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PART B

Part. B.

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Chancellor's (Lawson) Papers:
The Government's Monetary Policy.

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BR/11

SECRET

CST
FST
MST
E ST
Sir P Middleton
Sir G. Littler
Sir T. Burns
Mr F. Butler
Mr Cassell
Mr Scholar
Mr Odling-Sm
Mr H. Evans
Mr Cropper
Mr Lord
Mr H. Davies

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

7 February 1986.

David Norgrove Esq
No 10 Downing Street

Nigel
Workkeeps?
It not, D AA

Dear David,

PAPER FOR ECONOMIC CABINET

I attach a draft of the Chancellor's paper for the Cabinet discussion of economic strategy next Thursday. The Chancellor would like to know that the Prime Minister is content, before it is circulated to other Cabinet colleagues on Monday.

Yours ever
Rachel

RACHEL LOMAX
PRINCIPAL PRIVATE SECRETARY

BIS

Mr Pratt

As amended this is what is being circulated today.

MLS 10/2

BR/010

SECRET

ECONOMIC STRATEGY

Memorandum by the Chancellor of the Exchequer

1. The approach to the 1986 Budget is inevitably dominated by the dramatic changes taking place in the oil market. The large price fall that has already occurred means a sharp reduction in prospective oil tax revenues.

2. The current North Sea oil price of ~~[$16-17]~~ $17-18 per barrel is some 40 per cent below the end-November level - a change almost as great as the price increases of 1973 and 1979. It is hard in current circumstances to make a reliable judgement about the new level at which oil prices may settle. We therefore have to consider the Budget against the prospect not merely of greatly reduced oil revenues but also considerable uncertainty about how large the reduction will be.

3. Our current estimates suggests that if oil prices settle at $15 a barrel our revenues from the North Sea will be reduced to £6 billion for the next financial year. This compares with receipts of £12 billion in 1984-85. In last year's Medium Term Financial Strategy (MTFS) we expected revenues of £11½ billion for 1986-87.

4. There has inevitably been some turmoil in financial markets as they have responded to the oil price change. Sterling has fallen by about 7½ per cent and there has been persistent upward pressure on short term interest rates. So far we have weathered the collapse in oil prices and consequent financial market turbulence pretty well - though it may not be over yet. In so doing we are helped both by the underlying strength of the economy, in terms of growth, inflation and the external account; and above all by the reputation we have acquired for sound and prudent policies.

Fiscal position

5. Faced with this background my judgement is that we must approach the Budget with considerable caution. This means trying to avoid going above the £7½ billion Public Sector Borrowing Requirement (PSBR) figure set out in last year's MTFS. ~~If anything~~ Indeed, there is a strong case for going somewhat below it.

6. Much may change between now and Budget Day. Because non-oil revenues are now projected to be higher than expected I hope to be able to avoid a net increase in taxes in the Budget. But there looks like being little, if any, scope for a net reduction in taxation. We should just meet the public expenditure planning total set for the current financial year. The need to cope successfully with the unprecedented situation which the oil price fall has created for the public finances underlines the importance of holding public spending next year similarly within the planning total we have announced.

Economic prospects

7. But while lower oil prices have a profound impact on what is possible in the Budget, they should not greatly affect our overall economic performance - although there will be significant changes within the economy. For the world as a whole, lower oil (and commodity) prices will have beneficial effects in 1986 on the oil-consuming countries. The forecast for the major industrialised countries is for output growth averaging 3 per cent - a little better than achieved last year. Inflation will stay low: indeed in Germany and Japan it is likely to approach zero.

8. For the UK, the oil price fall has not caused me to revise my view that 1986 will be a further year of steady growth, at an annual rate of about 3 per cent , accompanied by declining inflation. Different parts of the economy will be affected in different ways by lower oil prices. While the oil sector will not do so well, manufacturing industry in particular should benefit considerably.

9. The UK economy is now in a stronger position to take advantage of the opportunities created by lower oil prices. The underlying improvement shows up in a number of indicators. Last year manufacturing productivity increased by a further 4 per cent. Since 1979 it has now grown at an average annual rate of 3¼ per cent. As the table below shows, our performance here compares very favourably with the recent past; and even with the majority of our principal overseas competitors.

Output per man hour in manufacturing
annual average growth rates, per cent

	1973-79	1979-85
US	1½	2½
Japan	6½	6½
Germany	3	3
France	5	3½
UK	1	3¾

10. Capital spending by business has generally been rising faster than output in recent years and further growth is expected in 1986, as a response to higher profits and continued expansion in output. Exports performed well in 1985: indeed, UK exporters increased their share of world trade. The prospect is for continued export growth, albeit at a slower pace. Even after the fall in oil prices, another sizeable current account surplus is in prospect for 1986, helped by rising earnings from our increasing stock of overseas assets. (Our net overseas asset position is now second only to that of Japan).

11. This year is likely to see a significant rise in consumer spending. This reflects rapid growth in real disposable incomes - itself a result of the high level of wage settlements in 1984 and 1985 and the reduction in inflation expected this year. Earnings are currently rising at or over 7½ per cent. With inflation likely to fall to 4 per cent this year, the average employee's pay may rise by some 4 per cent in real terms during 1986.

12. However, this excessive earnings growth remains the chief threat to jobs. Despite five years of continuous output growth, and a growth in the number of people in work of over 600,000 since the last election, which I expect to continue, unemployment is unlikely to show much of a reduction while wages rise so far ahead of prices. The plain fact is that, despite our very good productivity record, UK unit labour costs have been increasing much more rapidly than those of our competitors.

13. Annex 1 sets out key figures from the forecast. Annexes 2 and 3 set out the revenue effects of selected tax changes, together with a note on the tax burden.

Summary and conclusions

14. The dramatic change in oil prices has had a major - and adverse - impact on the public finances; but I very much hope that, thanks to the sound financial policies we have been following, it will prove possible to avoid raising taxes overall in the Budget. The impact of lower oil prices on the UK economy as a whole is more neutral. I expect to see continuing steady growth for the sixth year in succession; and lower inflation. This is a measure of the strength of our underlying economic performance.

15. I seek colleagues' views on the appropriate shape of the Budget in the light of the circumstances I have outlined.

N.L

SECRET

ANNEX 1

SELECTED ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985	1986 (1)
World GNP, in major 7 economies (per cent change) (2)	3½	1	1½	- ½	2½	4½	2½	3
UK GDP, (per cent change) (2)	2½	- 2½	- 1½	2	3½	2½	3½	3
Domestic demand, (per cent change) (2)	4	- 3½	- 2	2½	4½	2½	2	3½
Retail prices Q4 (per cent change)	17½	15½	12	6	5	5	5½	4
Interest rates (average 3-month interbank)	13½	16½	14	12½	10	10	12	13 (3)
Current balance (£ billion)	- ½	3	6	4	3	1	3½	3½
Unemployment (UK, per cent excluding school leavers)	5	6	9½	11	12	12½	13	13 (4)
Sterling Index	87	96	95	90½	83	78½	78	74 (3)
Oil prices, $, North Sea	20½	34½	37½	33	30	29½	27½	17½ (5)

(1) Provisional pre-Budget figures.

(2) At constant prices.

(3) February 7.

(4) Not a forecast. Figures based on assumptions in PEWP.

(5) Brent price for delivery in March, as of February 7.

ANNEX 2

REVENUE EFFECTS OF TAX CHANGES

A. Direct Taxes: Indexation

The RPI increased in the year to December 1985 by 5.7 per cent. With indexation by this amount and statutory rounding, the figures for the main allowances and other thresholds would be:

Personal allowances	1985-86 £	1986-87 £
Single and wife's earned income allowance	2205	2335
Married allowance	3455	3655
Bands eg		
30% rate	0-16200	0-17200
60%	over 40200	over 42700

The total revenue costs of indexation of income tax (reflected in the forecast) are £1140m in 1986-87, and £1490m in a full year, at forecast 1986-87 prices and incomes.

B Indirect Taxes: Indexation

The effects of 5.7 per cent revalorisation of the exercise duties (including VAT effects, price changes rounded) are as follows:

	Typical Price Change	Revenue effect (1986-87 prices) £m	RPI impact £m
Beer	1p/pint	100	0.07
Wine	5p/70cl light wine	20	0.02
Spirits	31p/bottle	45	0.04
Tobacco	5p/20 King size	150	0.14
Petrol	5p/gallon	260	0.13
Derv	5p/gallon	65	nil
VED	£5/car	100	0.05
Overall effect (reflected in forecast)		740	0.45

Note: First year and full year revenue effects are virtually identical.

C. Ready Reckoner: Illustrative Tax Changes

	£ million at forecast 1986-87 income levels	
INCOME TAX	1986-87	Full Year
Allowances and Thresholds		
1% above indexation on all statutory allowances	210	175
1% above indexation on all statutory allowances and thresholds	245	190
Rates		
Change basic rate by 1p	1175	975
CORPORATION TAX		
Change main rate by 1 percentage point	180	310
Change small companies' rate by 1 percentage point	16	30
OTHER TAXES		
Change VAT rate by 1 percentage point[1]	700[2]	925

(1) A 1% change in the VAT rate would change the RPI by 0.5%.

(2) Provisional forecast

ANNEX 2

THE TAX BURDEN

Since the Government came to power total taxes and NICs as a proportion of GDP at market has risen by about 5 percentage points, though the ratio has fallen slightly since 1981-82. The figures are as follows:

Table 1

Total taxation* as a % of GDP (market prices)	
1978-79	33.9
1979-80	35.2
1980-81	36.4
1981-82	39.3
1982-83	39.1
1983-84	38.6
1984-85	39.2
1985-86 (estimate)	38.7
1986-87 (assuming indexation)	38.6

* Including NICs and the local authority rates.

Personal sector

2. Despite reductions in income tax, total personal taxes (direct and indirect, including employees' NIC and domestic rates) in 1985-86 are about £15 billion higher in real terms (ie 1985-86 prices) than they were in 1978-79. For income tax and national insurance contributions the following table shows how the proportion of gross pay they represent has risen, particularly for the low paid:

Table 2

	Income tax and NICs as a % of gross earnings*		
	½ average earnings	Average earnings	2 average earnings
1978-79	16.0	27.8	31.4
1981-82	20.8	29.3	32.2
1982-83	20.8	29.8	32.3
1983-84	20.1	29.6	31.7
1984-85	19.3	29.2	31.5
1985-86 (estimate)	19.0	29.0	31.5
1986-87 (indexation)	19.3	29.1	31.7

* Adult male earnings (all occupations). Married couple, wife not working: the couple are assumed to have no children, to avoid distortion of the figures from the abolition of child tax allowances.

3. These figures reflect the rise in the standard employees' NIC rate from 6¾% to 9%. The lower rates introduced in the 1985 Finance Act do not affect the cases shown. So far as income tax is concerned, personal allowances have increased by over 19% in real terms since 1978-79 and have increased slightly faster than earnings. The basic rate has been reduced from 33p to 30p, but the 25p reduced rate band has been abolished.

4. As the table shows, indexation of allowances in the Budget would lead to a very slight rise in the proportion of incomes taken in tax and NIC. This is because earnings are assumed to rise by 7% compared with the indexation percentage of 5.7%.

5. Since 1978-79 total taxes paid by businesses (outside the North Sea) have fallen slightly as a percentage of GDP. Within this total, the major change has been a fall in employers' NIC and NIS as a percentage of GDP, partially offset by an increase in business rates, and 'other' taxes as the following table shows:

Taxes paid by businesses £bn in 1985-86 prices
(figures in brackets are %s of GDP)

	Corporation tax[1]	Taxes on self employment incomes	Employers' NIC and NIS	Rates	Other[2]	Total
1978-79	7.1	2.4	9.9	4.7	3.7	27.7
	(2.2)	(0.7)	(3.1)	(1.4)	(1.1)	(8.6)
1985-86 (estimate)	8.2	3.1	8.0	5.9	4.8	30.0
	(2.3)	(0.9)	(2.2)	(1.7)	(1.4)	(8.4)

1. Excludes North Sea, but includes ACT
2. VED, car tax, road fuel duty, duty on rebated oils, capital taxes.

3105/40

FROM: G SEGAL
DATE: 3 NOVEMBER 1987

I agree with X: the timing is bad, and how it looks unfortunately about our views on FRG economic / monetary policy.
RA. 3/11

1. MR R I G ALLEN
2. MR S MATTHEWS

cc PS/Chancellor
Sir P Middleton
Sir G Littler
Mr Cassell
Mr H P Evans
Mr Peretz
Mr C Kelly
Mr D Savage
Mr Pickford

INSTITUTIONAL INVESTOR: BACKGROUND BRIEFING

Mr Kevin Meuhring of Institutional Investor has asked for a background briefing on the UK attitude towards German monetary and fiscal policy. He is preparing an article during November for the January issue of the magazine and intends to visit W.Germany at the end of this week. He is hoping to come in sometime in the weeks starting either 9th or 16th November.

2. The problem with requests from magazines such as Institutional Investor is that anything you say to them tends to be out of date by publication time. Mr Meuhring originally asked also for a briefing on the likelihood of a G7 meeting. We agreed to drop this idea given the lag problem mentioned. There is the additional problem of getting a Treasury official to spend half a hour talking about another economy. In view of this my inclination would be to turn this request down and just refer Mr Meuhring to recent statements by the Chancellor. +/

3. Institutional Investor is the US version of Euromoney. It is a monthly publication sold by subscription (cir.about 30,000) and concentrating on banking and finance. Mr Meuhring is a contributing editor based in London.

G SEGAL

Contact: Kevin Meuhring 430 0881

PMP

MONETARY AGGREGATES & BANKING STATISTICS: NOVEMBER 1987

1 The changes in the monetary aggregates are summarised below:

	12 months to November 1987	November 1987	
	not seasonally adjusted	not seasonally adjusted	seasonally adjusted
M0	+ 4.9%	+0.3%	+0.3%
M1	+21.7%	+0.6%	-1.0%
of which, non-interest-bearing M1	+10.6%	+1.2%	-2.2%
M2	+10.8%	+1.9%	+1.2%
M3	+21.3%	+0.7%	-
M3c	+19.0%	+0.6%	-
M4	+15.2%	+0.6%	+0.3%
M5	+14.6%	+0.5%	+0.3%

2 Tables A-G and I show the components and counterparts of the monetary aggregates. Tables K-N show the details of the banks' and discount market's balance sheets. Transactions of the consolidated UK monetary sector, excluding interbank items and valuation changes on foreign currency items, are shown in Table H. An article in the May 1987 Quarterly Bulletin discussed the construction of the broad monetary aggregates.

3 Details of the building societies' balance sheets are shown in "Financial Statistics" (Tables 7.6-7.8), published by the Central Statistical Office. As mentioned in a note to those tables, the flows shown there for January 1987, which are calculated from some newly-available data for end-1986, may include some break in the series, and so the new data have not yet been incorporated in the money and banking statistics shown here.

4 Within the November PSBR, privatisation proceeds from the sale of BP shares were contractionary by £1.5 billion.

5 Estimated seasonal movements in December 1987

The provisional seasonal movements are shown below. Because of the difficulties referred to in the December 1986 Quarterly Bulletin (page 519), the figures should be regarded as more uncertain than were the figures formerly given for banking months. They remain subject to revision.

£mns		
	M0	+940
	M3	+ 60
	M4	+530
	M5	+590
	M3 counterpart: Bank lending in sterling to the private sector	+470
	M4 and M5 counterpart: Bank and building society lending in sterling to the private sector*	+310

The seasonally-adjusted changes are obtained by subtracting (with due regard to sign) the seasonal movement from the unadjusted changes.

* See the footnotes to Table G.

BANK OF ENGLAND
31 December 1987

Pup
Monetary policy

3/12/87.

CHANCELLOR OF THE EXCHEQUER

Dear Sebastian

I attach a Xerox of part of a speech of mine which was subsequently published as a pamphlet. The significance of it is that I made it in January 1982 (I was Energy Secretary at the time), more than 5 years ago. Do you think there might be some value in drawing it out in opening remarks to the TCSC to forestall claims of theirs that the Government's approach to the conduct of monetary policy represents some sudden & recent (& unacknowledged) change!

The alternative, of course, would be to keep it up my sleeve for use when the right question is asked (as it clearly will be).

NL.

PS. You may find the whole pamphlet worth re-reading!

The Medium Term Financial Strategy: a return to financial discipline

The true nature of the worldwide economic problem, of which the current world recession is the most obvious symptom, is now widely recognised.

Throughout the world there is an increasing acceptance that we have to go back to basics. We have to restore and maintain financial discipline, monetary and fiscal alike. We have to restore and strengthen market forces throughout the economy. It is in this context that the British government has set its economic course.

In particular, the crucially important medium term financial strategy, with its commitment to declining monetary growth and government borrowing, represents a conscious return to that over-arching financial discipline which history has shown to be one of the two key preconditions of economic success and whose abandonment has led directly to the inflationary excesses of more recent years.

