DATE: 18 September 1987

MR CULPIN

cc: PPS
PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Cassell
Mr Scholar
Mr Peretz
Mr Kelly
Mr Grice
Ms Bronk
Mr Brook

AUGUST: PROVISIONAL MONEY FIGURES

I attach the press briefing for today's provisionals incorporating the Chancellor's comments.

2. There have been no changes to the detailed figures circulated in my minute of 17 September.

3. Also attached are the Bank's Press Notice and the regular Monthly Statement of the London and Scottish Banks*. Any questions on this should be referred to the CLSB press office 01-626-8486.

M G Richardson

M G RICHARDSON

* to follow.

SECRET AND PERSONAL
UNTIL 11.30 AM FRIDAY 18 SEPTEMBER 1987

MONEY SUPPLY IN AUGUST: PRESS BRIEFING

A. FACTUAL

(i) Changes in main monetary aggregates

	per cent			
	M0	M3	M4	M5
Annual growth rate	+4.5	+22.1	+15.5	+14.9
one month change	+0.1	+1.3	+0.9	+0.8
	(+0.3)	(+1.5)	(+1.3)	(+1.3)

(figures in brackets seasonally adjusted)

(ii) Monetary Policy - Recent Statements

(a) Chancellor's speech to CBI annual dinner 19 May

"... my consistent aim has been to keep the economy on a track which will gradually squeeze out inflation and facilitate steady, sustained growth."

(b) Chancellor's speech to FHA annual dinner, 17 June

"Certainly it is necessary to take account of changes in the level and composition of credit, along with all other indicators, in assessing monetary conditions. In the past I have not hesitated to act when I judged that there was a risk of being pushed off the path which I had set for inflation. Nor shall I do so in future."

"....the instrument of monetary policy can only be the level of interest rates, which - along with the level of the exchange rate - has to be such as to maintain downward pressure on inflation."

(c) Chancellor in response to question whether "too much consumer credit" was reason for rise in interest rates in August (BBC TV News 6 August)

"No, it's looking at the economic and financial indicators as a whole and deciding that to maintain the sound monetary conditions which have brought inflation down and kept it down it's necessary to have a slight tightening of monetary conditions which means putting interest rates up by 1%."

(d) Chancellor in response to question whether 1 per cent increase in interest rates would hold (BBC Radio 4 World at One, 2 September)

"I think that recent events have fully vindicated the increase in interest rates which I made during the early part of August. That is now seen to have been right."

- (iii) Funding: underfund in August of around £0.3 billion. Underfund of PSBR so far in this financial year around £2.3 billion. PSBR April/August 1987 about £1.4 billion; debt sales outside monetary sector and external finance of public sector minus £0.9 billion.

B. POSITIVE

- (i) Commitment: Government remains committed to maintaining sound monetary conditions as key to keeping firm downward pressure on inflation.
- (ii) Bank and building society lending. Twelve month growth rate steady over last six months: no evidence of acceleration.

C. DEFENSIVE

- (i) Growth of credit/liquidity inflationary? Experience of a number of years shown that high rate of growth of lending and liquidity consistent with lower inflation because increased liquidity willingly held. But Government remain committed to maintaining monetary conditions that keep downward pressure on inflation and has not hesitated to act if necessary.
- (ii) Consumer credit boom?
- No evidence that rate of lending to consumers accelerating in recent months.
 - Vast bulk of personal borrowing takes form of mortgages, which represented over $\frac{3}{4}$ of outstanding personal debt at end of 1986. Increase overall as percentage of GDP in 1980s entirely attributable to growth in mortgage borrowing, as result of $2\frac{1}{2}$ million increase in households buying own home. Consumer credit only some 15 per cent of total personal debt, and proportion if anything has come down slightly. [Within this, less than 5 per cent of personal debt takes form of credit card lending]. (See Chancellor's speech to FHA, 17 June).
- (iii) Role of MO? MO has had stable relationship with money GDP over number of years. Proved reliable indicator. If underlying growth of MO threatened to move outside target range, presumption that action taken on interest rates unless other indicators clearly suggest monetary conditions satisfactory.

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- (vi) Funding policy. remains to fund PSBR fully, and no more, over the financial year as a whole. (Not a full fund every month - impracticable - so temporary over/under funding will occur). Intervention included in funding - buying dollars equals negative funding.
- (vii) Large other counterparts figure? A series that is erratic and always hard to interpret. Further breakdown available with full money figures.

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August - not seasonally adjusted	+0.1	+ 1.3	+ 0.9	+ 0.8
seasonally adjusted	+0.3	+ 1.5	+ 1.3	+ 1.3

2 Provisional counterparts to the changes in August in broad money (M3, M4 and M5) are:

£ billion, <u>not seasonally adjusted</u>	M3		M4		M5	
	Aug	Latest 12 months	Aug	Latest 12 months	Aug	Latest 12 months
A PSBR	+0.8	+ 1.2	+0.8	+ 1.2	+0.8	+ 1.2
B debt sales to private sector(-) (1)	+0.2	+ 0.7	+0.3		+0.1	
C external flows to public sector(-)	<u>-0.7</u>	<u>+ 0.8</u>	<u>-0.7</u>		<u>-0.7</u>	
D public sector contribution (A+B+C)	+0.3	+ 2.7	+0.4		+0.2	
E sterling lending(2)	+0.9	+33.6	+2.1	+49.7(4)	+2.2	+50.5(4)
F other counterparts(3)	<u>+1.0</u>	<u>- 4.7</u>	<u>+0.1</u>		<u>+0.1</u>	
Total (D+E+F)	+2.2	+31.6	+2.6	+38.8	+2.5	+39.4
Sterling lending (seasonally adjusted)	+2.0		+3.1		+3.1	
(average of previous 6 months)	+3.1		+4.3		+4.4	

- (1) Sales of public sector debt to the private sector other than banks (and, for M4 and M5, building societies), with an adjustment in the case of M5 for private holdings of certain liquid government debt.
- (2) Lending by banks (and, for M4 and M5, by building societies) to the rest of the private sector; includes Issue Department holdings of commercial bills. For M5, an adjustment is necessary for private holdings of certain money-market instruments etc.
- (3) External and foreign currency transactions and net non-deposit liabilities of banks (and, for M4 and M5, of building societies).
- (4) Partly estimated. It is not possible to estimate all the counterparts over the last 12 months because full Building Society balance sheets for end-August 1986 are not available.

An article in the May 1987 Quarterly Bulletin discusses the broad money aggregates and their counterparts (see especially pages 214 and 217).

3 Full money and banking figures for August, including revised estimates of the figures given above, will be published on 29 September.