Just as the classical formula for financial discipline – the gold standard and the balanced budget – had both a monetary/exchange rate and a fiscal component, so does the medium term financial strategy.

Of course there is always scope for argument as to how severe that financial discipline should be. My own judgement is that we have got it roughly right – and I am reinforced in this by observing that, if you leave on one side those who believe that there should be no financial discipline at all, roughly a third of our critics complain that our financial policy is too tight, a third complain that it is too lax, and the other third contrive to complain on both counts at the same time.

Again, there is scope for differences of opinion as to how the necessary financial discipline is best applied. Looking around the world today there is a considerable measure of agreement on the desirability of having targets for monetary growth, and of reducing budget deficits. Even after the final collapse of the Bretton Woods system, there has been a continuing role in Europe for the exchange rate as a medium of financial discipline, first in the form of the European snake and since 1979 in the form of the European Monetary System (EMS).

Rules versus discretion

Yet again, there is scope for argument over the balance between rules and discretion in any system of financial discipline – and this applies in particular to the conduct of monetary policy.

It has always been a grotesque caricature of the present Government's economic policy to pretend that it consisted of leaving everything to an automatic pilot known as sterling M3. As far back as March 1980 we published our Green

Paper on Monetary Control, in which we explicitly stated that to assess underlying monetary conditions properly it is necessary to take account of the evidence of *all* the various monetary indicators.

It is clear, to take a topical example, that to the extent that the sharp increase in bank lending for housing has simply replaced lending by the building societies, the consequent inflation of recent sterling M3 growth figures has no necessary monetary significance whatever.

In general, as David Laidler has forcefully pointed out, in a world in which the monetary system is in a constant state of evolution, the exercise of judgement and discretion is inescapable. The important question is: who is exercising that judgement and that discretion?

If it is being exercised by those who do not really believe in the policy in the first place – and there are central bankers, as well as politicians, who fall within this category – then any departure from predetermined rules and guidelines will understandably be regarded with the gravest misgivings, since it will as likely as not represent a backsliding from financial discipline as such.

If, on the other hand, the discretion is being exercised by those whose commitment to the policy, and to the overriding need to maintain financial discipline, is beyond doubt, then there is no cause for such misgivings. On the contrary, the judgement that is being applied, fallible though it may be, is one calculated to minimise the risk of error in carrying through the complex task of sensible monetary control in a financially advanced and sophisticated modern economy.

After the best part of three years the present Government's commitment to the maintenance of financial discipline is indisputable, and the exercise of his judgement and discretion by the present Chancellor of the Exchequer falls fairly and squarely within the second of the two categories I have described.

The plain fact is that the true objective of those who urge the Government to abandon its medium term financial strategy is the abandonment of financial discipline altogether.

Unemployment and recovery

The road back from a high rate of inflation is, of course, a hard one. In particular, we are experiencing a distressingly high rate of unemployment.

Our critics sometimes argue that the present level of unemployment must either have been intended, in which case we are wicked, or else it must have taken us by surprise, in which case we are incompetent. The fallacy inherent in this latter-day version of Morton's Fork can best be illustrated by the analogy of warfare – and indeed it is a war against inflation that we are fighting.

In war, casualties are inescapable. They are neither intended, nor are they

(1) cc: PPS - 12/2
Mrs C/Mars
RA, HB, JF
Mr Parkson (ES)

SIR GEOFFREY HOWE -
INTERVIEWED ON THE 'WORLD AT ONE', BBC RADIO 4,
14 DECEMBER 1987

(2) Mansion

PMG
EMS

Q But its an open secret that you take a different view from her, say, on full membership of the European Monetary System.

A I think that probably is an open secret and that's a matter which we continue to discuss. Britain in fact by her economic policy is doing as much as any country I think to maintain the ecoromic wealth of Europe at the moment. And that's the main thing.

4561/007

SECRET

FROM: J W GRICE
DATE: 23 December 1987

1. SIR PETER MIDDLETON

2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Sir T Burns
Sir G Littler
Mr Cassell
Mr Lavelle
Mr Monck Mr Scholar
Mrs Lomax
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr R I G Allen
Mr Bottrill
Mr Hibberd
Miss O'Mara
Mr Riley
Mr Pike
Mrs Ryding
Mr Cropper
Mr Tyrie
Mr Call
Mr George - B/E
Prof Griffiths - No 10
Mr Lankester - Washington
File: MAMC F1

MONTHLY MONETARY ASSESSMENT: DECEMBER 1987

This note reports the discussion at Sir Peter Middleton's regular meeting on monetary conditions on 22 December. Attached is the usual Monthly Assessment.

Sir Peter Middleton's Meeting

2. Sir Peter noted that the policy issues raised by present circumstances had been discussed in depth at the Chancellor's meeting with the Governor on 18 December. Even so, it would be helpful to review developments.

3. Mr Cassell outlined the main developments since the last Assessment (1 December):

(a) the pound had been weaker in the most recent period. This was probably attributable to the fall in oil prices and did not necessarily represent a loosening in the monetary stance. But it had meant that there had been no need to intervene over the last week to hold sterling back against the deutschemark;

(b) the limited economic data relating to the period after the Stock Market fall - November retail sales, labour market indicators and house prices - suggested that activity was still buoyant. The CBI Manufacturing Survey and the DTI Investment Intentions Survey both indicated continued business optimism. But it was early days to draw firm conclusions;

(c) M0 growth had tended to be lower than expected. But caution was needed in interpreting these figures at this time of year given the strong seasonal influences, not wholly predictable. Broad money growth in November, however, had also been less than anticipated;

(d) the shorter end of the yield curve had developed a pronounced upward slope. Twelve month yields were about a point higher than one month rates. This suggested that the market was impressed by the strength of demand and expected the next movement in interest rates to be upwards.

4. Mr George said that he had little to add to Mr Cassell's review. While demand appeared to be strong at present, there were a number of uncertainties about its continuance. We had tended to concentrate on equity price falls as a potential source of future weakness. But more general worries about the course of the world economy could lead to a deterioration in sentiment. Policy would have to be flexible enough to deal with such eventualities.

5. Sir Terence Burns agreed that the recent run of economic data had been more buoyant than anticipated. But there were one or two signs, mainly anecdotal, that this might be coming to an end. City analysts, for example, seemed slightly disappointed by pre-Christmas

sales to date. It would be easier to judge after Christmas when fuller data was available. He noted that the breakdown of inflation this year revealed an interesting pattern. Unit labour costs had been rising quite gently with productivity increases offsetting earnings growth. Similarly, non-labour costs had been subdued - many firms had been helped by their ability to take pension fund contribution holidays. But profit margins had been surprisingly buoyant.

6. Other points emerged in discussion:

(i) it was curious that stockbuilding accounted for about half the growth in GDP in the third quarter. But this item was notoriously erratic and may not have much significance. It might, though, explain the apparent surge in imports;

(ii) the productivity growth which had served to contain unit labour costs may fall away when output growth slowed. On the other hand, the current brisk earnings growth was also partially cyclical;

(iii) firms may be holding temporarily high profit margins, recognising that the benefit to costs from low pension fund contributions would itself be temporary.

(iv) Compared with the situation six months ago (in May) the balance of monetary and financial indicators (including the oil adjusted exchange rate) appeared to indicate a tighter stance now, but account had to be taken also of the evidence from the real economy.

7. Concluding, Sir Peter Middleton said that the discussion of developments had been useful. There was nothing to add to the policy discussion which the Chancellor had just had with the Governor. He noted that this was Mr Cassell's last Monthly Meeting. He now looked forward to Mr Cassell sorting out the problems of the US economy with the same skillfulness.

JWG

J W GRICE

SECRET

MONTHLY MONETARY ASSESSMENT: DECEMBER 1987

Summary Assessment

The apparent tightening of monetary conditions recently is not yet showing up in the economic indicators. Data since the last Report (1 December) reveals striking buoyancy in real activity. Most evidence relates to before the Stock Market fall but the limited data for November shows no marked effect from lower equity prices. Signs of inflationary pressures are still largely absent though earnings growth has been edging upwards.

Main Points

Money GDP in the third quarter exceeded the Autumn Statement projections. This was partly due to unexpected stockbuilding. (Paras 7-8).

Underlying earnings growth rose to 8 per cent in the year to October after six successive months at 7¾ per cent. (Para 15).

M0 grew by 4.9 per cent in the year to November after 5.6 per cent in the previous month. This was anticipated, reflecting growth patterns in 1986. (Paras 26-27).

Broad money growth in November was unexpectedly subdued and all 12 month growth rates fell back: from 15¾ to 15¼ per cent in the case of M4; from 22¼ to 21¼ per cent for M3. (Paras 32-36).

Sterling fell overall with the effective rate weakening from 76½ at end-November to 75½. But this was against a background of falling oil prices, as well as heavy intervention in the first two weeks of the month to hold it back. The oil adjusted index fell fractionally. (Paras 21, 23, 24).

The yield curve has developed a pronounced positive slope at the short end. One year rates are nearly a point higher than one month rates. (Para 47).

Equity prices worldwide have looked resilient. For the UK, the FTA index has risen about 11 per cent in the last three weeks. (Paras 1, 50).

MG2 Division
23 December 1987

A. External Developments

Share prices have shown comparatively little variation in December following the sharp falls in October (see table 3a). Since the end of November, they are broadly unchanged in Japan and Germany, have risen by about 9 per cent in the US and fallen slightly in France.

2. The authorities in most countries responded to the fall in share prices by easing monetary policy. European interest rates fell further in late November and early December but, along with US rates, they have generally edged higher during December. Japanese rates have remained virtually unchanged since October. The future course of interest rates in Germany depends on the weight attached to conflicting objectives. On the one hand, lower rates would boost activity but on the other, there is concern about the inflationary consequences of rapid money supply growth, caused in part by foreign exchange intervention.

3. **Activity** in North America and Japan is turning out stronger than expected, but the German economy continues to disappoint. There is little sign so far that the stock market falls have had much effect. Business surveys in a number of countries show little effect on business confidence. The index of leading indicators in the US has remained firm, despite including share prices. US industrial production rose ½ per cent in November.

4. The **dollar** has continued to fall against all the major currencies (table 2b). Its effective rate on 22 December was 5 per cent below its end-October level and 10½ per cent below its Louvre Accord level. Total spot market intervention by the G7 countries has been $ 69 bn since the Louvre Accord.

5. The 12 month rate of **consumer price inflation** in the G5 has remained fairly constant since June at about 3 per cent (table 1). This compares with a rate of less than one per cent at the end of 1986, when the effect of last year's falls in oil and other commodity prices was at its maximum. Underlying inflationary

pressures do not seem to have grown. Unit labour costs in manufacturing have fallen over the past year in the US, Japan and France, and have hardly risen in Germany. GNP price deflators have not accelerated significantly.

6. Non-oil **commodity prices** have risen moderately since the beginning of the year (table 4). The rise was interrupted for a time in October, following the stock market collapse, but has since been resumed. In real terms, however, commodity prices are barely higher than on average in 1986. On 17 December, the price of oil (WTI) had fallen to $15½ a barrel - from $18½ at the beginning of the month. Even in dollar terms, oil prices are now almost as low as at the end of 1986; in SDR terms they are 15 per cent lower.

B. Activity and Inflation

7. Table 4 summarises recent indicators of **activity and inflation.** Provisional third quarter estimates of GDP show stronger growth than expected at the time of the Autumn Statement but may prove to be erratically high. There is little yet to suggest any deceleration of activity following the fall in share prices: retail sales and labour market indicators remained buoyant in November. The fall in retail price inflation in November was in line with expectations.

Recent indicators for activity

8. Provisional third quarter **GDP estimates,** published on 18 December, show the average measure 2¼ per cent higher than in the second quarter, and 5¼ per cent higher than a year earlier. The increase in the third quarter is considerably above both expectations at the time of the Autumn Statement and the preliminary estimates of a 1½ per cent increase in GDP(O) published a month ago. Each of the three measures of GDP showed a sharp rise of 2 to 2½ per cent in the third quarter - GDP(O) having been revised up relative to preliminary estimates. While these figures undoubtedly reflect buoyant activity in the third quarter they probably overstate underlying growth. (Over half of the increase

in the expenditure measure of GDP in the third quarter reflected higher spending on stocks: given the well established downward trend in the whole economy stock - output ratio over recent years this development is likely to unwind, at least in part, during the fourth quarter.) Taking the first three quarters of 1987 together, the average measure of GDP is estimated to have risen by a little over 4 per cent on a year earlier.

9. Monthly figures for production industry output show a further 1 per cent rise in **manufacturing output** in October, to a level 6 per cent higher than a year earlier. The December CBI survey of manufacturers (the second to be conducted since the share price fall) shows continued buoyancy of output expectations. While total order books appear to have reached new peak levels, export orders have turned down since November.

10. **Consumers' expenditure** is now estimated to have risen by over 2½ per cent in the third quarter. **Retail sales** continue to show strong growth, with a provisional 1 per cent increase in November. Earlier press reports of poor Christmas sales this year in the wake of the fall in share prices in October now appear to have been overly pessimistic. **Private housing starts** are provisionally estimated to have fallen sharply in October after what now appears to have been relatively high levels of starts through the third quarter.

11. Revised estimates of business **capital expenditure** now show a 4¾ per cent fall in spending in the third quarter after increases of around 3½ per cent in each of the previous two quarters. This probably understates the prospects for investment: the DTI Winter Investment Intentions Survey suggests that manufacturing investment could rise by 11 per cent in 1988, with industrial investment increasing by 6 per cent. Revised estimates of **business spending on stocks** confirm earlier estimates of a sharp rise in the third quarter.

12. The latest set of **labour market indicators** suggest that the economy remained buoyant through November: unemployment fell a further 64 thousand, somewhat more than the similar large reduction in October, while vacancies edged up a further 7 thousand. Overtime working rose sharply in October, to its highest level during the current upswing.

Inflation

13. **Retail price inflation** fell to 4.1 per cent in November compared with 4.5 per cent in October. (This figure is the first published since the computer error in the RPI came to light; correction of the error may have reduced the extent of the fall in the RPI by around 0.1 per cent.) The fall was much as anticipated - reflecting exclusion from the year-on-year comparison of the large mortgage rates increase in November 1986. RPI inflation is expected to fall further in December and January as a result of the latest reduction in mortgage interest rates.

14. The twelve-month increase in the **producer price index** (excluding food, drink and tobacco) in November was 4.9 per cent, up 0.2 per cent after four months at 4.7 per cent. CBI survey responses relating to manufacturers' price expectations - adjusted for seasonal variation - fell back in December after a modest rise in November. While price expectations have shown a gradual rise through 1987, the December outturn remains below peak figures seen in February and May. The annual rate of incease in producer input prices (also excluding FDT) fell to 5.3 per cent in November after a 7.8 per cent increase in the year to October. The rapid fall in input price inflation from a peak figure of 14.5 per cent in the year to August reflects a diminishing influence from the sharp rise in input prices last Autumn, together with falls in input prices - on a seasonally adjusted basis - over the most recent three month period. Industrial commodity prices expressed in sterling terms have been broadly stable since July, with strong growth in dollar commodity prices offset by appreciation of sterling against the dollar.

15. Underlying growth in **average earnings** rose to 8 per cent in October after six successive months at 7¾ per cent. This increase is partly due to an upward drift in both manufacturing and service sector settlements since the end of 1986, but mainly reflects record levels of overtime working together with the second stage of the teachers' settlement, paid in October.

16. **House price inflation** (measured by the Halifax index of advances on all houses) rose to 16.2 per cent in November, from 14.5 per cent in October. New house price inflation fell slightly, from 13.4 per cent to 13.1 per cent in November. These figures refer largely to prices agreed before the stock market crash, but the Halifax expect house price inflation to continue at about 15 per cent through 1988. DoE figures for November show a sharp rise in both the approvals and completions measures of house price inflation, with the annual rates rising to 21½ and 19¼ per cent, respectively, compared to 18¼ and 11½ per cent respectively in October (the low October figure for completions being erratic). Although anecdotal and auction evidence continues to indicate a weak housing market in London, the national picture clearly shows no signs of this and lower interest rates coupled with strong competition between mortgage lenders may outweigh any effects on mortgage demand of the stock market crash.

Projections for Money GDP

17. The Autumn Statement forecast for 8½ per cent growth in **money GDP** in 1987-88 represented a 1 per cent upward revision relative to the Budget forecast, reflecting a higher forecast for real activity. With latest indicators suggesting that real GDP may overshoot the revised Autumn Statement forecast, and publication of upward revisions to the GDP deflator for the first half of 1987 there may be some risk of overshooting the Autumn Statement money GDP forecast this year. Published estimates of second and third quarter money GDP now show increases on a year ago averaging 9½ per cent; at the time of the Autumn Statement growth over the same period was projected to average 8¾ per cent.

18. The latest set of indicators showing buoyant activity, rising earnings growth and a downward revision to the trade figures is likely to re-open the debate on over-heating. But while demand has undoubtedly been buoyant through 1987 this has been matched by a considerable output and productivity response. Evidence for supply constraints has so far been significant for only a limited number of industries. Furthermore, activity is likely to decelerate into 1988 as the higher exchange rate depresses net trade performance and lower share prices and net wealth reduce consumer spending growth at home and abroad. The Autumn Statement forecast for 7 ¼ per cent growth in money GDP in 1988-89 probably remains close to a central one; although appreciation of the exchange rate relative to Autumn Statement projections has been contractionary, interest rates have been reduced by more than was assumed, and the deceleration of activity is from a higher rate of growth this year than was previously forecast.

C. Public Sector Finances and the Fiscal Stance

19. **Table 5** gives the main indicators of the **fiscal stance.** The PSBR in November was a surplus of £1.6 billion. Privatisation proceeds were £1.5 billion. The Issue department's purchases of BP shares had a negligible effect on the November PSBR (see Footnote). The PSBR for the first eight months of 1987-88 was a surplus of £1.1 billion, which is £5.5 billion below the Budget profile. Of this difference, central government own account borrowing is £4.5 billion below profile - Table 6 gives details - local authorities' borrowing £0.6 billion, and public corporations borrowing £0.4 billion, below profile. Comparison of the outturn so far this year with the previous year is affected by significant changes in the level and pattern of privatisation proceeds. If privatisation proceeds are excluded, borrowing in April to November has been £3.2 billion lower than for the same period in 1986-87.

Footnote: The PSBR increases by the cash price (70p per share) of any BP shares bought, and will be reduced by the cash value of any subsequent sale. The forecast assumes no repurchase of BP shares by the Issue Department but in the case that all the partly-paid shares were repurchased, the cost would be £1.5 billion, increasing the PSBR by this amount. 247,331 shares at a cost of £173,132 had been repurchased by close on 17 December, but the nature of the buy-back option makes it liable to be exercised only in the closing days so that this provides little guidance.

20. The November outturn for the PSBR does not cast any major doubt on the internal October forecast of a PSBR surplus of about £1 billion for 1987-88 as a whole. Thus the last two months' assessment of fiscal stance in 1987-88 still stands: it appears to be turning out considerably tighter than envisaged at Budget time, even after allowing for the automatic tightening associated with higher than expected activity, and so fiscal policy would not appear to be contributing directly to the higher than expected growth of output.

D. UK Exchange Rate and External Accounts

21. The **sterling index**, which rose by nearly 4½ per cent during October and November, has stabilised at around 75½ to 76 since the beginning of December, despite continued dollar weakness which has led to a further 2 cent rise in the dollar-sterling rate to 1.83. Sterling was steady at just below 3DM in the first half of December, but the DM/£ rate has eased in the last few days, on lower oil prices, to stand currently at about 2.98.

22. The recent fall in UK three month rates from 9 to 8½ per cent was matched by a similar fall in German rates. More recently UK short rates, in common with rates abroad, have risen slightly, leaving the interest rate differential against the world basket broadly unchanged during December so far at a little over 2 percentage points.

23. The Brent oil price has been falling steadily since mid October as a result of OPEC overproduction. Following the break-up of the recent OPEC meeting without any agreement on how to constrain production, the price fell sharply to under $16 a barrel for the first time since early March. In the last few days, the oil price has recovered to about $17, and the fall in the exchange rate has left the **oil adjusted reference ratio** slightly lower than at the end of November.

24. Sterling was held down in the first half of December by substantial spot and forward market intervention, equivalent to

$4.9 billion by 14 December (which includes intervention in DM) although there has been no intervention since then.

25. The November **trade figures**, published on 23 December, showed a current account deficit of £595 million compared with a deficit of £282 million in October. The rise in the deficit reflects a sharp rise in non oil import volumes only partly offset by a rise in non oil export volumes. In the first eleven months of 1987 non oil import volumes were 8½ per cent higher than in 1986, compared with a 7 per cent rise for exports - closely in line with the Autumn Statement forecast in 1987. The current account deficit for the first eleven months is estimated at £2.1 billion, consistent with FSBR and Autumn Statement forecasts of £2½ billion for the year as a whole.

E. Domestic Monetary and Financial Market Developments

(see Table 10 to 26)

Narrow Money

26. M0 developments since the last assessment are much as expected, with buoyant notes and coin growth continuing in November and December so far, but at a slower pace than the rapid growth of recent months. The annual growth rate of M0 in November was about 1½ percentage points above what was anticipated at Budget time (see chart 7), providing further evidence that activity is currently well above the Budget projections. With interest rates falling by a further ½ per cent during December, leaving them well below the Budget projection, the overshoot of M0 growth is expected to increase over the rest of the financial year, to about 2½ percentage points in March 1988, despite some moderation in the pace of M0 growth in Q1 1988.

27. **M0** (seasonally adjusted) rose by 0.3 per cent in November, and the 12 month growth rate fell back to 4.9 per cent, from

5.6 per cent in October. The fall in the 12 month rate reflects both the brisk growth of M0 in November 1986 and erratic movements in bankers' balances a year ago. The annualised growth rate of notes and coin (and M0) in the 3 months to November was about 7¼ per cent, compared to 8 per cent in the 3 months to October. In the first three weeks of December, M0 growth has continued at a lower rate than in recent months, although the very large (seasonal) increases in M0 over the rest of the month make the December outturn very uncertain.

28. The **forecast** assumes a continuation of the steady growth of seasonally adjusted M0 in the rest of December, although the 12 month growth rate in December falls back to about 4¼ per cent, reflecting the exceptional growth of M0 in December 1986. But the 12 month rate of M0 is forecast to rise rapidly during Q1 1988, exceeding the target range in February, as the falls in the level of M0 during Q1 1987 drop out of the 12 month comparisons.

29. **NIB M1** rose by £0.5 billion (a fall of £1 billion seasonally adjusted) in November and the annual growth rate fell to 10.6 per cent, from 11.9 per cent in October. Potential small investors in BP who built up NIB sight deposits in October will have run them down again in November, largely explaining the volatile movement of NIB M1 in October and November. Interest-bearing sight deposits were flat in November, having risen strongly in October, which may partly reflect the unwinding of the CG payment to BP of £1½ billion at the end of October - BP placing most of this temporarily on deposit. Together with the increase in NIB M1, this gives a £0.5 billion increase in M1, with the 12 month growth rate falling back to 21¾ per cent in November, from 24½ per cent in October.

30. **M2** - the widest measure of narrow money which includes interest-bearing chequeable accounts but excludes wholesale bank deposits - rose by £3.5 billion in November and its 12 month rate was 10.8 per cent, much in line with recent months. However, M2 growth has fallen over the past year, from an annual rate of 14 per cent in December 1986 to about 10¾ per cent since July, in

contrast to the relatively flat growth, at around 15 per cent, of M4 and the rising growth rate of M3.

31. The divergent growth of M2 and broad money is explained by the fact that much of broad money growth during 1987 is accounted for by wholesale bank deposits, most notably by companies, in part reflecting their takeover/merger activity and the attraction of equity issues prior to the stock market crash, the proceeds of which will have been held on deposit prior to investment. Takeover activity seems to have picked up again in December, but the falls in equity prices and interest rates will have increased the relative attractiveness of financing investments from liquid assets, which can be expected to reduce companies' liquidity growth. If so, this represents a contraction of company balance sheets and would not therefore imply a tightening of monetary conditions.

Broad Money

32. Broad money growth in November was unexpectedly subdued and 12 month growth rates of all the broad aggregates fell back. While the unwinding of the BP effects will have depressed the one month growth of broad money, it was expected that the stock market falls would induce some upwards shift in liquidity preference of persons and OFI's, but in November the private sector seems to have switched mainly from equities into gilts, although building society deposits were exceptionally buoyant.

33. **M4** rose by £1.7 billion (0.6 per cent) in November and the 12 month growth rate fell back to 15¼ per cent, from 15¾ per cent in October. **M3** rose by £1.4 billion (0.7 per cent) whilst its 12 month growth rate fell to 21¼ per cent, from 22¼ per cent in October. The 12 month comparisons in November are depressed by between ¼ and ½ per cent by the upward distortion to the broad aggregates of the British Gas privatisation a year ago.

34. With respect to the **M4 components**, holdings of M3 by the private sector excluding building societies rose by £0.8 billion, compared to an average of £2.3 billion over the previous 12 months. Bank

deposits will have been depressed by several factors connected with the unwinding of the BP sale, in particular the unwinding of BP's temporary bank deposits at the end of October and the £1½ billion payment during November by the domestic underwriters. There is no firm evidence that bank deposits in November were affected by the stock market crash, although the subdued growth of deposits may owe something to the lower level of company takeover activity and equity issues, both of which were very buoyant prior to the crash and which were thought to be contributing to the rapid growth of company bank deposits in Q3. However, private sector retail deposits with the building societies in November were exceptionally strong, at £1,2 billion (£2.0 billion seasonally adjusted), and clearly were boosted by the current unattractiveness of equities (see para 36).

35. With respect to the **M3 components**, apart from the £0.8 billion increase in M3 by the non-bank non-building society private sector, building societies increased their bank deposits by a further £0.5 billion - making an increase of £6 billion over the past 12 months.

36. As predicted, building society **retail inflows** in November were exceptionally strong at an estimated £1.1 billion (£1.5 billion seasonally adjusted) excluding interest credited. This was due to gains at the expense of unit trust and equities following the stock market crash and to a competitive advantage over the banks with societies only following the cuts in base rates of late October/ early November on 1 December. This strong retail position enabled societies to make a small net repayment of wholesale funds (largely built up in October as a precaution against the BP privatisation) while still enjoying a large build-up of liquid assets. Within liquid assets, bank deposits increased by over £0.5 billion, but there was no recovery in gilts' holdings following the large disposals of October and there was some disinvestment from bank bills.

37. The M3 and M4 **forecasts** are tentative because of uncertainty over the monetary effects of the fall in equity prices. Assuming

that the overall impact is neutral (see Annex) M3 and M4 are forecast to grow by 1¾ per cent in December. Annual growth rates will rise sharply by over 1½ per cent to 23 per cent and 16½ per cent, respectively, largely because of distortions in December 1986 associated with the British Gas sale.

Credit

38. **Bank and building society lending** rose by £4.5 billion (1.4 per cent) in November, compared with an average of about 1½ per cent over the previous 12 months. The annual growth rate of lending is estimated at 19 per cent in November, compared to 19¼ per cent in October.

39. **Sterling bank lending** grew by 1.7 per cent in November and at an annual rate of 22½ per cent, compared to 22¾ per cent in the 12 months to October. One known special factor - the unwinding of a temporary loan to a GEMM in October - depressed the November lending figure of £3.3 billion by about £0.4 billion. Allowing for this special factor, bank lending in November was marginally above its average rate of increase over the previous 12 months. Other identified transactions in November were BP's repayment of bank borrowing of about £½ billion - a counterpart to their reduction in deposits - offset by increased borrowing of £½ billion associated with the management buy-out of MFI.

40. Foreign currency lending fell (by £1.7 billion) in November after having risen strongly (by £3.5 billion) in October. It is likely that at least some of this reduction in foreign currency borrowing by the private sector represents the unwinding of October's speculative or hedging activity, when the private sector increased its net currency bank borrowing and switched the proceeds into sterling on the expectation of sterling's appreciation. To the extent that foreign currency repayments are financed by running down sterling deposits, this may also be a contributory factor to the low growth of broad money in November.

41. Within sterling bank lending, advances increased by £2.6 billion, lending to GEMM's fell by £0.4 billion and lending

via monetary sector holdings of commercial bills rose by £0.8 billion - the latter reflecting both the attractiveness of bill finance to companies when the Bank of England was buying bills, putting downward pressure on bill rates, and the disposal of over £0.5 billion of bills by the private sector (which inflates bank lending). Returns from London and Scottish retail banks show that lending for house purchase rose by £0.7 billion - a slight easing of the trend established in recent months - while other personal lending (£0.1 billion) was very modest. Of the CLSB banks' reduction in foreign currency lending of £0.9 billion, most was accounted for by unit trusts, insurance companies and pension funds (£0.6 billion - possibly reversing last month's hedging activity).

42. Building societies' **mortgage lending** in November was slightly weaker, seasonally adjusted, than in October. However, the fourth quarter is likely to show that the pick-up from the unusually low levels in the summer has been maintained, indicating that building societies' market share of new advances has stabilised. With higher retail inflows, and greater access to wholesale funds following the removal of the 20 per cent limit from January 1988, their share may be expected to rise over the medium term. Mortgage lending by miscellaneous financial institutions in Q3 was £1.1 billion, giving them a 13 per cent market share.

Other Broad Money Counterparts

43. A PSBR surplus of £1.6 billion was overfunded by £2.6 billion, largely reflecting public sector debt sales of £1.1 billion to the private sector, with virtually no change either in debt sales to the overseas sector or in recorded reserves. Cumulative underfunding has been £1¼ billion in 1987-88 so far. The building societies made small purchases of public sector debt in November and the **public sector contribution to M4** was, at -£2.5 billion, slightly less contractionary than to M3. The cumulative public sector contribution to M4 is just £0.1 billion in 1987-88 so far. The **M4 externals** were expansionary by £0.2 billion and **£NNDL's** of the banks and building societies were contractionary by £0.5 billion.

44. In contrast to the period between June and October, when they made over £5 billion net purchases of CG debt, the overseas sector made only negligible purchases in November, while the domestic private sector (excluding building societies) made net purchases of £1.4 billion of CG debt - the largest increase this year.

45. External influences on money demand were mildly expansionary in November, without exerting any strong upward pressure on the exchange rate, which rose against a weak dollar during November but did not require any intervention to cap its rate against the deutschemark. Within the externals, the overseas sector reduced both their net sterling and foreign currency bank deposits by about £3¼ billion in November to finance capital inflows into sterling assets other than money and government debt. This expansionary influence on money was offset by the private sector's increased demand for net foreign currency bank deposits of about £2¾ billion, giving a net expansionary influence of the externals of about £¼ billion.

M5

46. M5 grew by £1.6 billion (0.5 per cent) in November and at an annual rate of 14½ per cent, compared to 15¼ per cent in October. The lower annual growth rate of M5 compared to M4 is explained by a £1 billion fall in private sector holdings of local authority debt and tax instruments over the past 12 months.

Money Markets and Interest Rates

47. **Money market rates** started December at about 9.0 per cent across the yield curve. The ½ point cut in base rates on 3 December led to a steepening of the yield curve, with rates falling to 8.5 per cent at one and 3 months but only falling to 8.9 per cent at 12 months. Rates have since risen slightly, mostly at the long end, on the easing of sterling and falling oil prices. Short rates currently range from about 8.5 per cent at one month to 8.9 per cent at 3 months and 9.4 per cent at 12 months.

48. The stock of **money market assistance** rose by £1¾ billion, to £7.0 billion in November, due to market purchases of £2 billion of Treasury bills. This rise in market holdings reflects the continued tenders of nine week Treasury bills in November. When the bills mature, the need for commercial bills purchases will be reduced by about £½ billion in December and £1½ billion in January, thereby smoothing the money market assistance profile. The level of assistance is forecast to rise to £6¼ billion in December, £9¼ billion in January and about £11 billion in February (see Table 25). The peak in mid-January may be about £12 billion compared with £16½ billion in January 1987.

49. **Gilts** began December with the index at 90.1 and 5, 10 and 20 year par yields at 8.8, 9.3 and 9.3 per cent respectively. The base rate cut on 3 December had little effect on a market that has declined steadily through the month. The index now stands at 88.2, and the 5, 10 and 20 year par yields at 9.2, 9.7 and 9.6 per cent respectively, so that the yield curve has risen across the maturity spectrum during December. Real yields on index-linked began the month at around 3.6 per cent at the short end, 3.8 per cent at the long end. Subsequently they have risen slightly to 3.7 and 4.0 per cent respectively. Breakeven inflation rates of index-linked Treasury 1990 and 2006 are currently 3.4 and 5.7 per cent respectively compared with 3.8 per cent and 5.6 per cent at the end of November. The equity dividend yield (based on the all-share index) has edged downwards to 4.3 per cent, compared to 4.7 per cent at the beginning of the month.

Capital Markets and Corporate Finance
(see tables 20-21)

50. **Equity prices** (measured by the FT All Share Index) have been firmer during December, the index rising by 11 per cent since the end of November. Some stability seems to have returned to the market, with signs of renewed takeover activity, probably reflecting the sharp falls in price/earnings ratios since mid October. The index currently stands at 885, 29 per cent below its July peak.

51. There were small net outflows from **unit trusts** of £15 million in November. The net figure comprised quite large gross sales

of £810 million and repurchases of £825 million. This compares with a total net inflow of £250 million in October, comprising gross sales of £1,140 million and repurchases of £900 million. The small net outflow in November represents a recovery from what were probably substantial net outflows of about £½ billion in the second half of October assuming that net inflows remained high in the first half of October. Net inflows had averaged £1 billion in the three months to September.

52. UK industrial and commercial companies raised a total of about £1.1 billion net sterling finance in November from the domestic capital and eurosterling markets, compared to £1.8 billion in October and £2.5 billion in September. The fall in capital market issues since September largely reflects the decline in equity net issues, which fell to £1.0 billion in November, from £1.6 billion in October (which includes £0.5 billion raised by BP in the form of a partly paid £1½ billion rights issue) and £2.0 billion in September. Equity issues in the first half of December have remained depressed. The total of capital issues in the queue and those announced but not raised fell by £5¼ billion during November, to stand at £3¼ billion on 1 December. With companies expected to have a healthy demand for finance in the rest of the financial year, the fall in equity prices may lead some companies to increase their bank borrowing, although this is likely to be at least partly offset within broad money by cash-rich companies financing investment by running down their liquid assets.

53. Eurosterling issues by UK companies in November were £585 million, most of which was by financial companies both in the fixed and floating rate markets. There was one issue of £100 million by a mortgage finance company, which together have issued over £1 billion of floating rate notes so far this year, reflecting their increased share of the mortgage market. There have been no further issues in December so far.

54. The stock of **sterling commercial paper** (SCP) outstanding fell by £20 million in November, to £2.3 billion, with net redemptions by UK companies of £30 million reducing the stock to just under £1.5 billion. Monetary sector holdings of SCP rose by £50 million to £0.7 billion.

MG2 Division

23 December 1987

SECRET

Monetary developments since last month's report

	Latest outturns available at time of: May Report	Nov Report	Dec Report
Monetary aggregates (12 month % growth)	**(Apr)**	**(Oct)**	**(Nov)**
M0 (sa)	4.8	5.6	4.9
M3	20.4	22.2	21.3
M4	14.5	15.7	15.2
M5	14.0	15.2	14.6
Bank lending	21.4	22.8	22.4
Bank & building society lending (est)	19.4	19.2	18.9
Interest rates (%)	**28 May**	**30 Nov**	**22 Dec**
3 month interbank	8.9	8.9	8.9
20 year gilt-edged (par yield)	9.0	9.3	9.6
Yield gap	-0.1	-0.4	-0.7
3 month overseas basket	6.4	6.8	6.7
3 month interbank/euro dollar differential	1.6	1.0	1.0
Real 3 month interbank	4.8	4.7	4.7
Equity dividend yield (all-share)	3.2	4.7	4.3
IG yields (2001) assuming 5% inflation	3.7	3.9	4.0
Exchange rate			
ERI	72.5	76.4	75.6
Oil adjusted reference index	73.1	72.4	71.9
ERI/reference rate ratio*	99.2	105.5	105.1
Asset prices			
FT-A Index (% pa)	35.1	-1.4	7.5
FT-A Level (July peak: 1239)	1078	796	885
Halifax house index (% pa)**	14.5	14.5	16.2

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* indicates what ERI would be if exchange rate simply responded to oil prices in the ratio 1:4. In determining the reference rate the base taken is the Jan '83 - Nov '85 average for the ERI and oil price.

** figures are for April, October and November

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ANNEX

BROAD MONEY FORECAST

1A. The M3 and M4 forecasts are tentative because of uncertainty over the monetary effects of the fall in equity prices. On the one hand, cash-rich companies may run down their liquidity in place of borrowing; on the other, some companies may increase their bank borrowing to replace equity and bond issues. Overall, the forecast assumes that the impact on broad money growth will be neutral. The forecast makes the stylised assumption that no BP shares are bought back under the support arrangements.

2A. On this basis, M3 and M4 are forecast to grow by 1¾ per cent in December, to fall in January, and to grow by about 1 per cent in February. Annual growth rates are affected by distortions in December 1986 associated with the sale of British Gas. Because of this, M3 and M4 growth rise sharply by 1½ per cent in December to 23 per cent and 16½ per cent, respectively. M4 growth remains at about 16½ per cent in January and February while M3 growth drops back to 21¼ per cent by February.

3A. There are few identified special factors affecting the forecast. The main features (see table) are heavy intervention of about £2 billion in December, two-thirds of which is assumed to feed into broad money growth; and in January an exceptionally large CG surplus of £5½ billion, with resultant overfunding. The impact of the £5½ billion overfund on broad money in January is partly offset by an assumed boost of £1 billion to bank lending - half of it due to a fall in the bill leak associated with Bank of England purchases of commercial bills. There are no other identified special factors affecting the bank lending forecast, which is of underlying growth of £3.1 billion per month (seasonally adjusted).

4A. In the absence of further movements in base or mortgage rates, building societies' retail inflows are likely to decline somewhat from November's very high level as any disinvestment in equities and unit trust weakens (although substantial new investment is unlikely to be forthcoming) and as societies lose their

competitive edge. But the figures over the next few months are likely to continue to be strong by historical standards, possibly boosted by selling of BT and BGC shares after payment of loyalty bonuses due at end November and December respectively. Societies are thus unlikely to make substantial use of their new wholesale funding powers, although some wholesale borrowing may occur as heavy tax payments fall due. These tax payments will also probably see some redemption of societies' holdings of CTDs, possibly matched by small net purchases of gilts.

5A. Despite the fall in mortgage lending in November, the outlook for societies here is good, with aggregate demand benefitting from lower mortgage rates. Societies may also increase their share of total mortgages by improving non-price competitiveness (eg. by raising income multiples). Their share will also benefit from the fact that demand is likely to be strongest in those areas (middle income, outside London/South-East) where their presence is greatest.

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ANNEX TABLE 1

Broad Money Forecasts

£ million not seasonally adjusted

	1987 NOVEMBER		DECEMBER		1988 JANUARY		FEBRUARY	
	M4	M3	M4	M3	M4	M3	M4	M3
(i) Underlying Increase*	3180	2861	3875	1775	-625	-2875	1900	1350
Special Factors								
Privatisations	-1500	-1500	200	200	400	400	400	400
Bank Capital Issue	-	-	-150	-150	-	-	-	-
Intervention	-	-	1250	1250	-	-	-	-
(ii) Total Special Factors	-1500	-1500	1300	1300	400	400	400	400
(iii) Total Increase	1680	1361	5175	3075	-225	-2475	2300	1750
% Change on previous month	0.6	0.7	1.7	1.7	-0.1	-1.3	0.8	1.0
% Change on previous year	15.2	21.3	16.4	23.0	16.4	22.4	16.2	21.2
Memo								
Underlying % Change on previous year	14.0	19.2	14.7	20.0	14.5	19.1	14.2	17.7
% Change expected at Budget time	14.3	15.9	15.2	17.0	15.6	16.8	15.4	15.7

[Line (iii) = Line (i) + Line (ii)]

*Based on the following assumptions:

(a) Underlying bank lending rises by £3.2 billion per month and building society lending rises by £1.5 billion per month, both seasonally adjusted

(b) The public sector contribution to M4 and M3 is as follows:

	September	October	November	December
M4	-2483	1625	-5575	-1475
M3	-2574	1675	-5475	-1475

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ANNEX TABLE 2

Lending Forecasts

£ million

	1987 NOVEMBER			DECEMBER			1988 JANUARY			FEBRUARY		
	Bank Lending	Building Society Lending	Lending Counterpart to M4*	Bank Lending	Building Society Lending	Lending Counterpart to M4*	Bank Lending	Building Society Lending	Lending Counterpart to M4*	Bank Lending	Building Society Lending	Lending Counterpart to M4*
(i) Underlying Increase	2408	1154	3503	3100	1450	4550	3150	1450	4600	3175	1500	4675
Special Factors												
PSBR offset	212	-	212	-100	-	-100	500	-	500	-	-	-
Bill leak	488	-	488	-	-	-	500	-	500	-	-	-
Take-overs	500	-	500	-	-	-		-		-	-	-
Other identified	-400	-	-	-	-	-	-	-	-	-	-	-
(ii) Total Special Factors	800	-	800	-100	-	-100	1000	-	1000	-	-	-
(iii) Total Increase (seasonally adjusted)	3208	1154	4303	3000	1450	4450	4150	1450	5600	3175	1500	4675
Total Increase	3235	1266	4442	3475	1289	4764	3650	1262	4912	3080	1315	4395
% Change on previous year	22.4	13.5	18.9	21.5	13.4	18.4	22.6	13.5	18.3	22.6	13.8	18.2
Memo												
Underlying % Change on previous year	21.5	13.5	18.4	20.7	13.4	17.9	21.3	13.5	17.5	21.2	13.8	17.4
% Change expected at Budget time	19.3	15.8	17.5	18.5	15.8	16.9	18.9	16.0	17.1	18.5	16.3	17.0

*Excludes bank lending to building societies (which is included under Bank Lending)

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ANNEX TABLE 3 BROAD AGGREGATES FORECAST

£ mn u/a

	OUTTURN 1987 NOV	FORECAST DEC	1988 JAN	FEB
1. CG (OA) (SURPLUS-)	-943	150	-5575	150
2. LABR	-554	200	75	0
3. PCBR	-53	150	-100	-300
4. PSBR(1+2+3)	-1550	500	-5600	-150
5. NET DEBT SALES TO NBPS (-)				
GILTS	-1153	-525	-750	-975
TREASURY BILLS etc	-268	100	500	0
NATIONAL SAVINGS	-24	-125	-225	-150
CTDs	51	-25	800	0
OPS DEBT	344	0	0	0
TOTAL	-1050	-575	325	-1125
6. EXTERNAL FINANCE OF PUBLIC SECTOR (INC-)	26	1750	-200	-200
7. OVER (-)/UNDER (+) FUNDING (4+5+6)	-2574	1675	-5475	-1475
8. STERLING LENDING TO NON-BANK PRIVATE SECTOR	3235	3475	3650	3075
(seasonally adjusted)	(3208)	(3000)	(4150)	(3175)
9. PRIVATE NET EXTERNALS AND NET NON-DEPOSIT LIABILITES	700	-2075	-650	150
10.M3 (7+8+9)	1361	3075	-2475	1750
BUILDING SOCIETIES:				
11. RETAIL DEPOSITS	1202	2500	2375	725
12. WHOLESALE DEPOSITS NBPS	-357	25	50	150
13. HOLDINGS OF M3 (-)	-526	-425	-175	-325
14.M4 (10+11+12+13)	1680	5175	-225	2300

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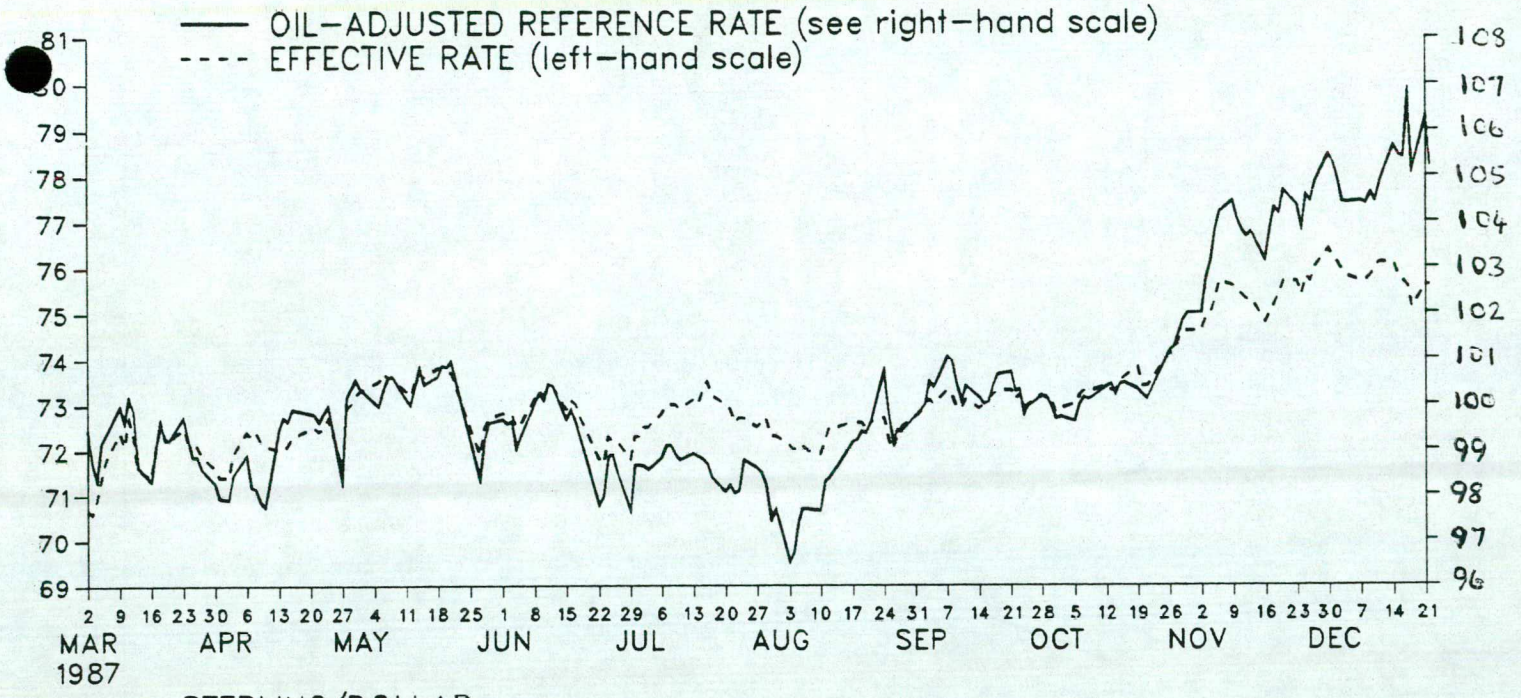
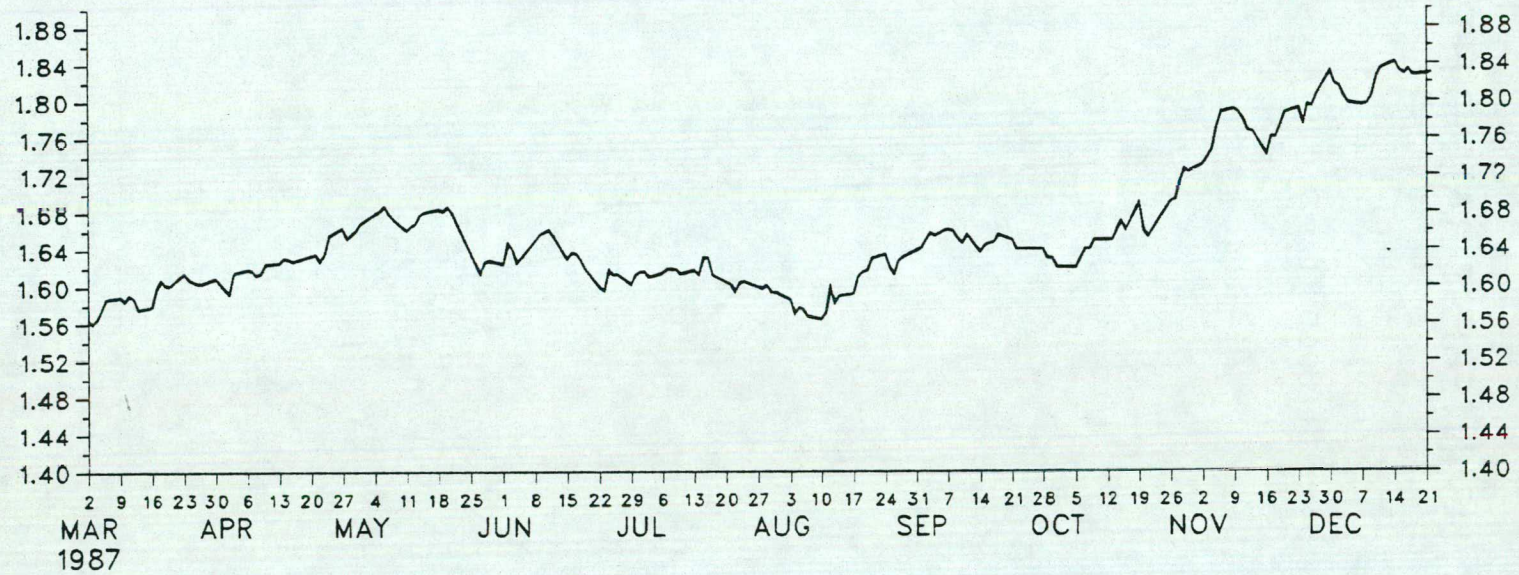
MONTHLY MONETARY REPORT : CHARTS

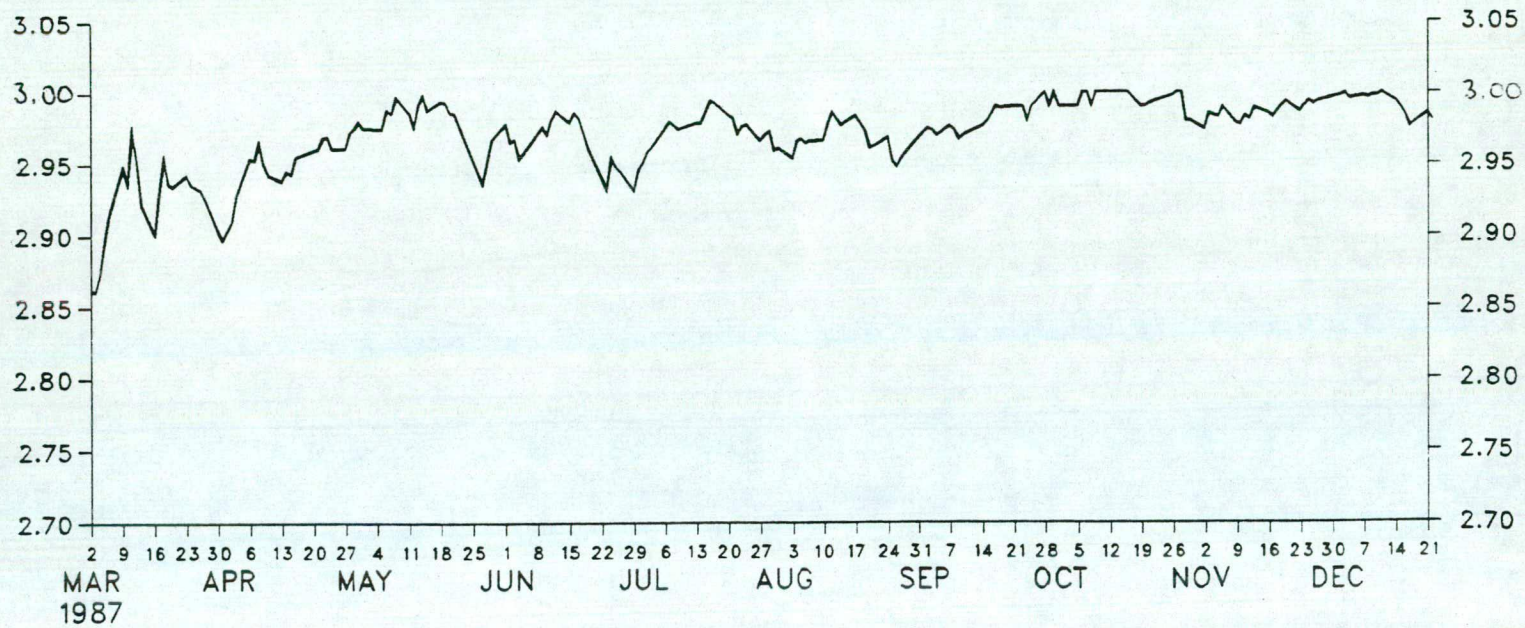
CHART I:EXCHANGE RATE



STERLING/DOLLAR



STERLING/DEUTSCHEMARK



UK/US INTEREST RATE DIFFERENTIAL

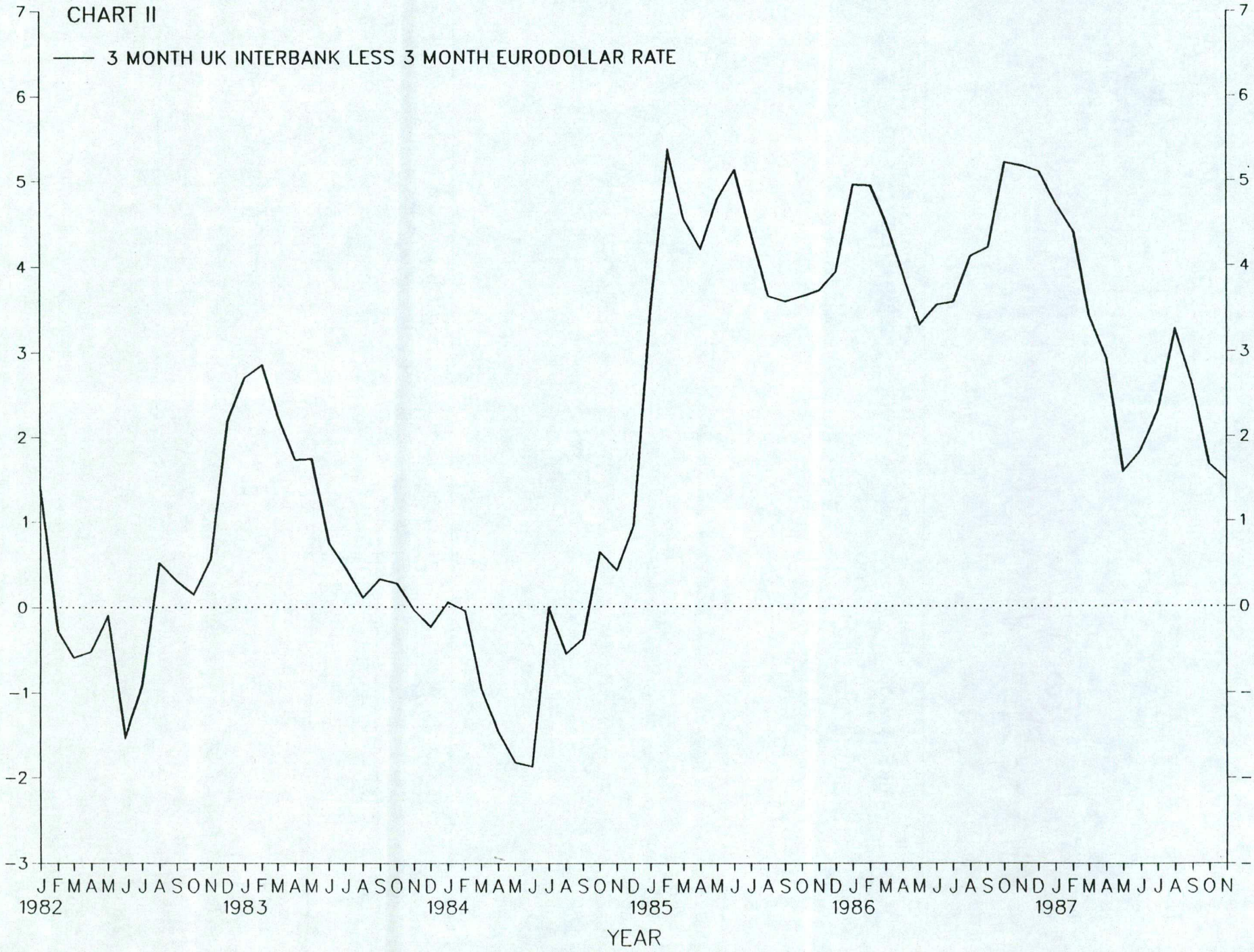


CHART III NARROW MONEY

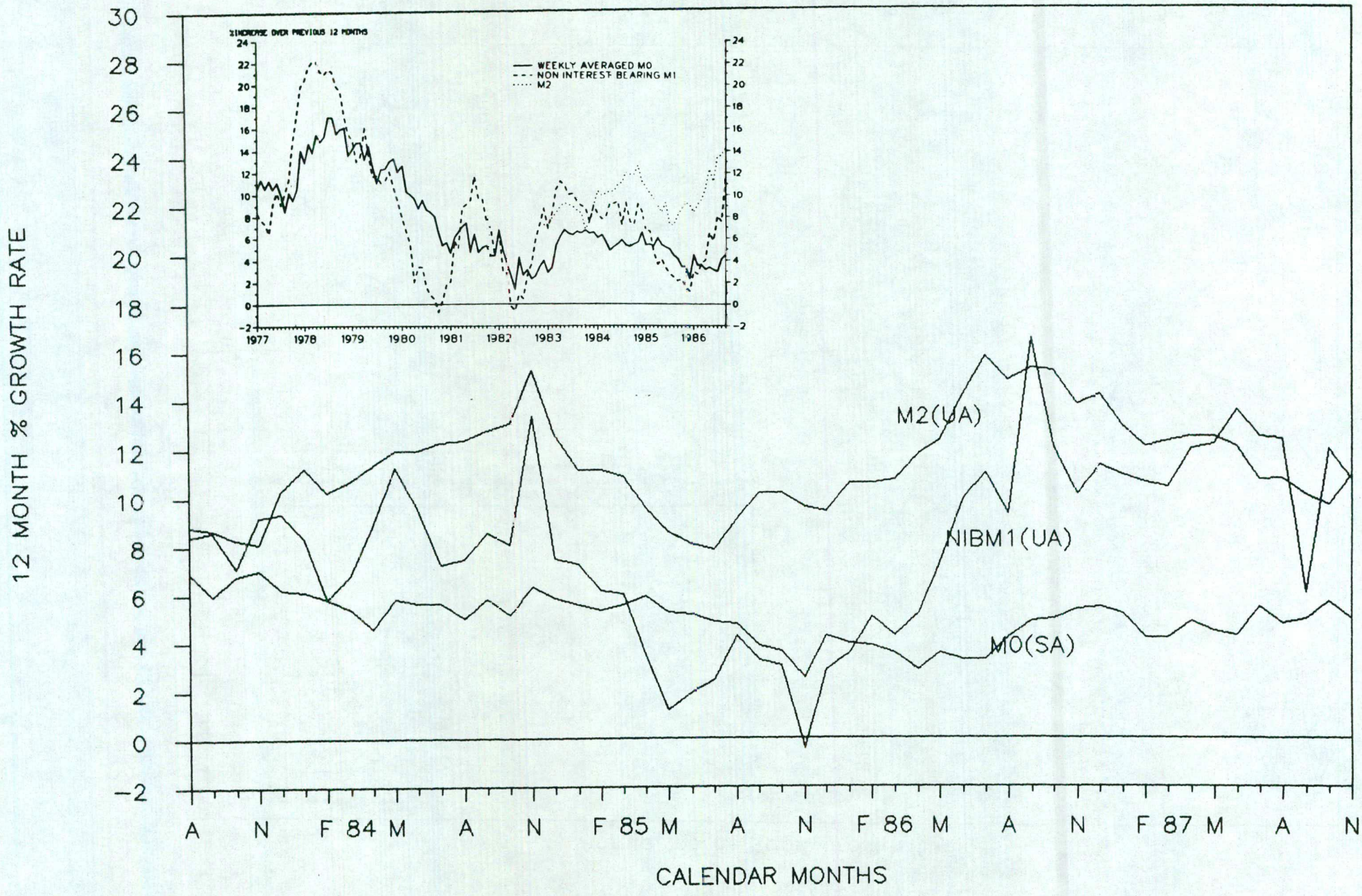
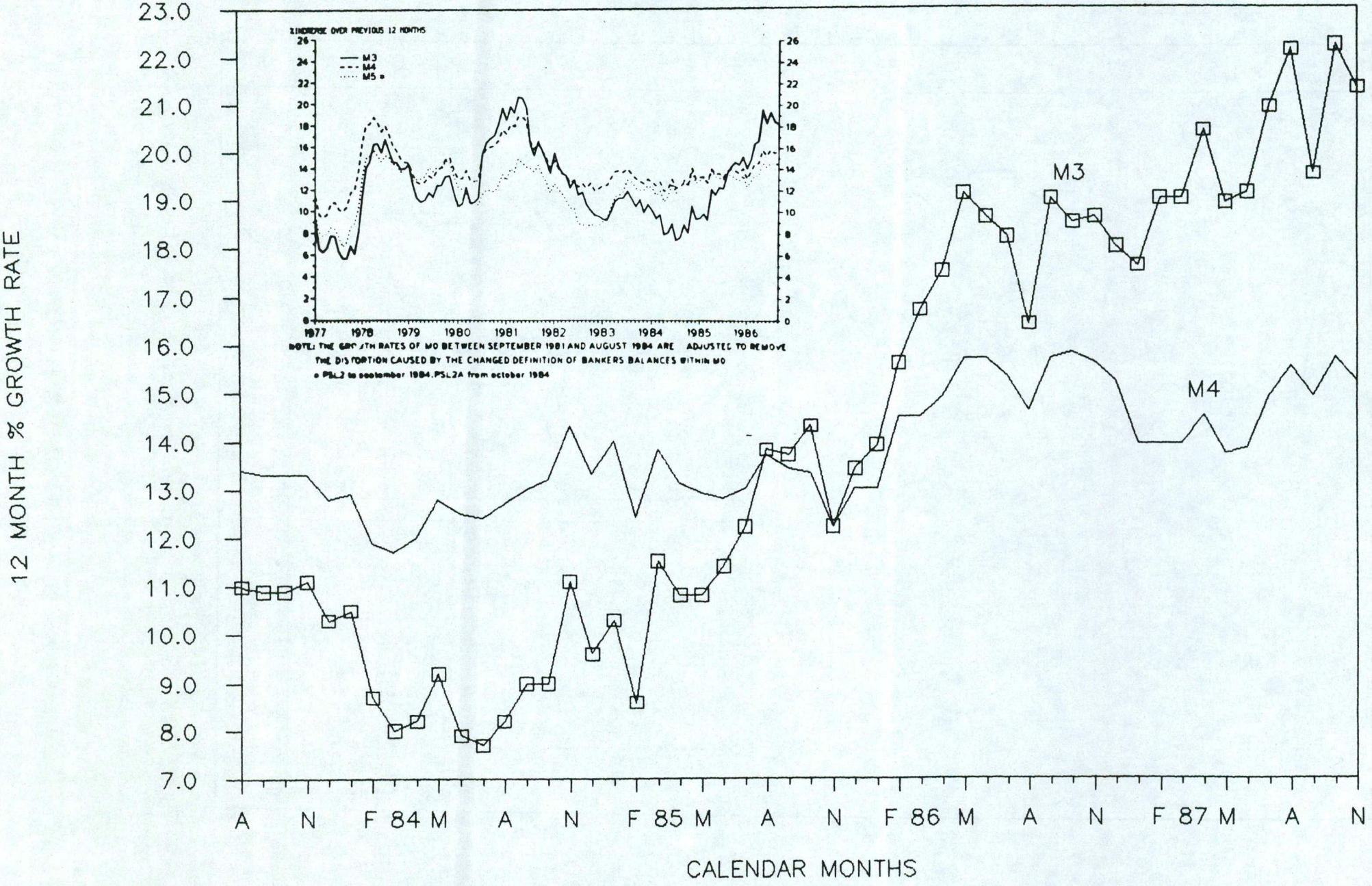


CHART IV BROAD MONEY

Annual percentage growth (ua)



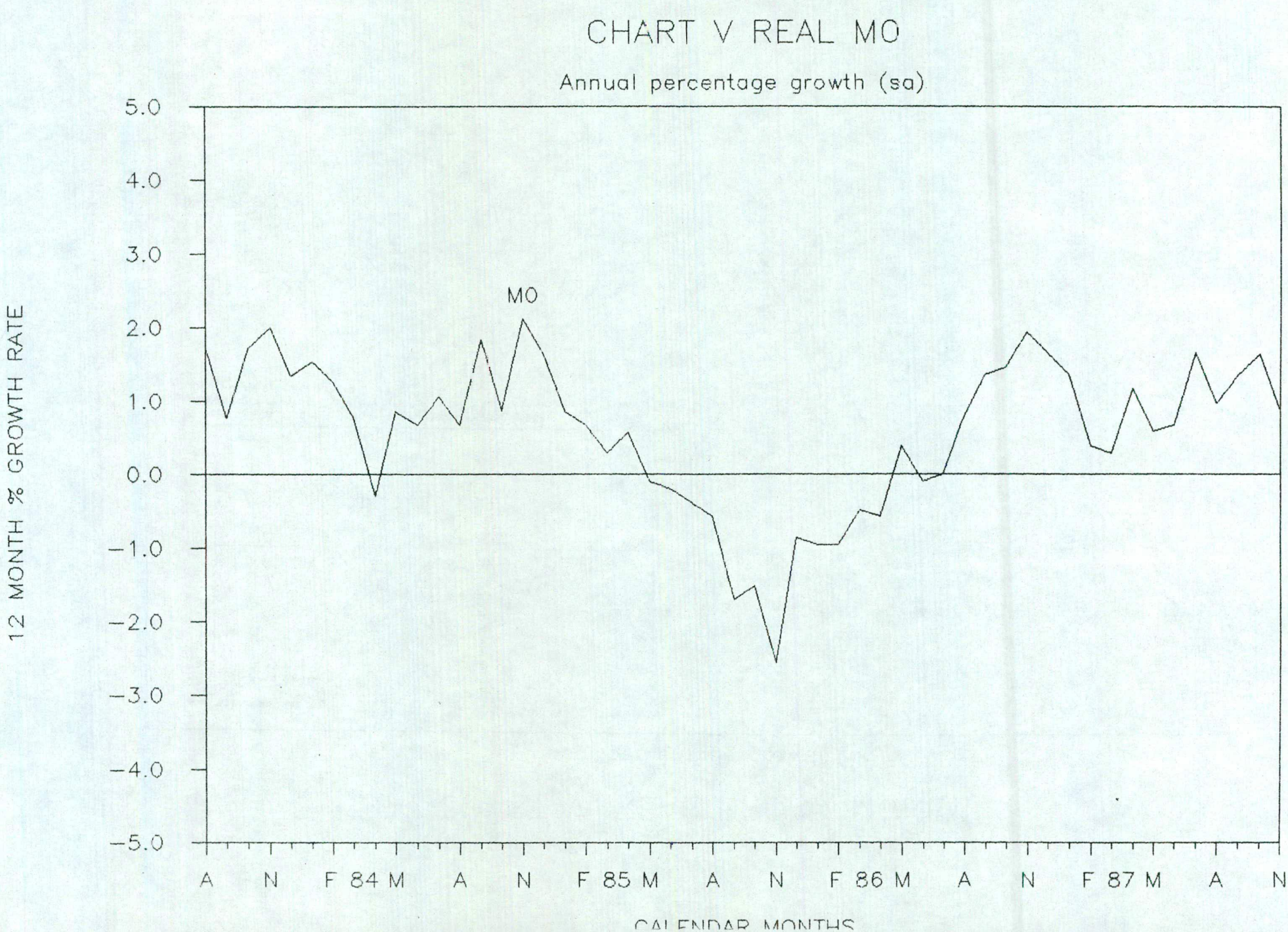


CHART V REAL MO
Annual percentage growth (sa)
12 MONTH % GROWTH RATE
5.0
4.0
3.0
2.0
1.0
0.0
−1.0
−2.0
−3.0
−4.0
−5.0
MO
A N F 84 M A N F 85 M A N F 86 M A N F 87 M A N
CALENDAR MONTHS

CHART VI REAL BROAD MONEY

Annual percentage growth (ua)

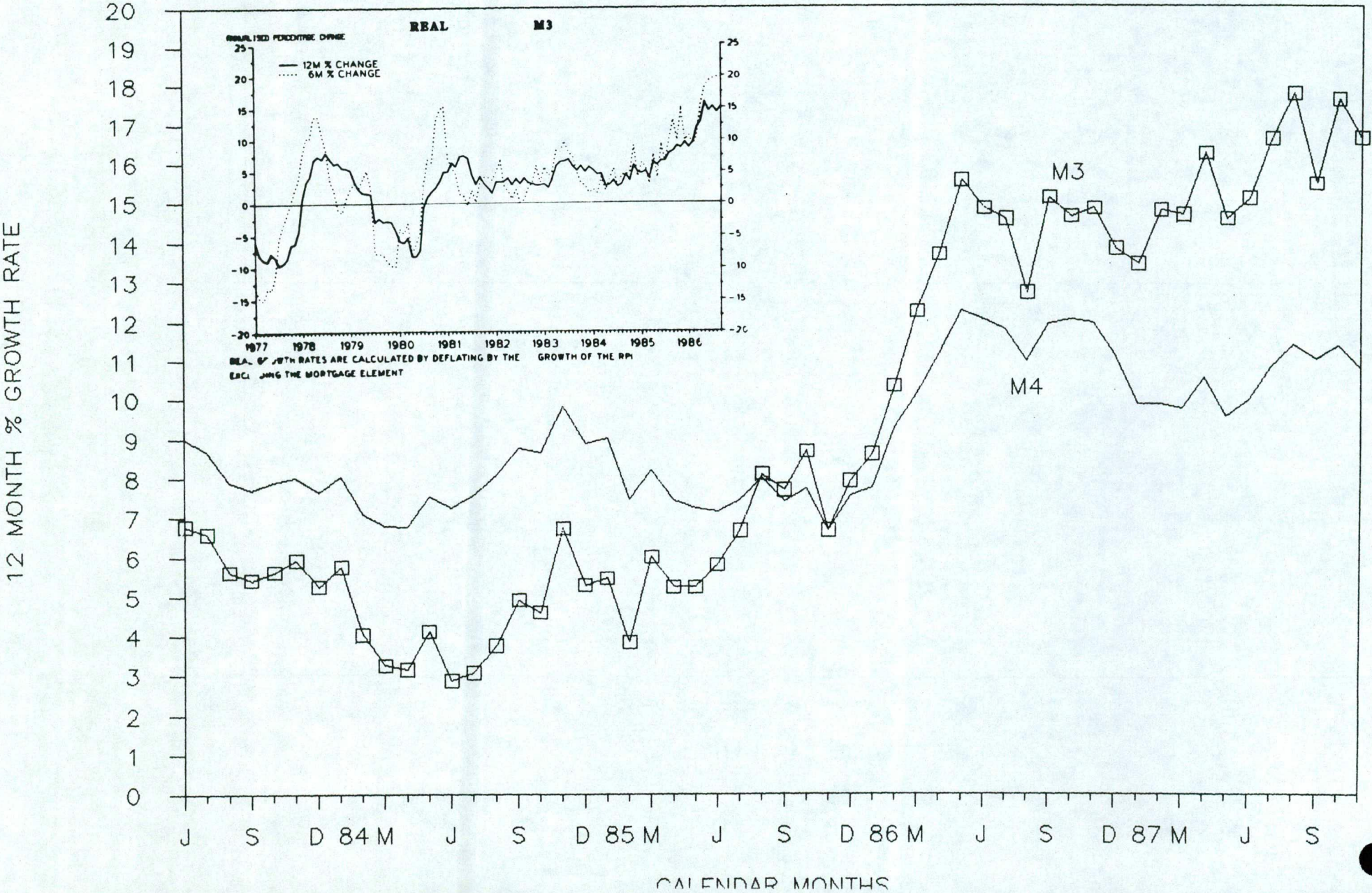


CHART VII

COMPARISON OF 1987 BUDGET FORECAST WITH OUT-TURN FOR M0

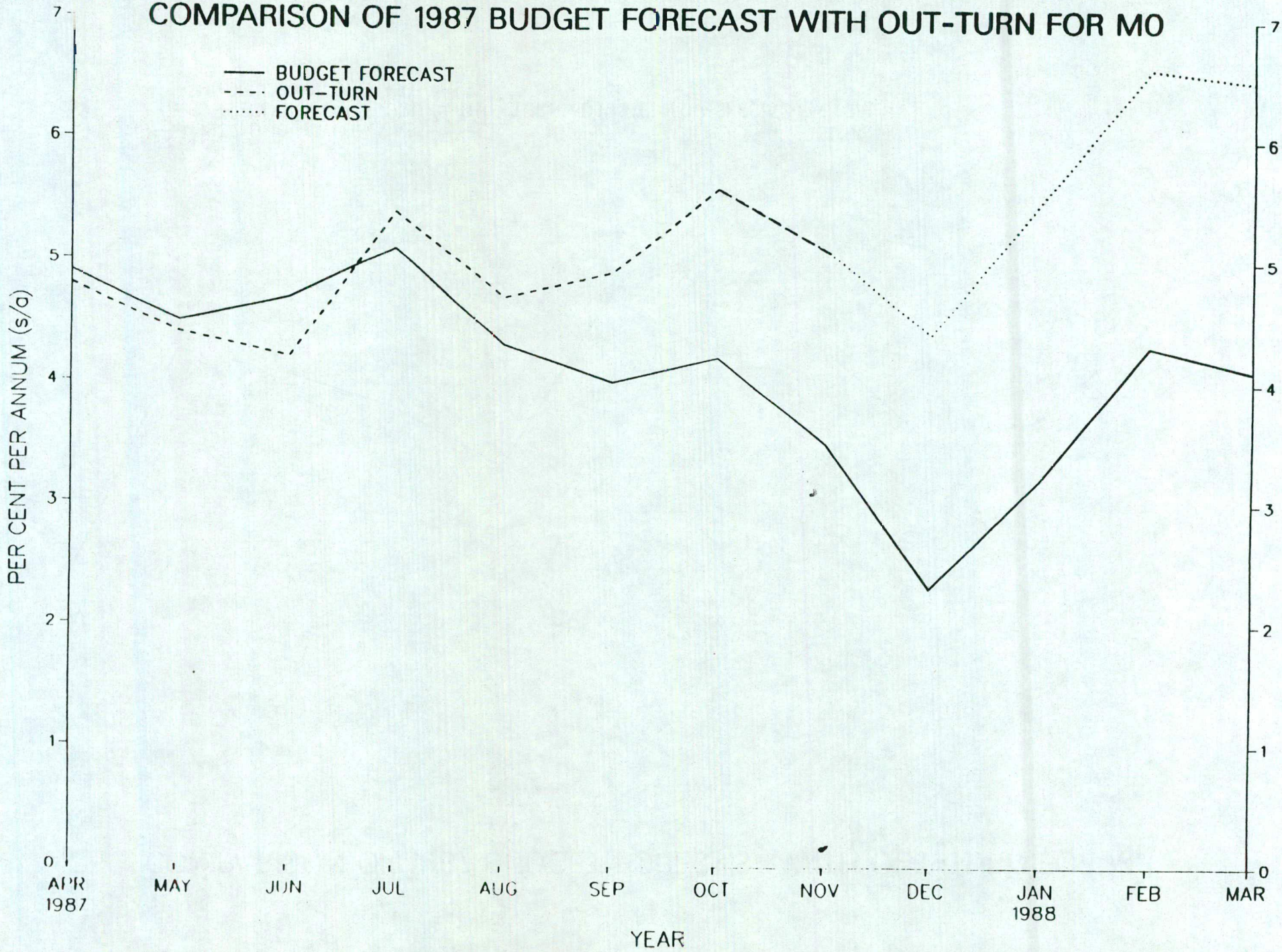
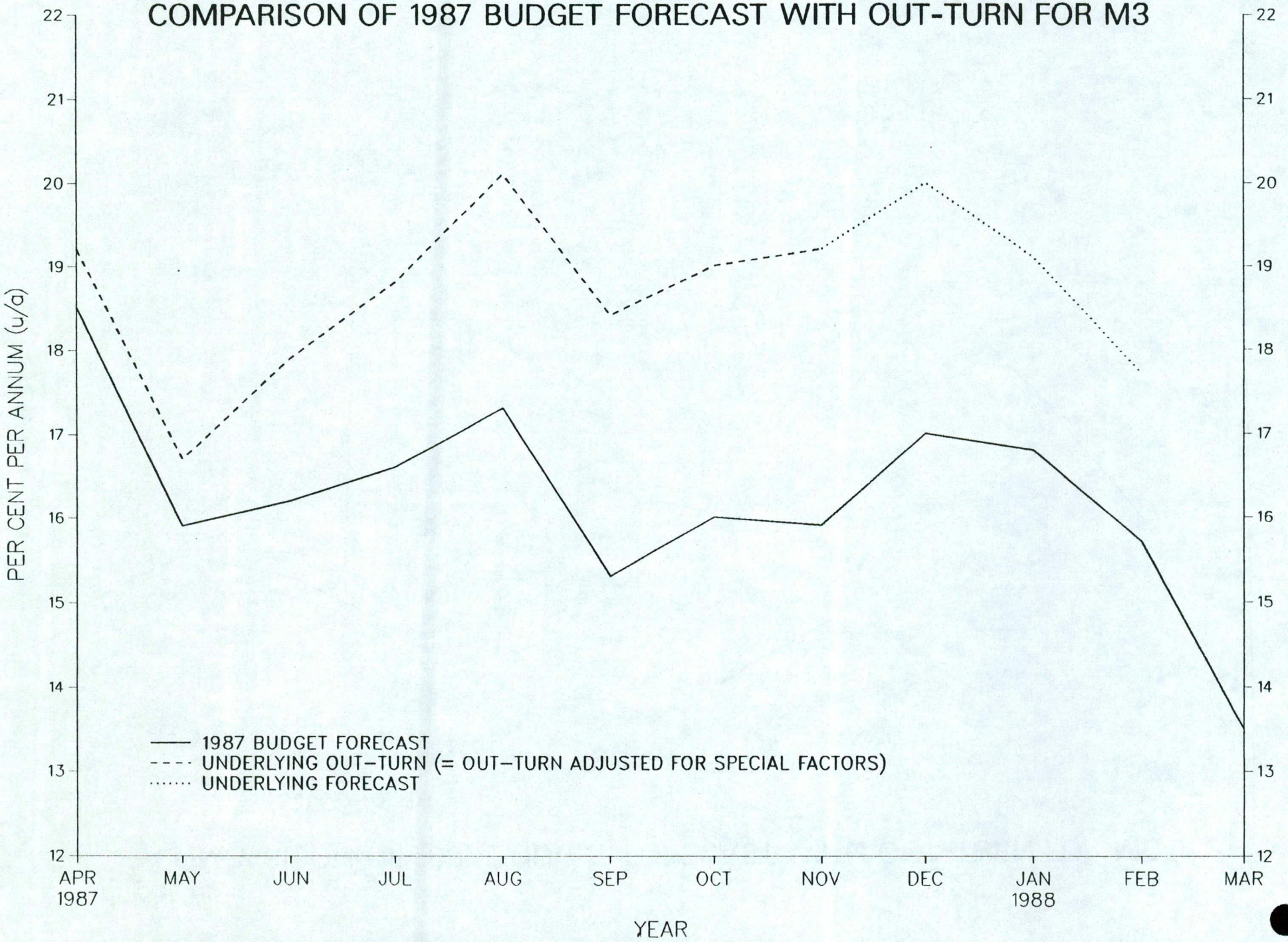


CHART VIII

COMPARISON OF 1987 BUDGET FORECAST WITH OUT-TURN FOR M3



MO GROWTH (SA) COMPARED TO TARGET RANGE

CHART IX

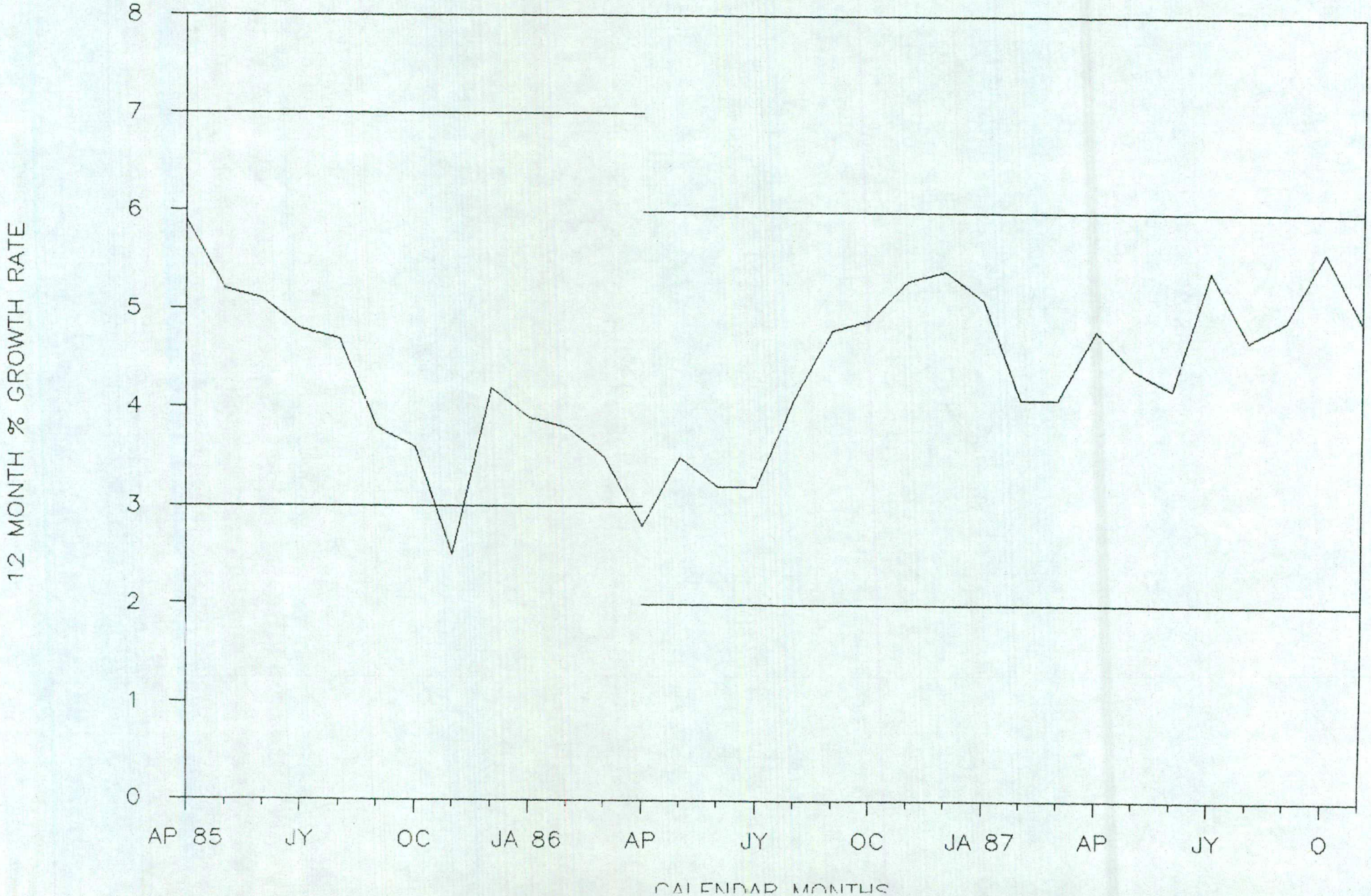


CHART X RETAIL DEPOSITS

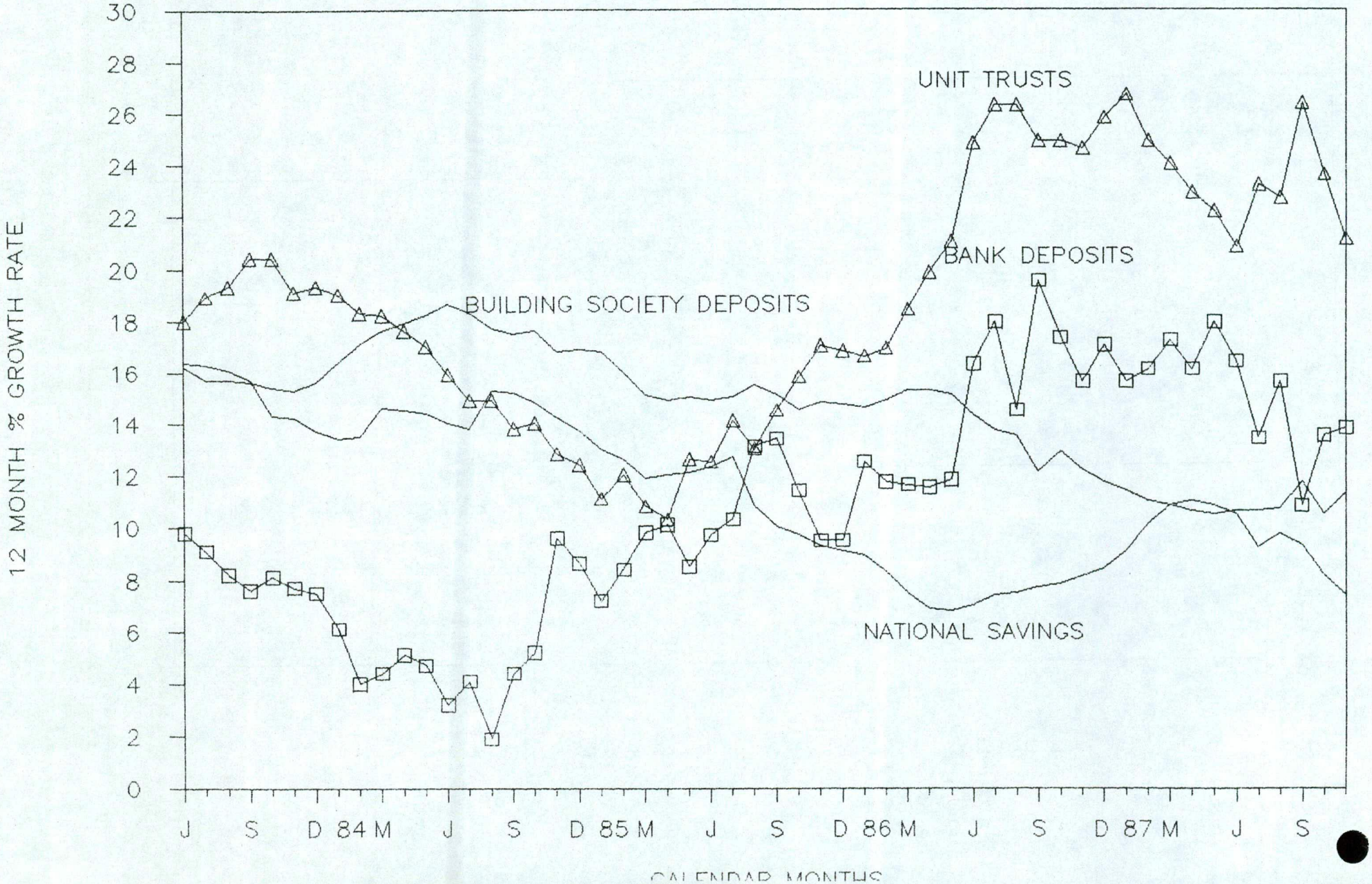
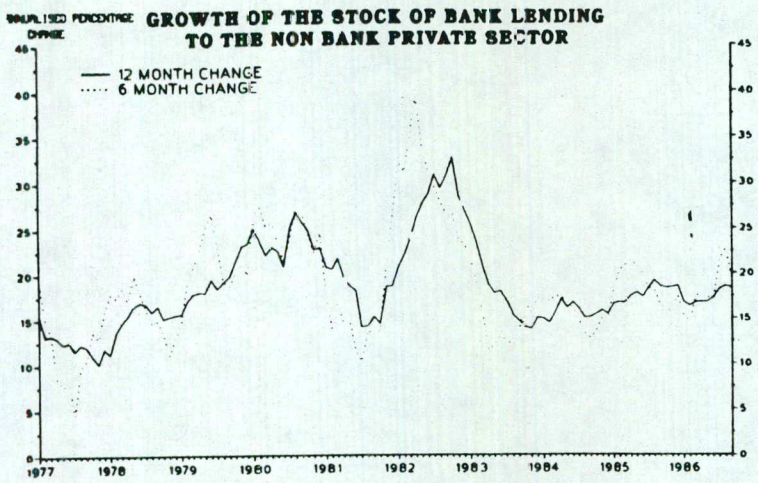


CHART XI

ANNUAL GROWTH OF THE STOCK OF LENDING TO THE NON BANK PRIVATE SECTOR



BANK LENDING

BANK AND BUILDING SOCIETY LENDING

25 24 23 22 21 20 19 18 17 16 15

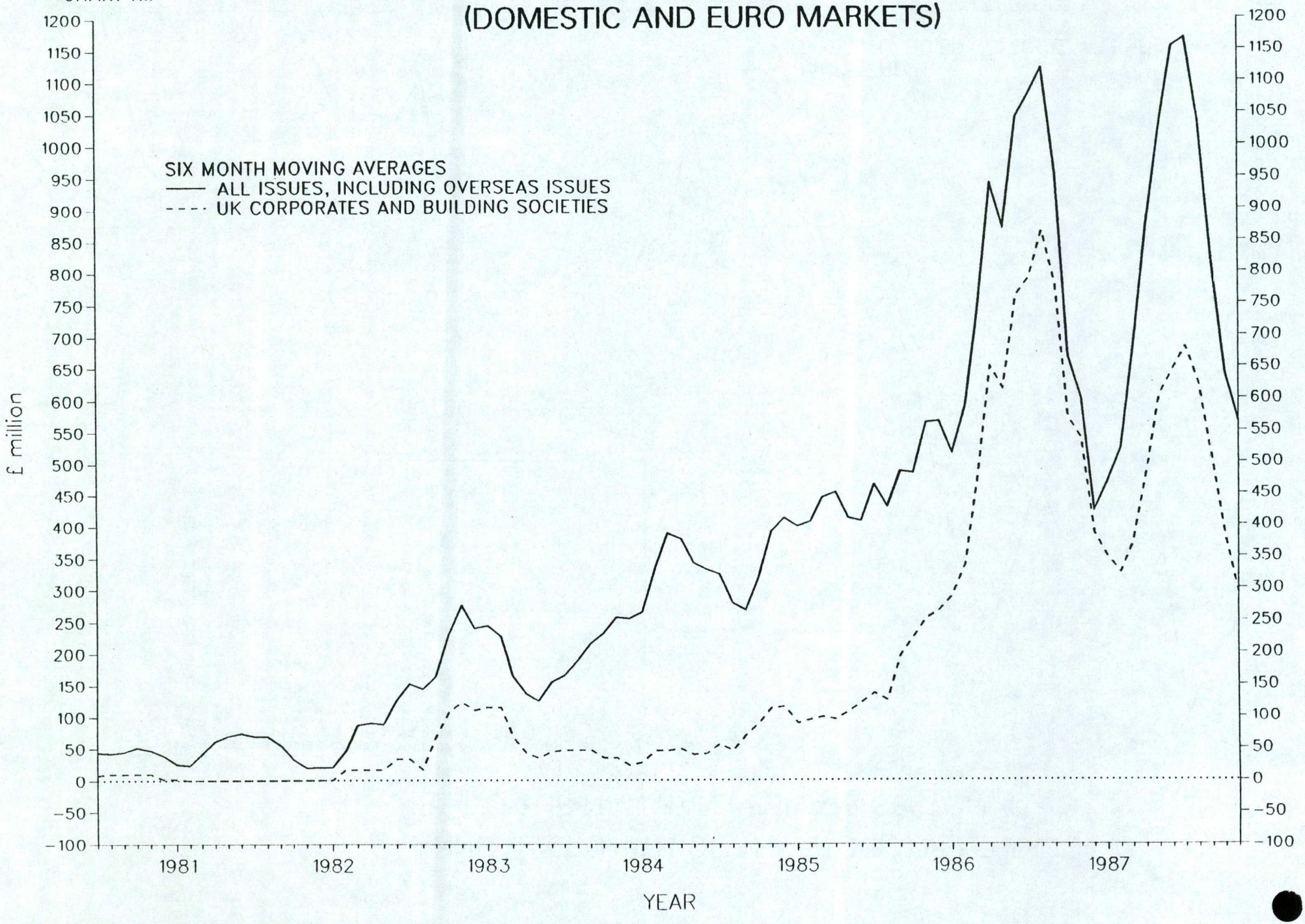
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N

1984 1985 1986 1987

CHART XII

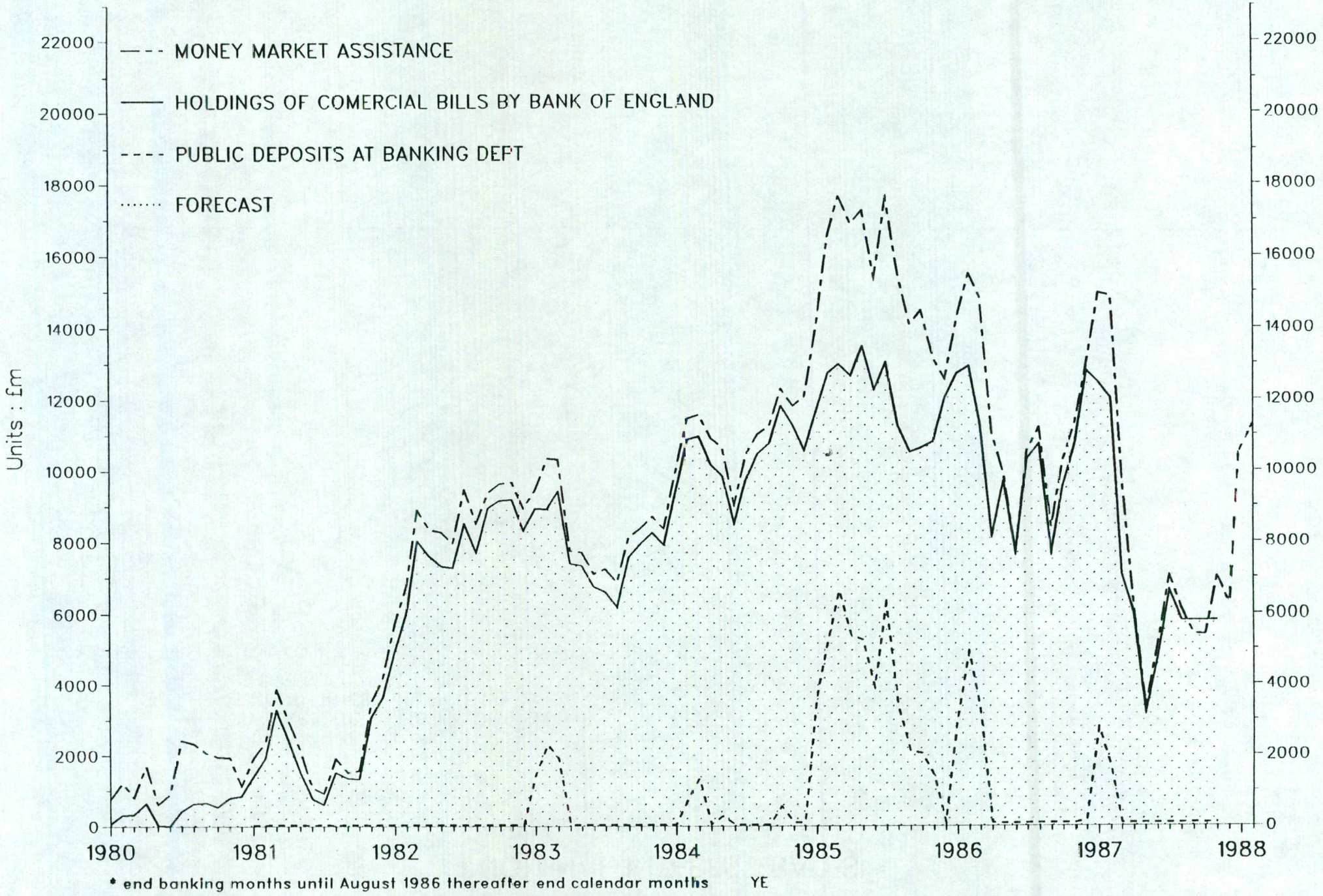
STERLING BOND ISSUES BY UK AND OVERSEAS INSTITUTIONS

(DOMESTIC AND EURO MARKETS)



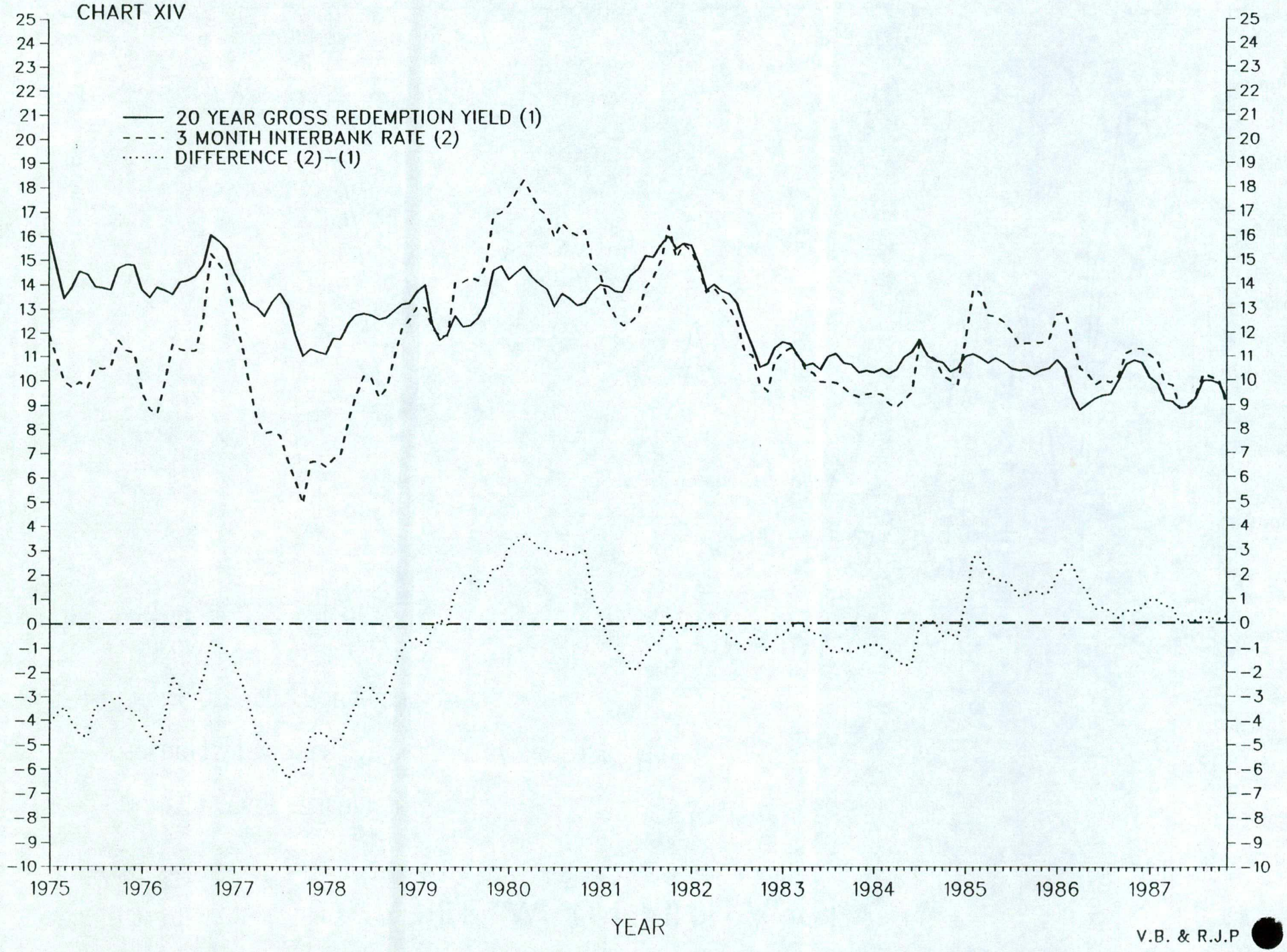
BILL MOUNTAIN RANGE

CHART XIII



* end banking months until August 1986 thereafter end calendar months

NOMINAL INTEREST RATES



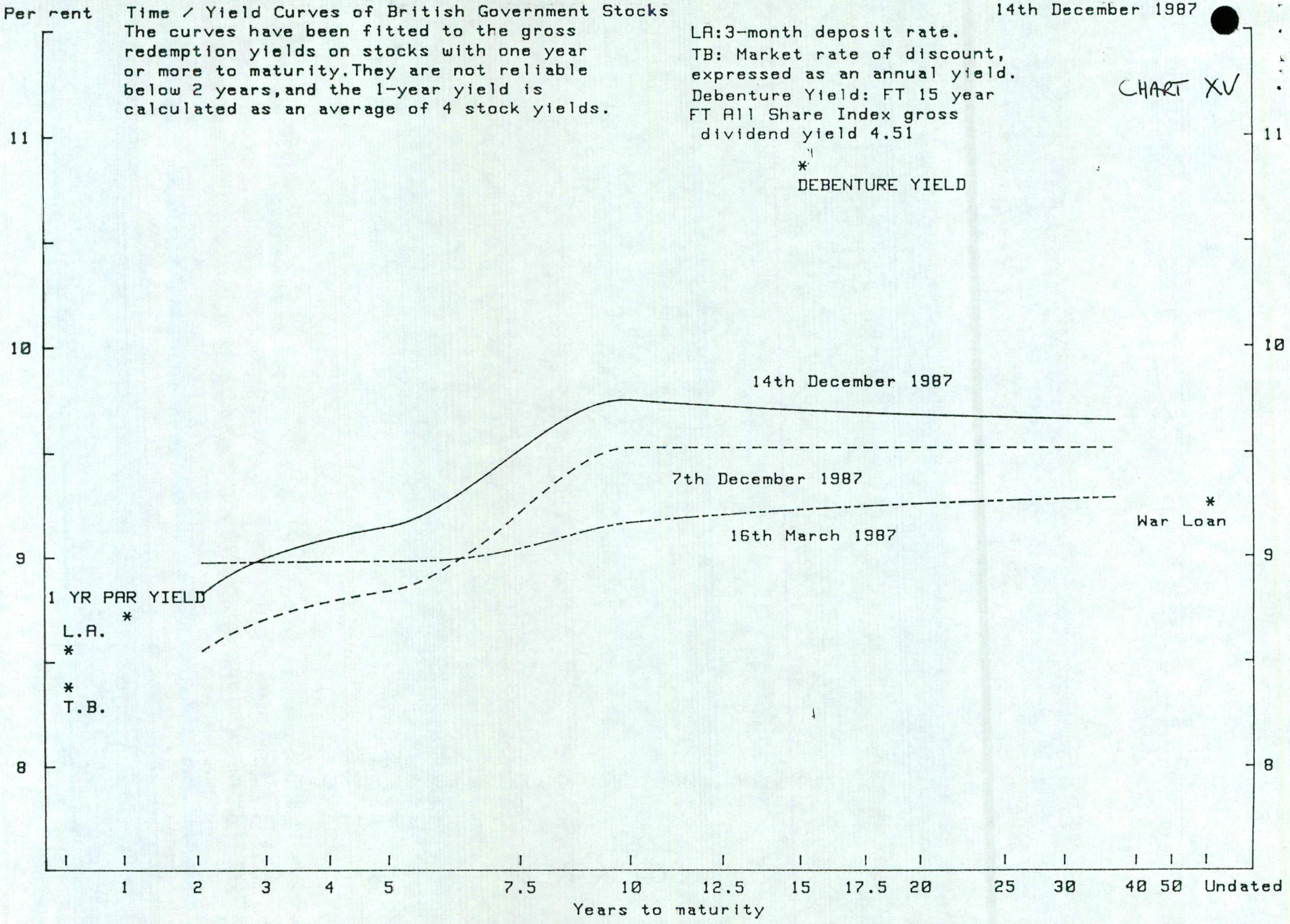
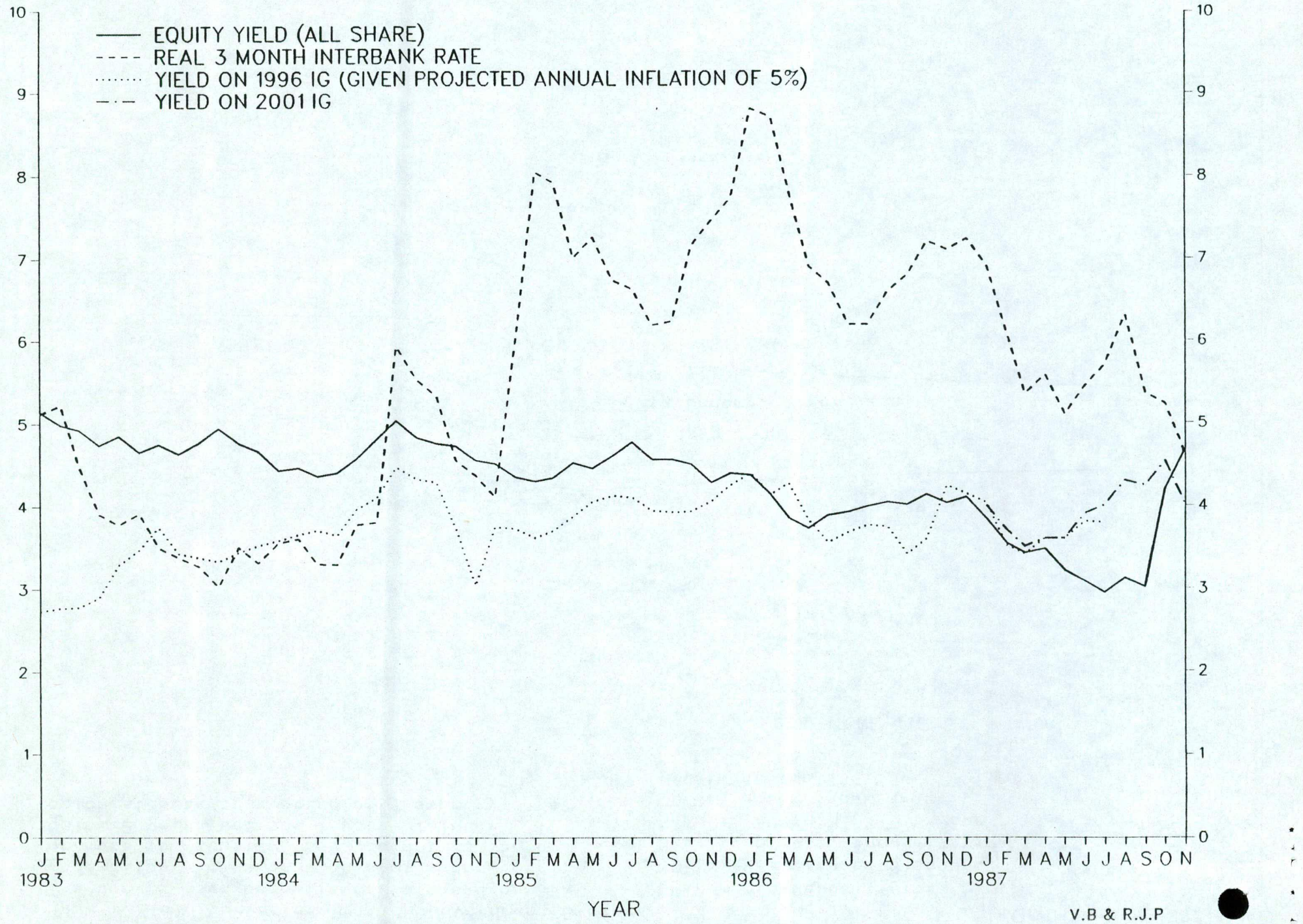

Per cent
Time / Yield Curves of British Government Stocks
The curves have been fitted to the gross redemption yields on stocks with one year or more to maturity. They are not reliable below 2 years, and the 1-year yield is calculated as an average of 4 stock yields.
14th December 1987
LA: 3-month deposit rate.
TB: Market rate of discount, expressed as an annual yield.
Debenture Yield: FT 15 year
FT All Share Index gross dividend yield 4.51
CHART XV
DEBENTURE YIELD
11
10
9
8
14th December 1987
7th December 1987
16th March 1987
War Loan
1 YR PAR YIELD
L.A.
T.B.
1
2
3
4
5
7.5
10
12.5
15
17.5
20
25
30
40
50
Undated
Years to maturity

CHART XVI

REAL YIELDS



ANNUAL HOUSE PRICE INFLATION

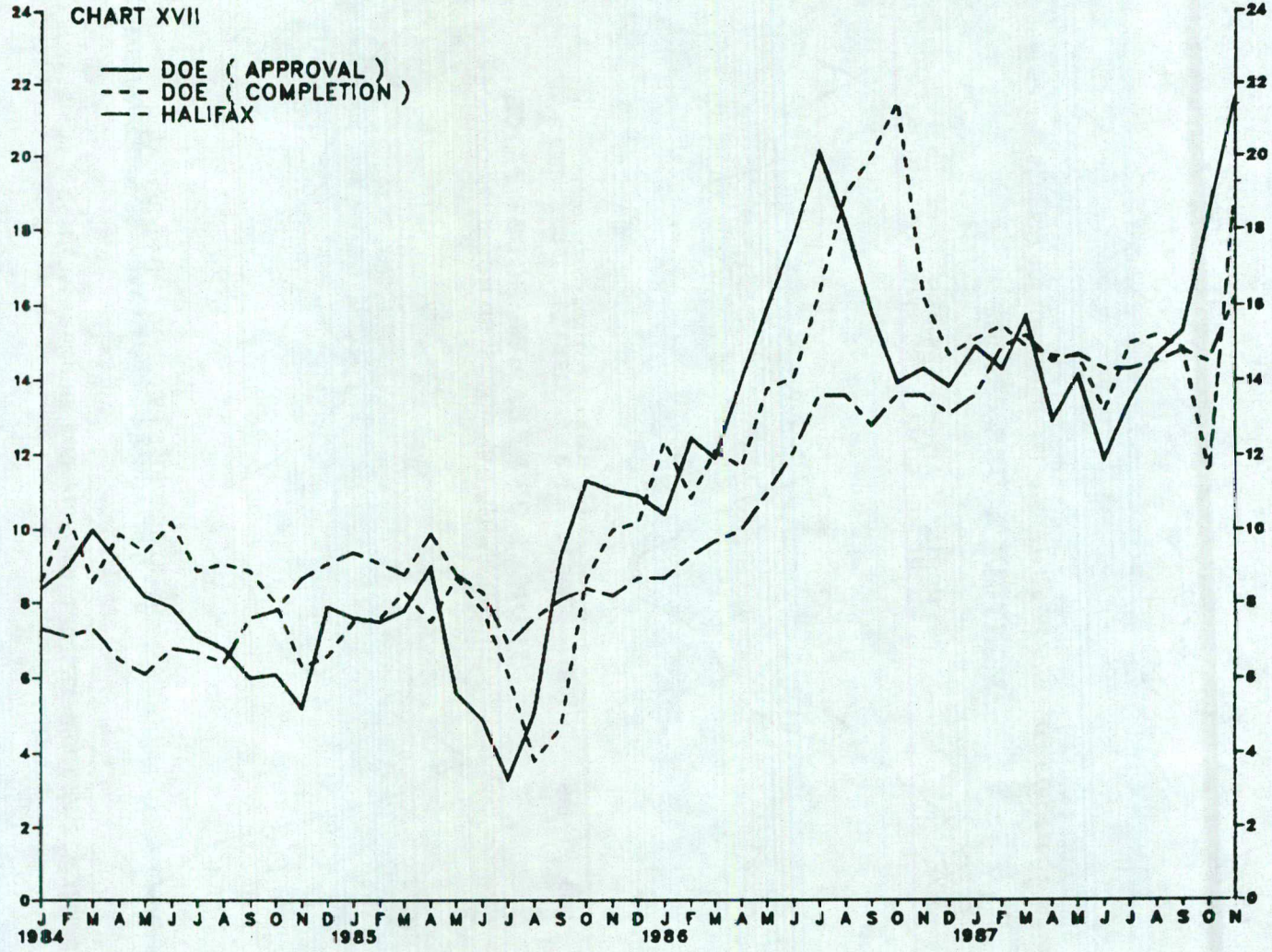
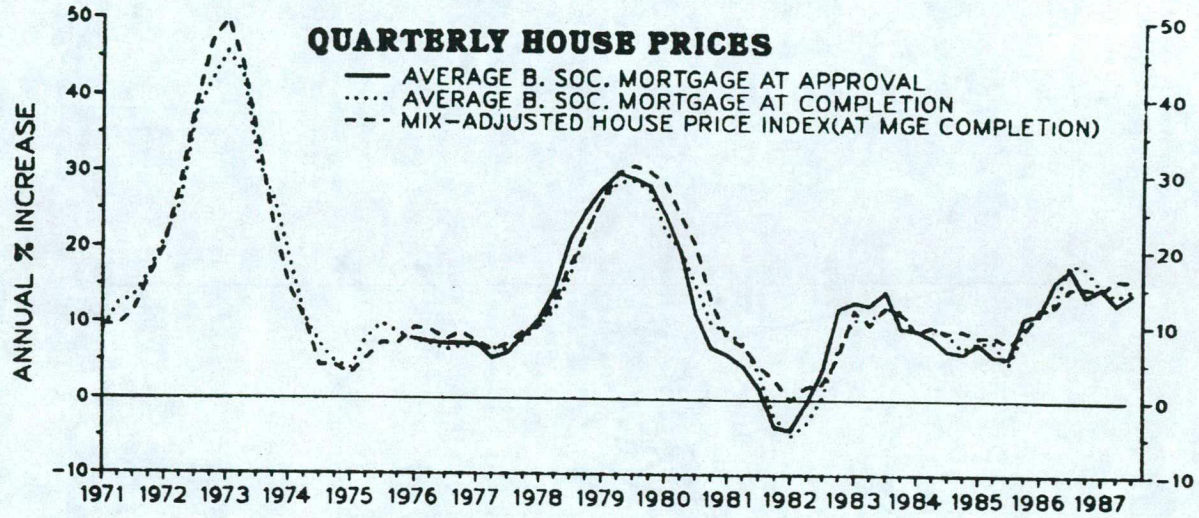
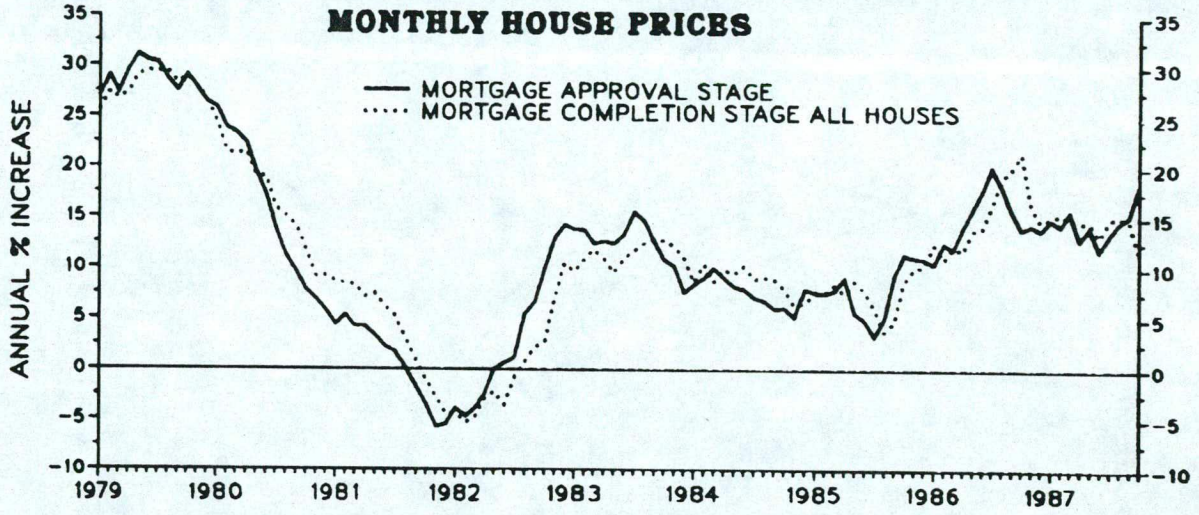


CHART XVIII.


QUARTERLY HOUSE PRICES
AVERAGE B. SOC. MORTGAGE AT APPROVAL
AVERAGE B. SOC. MORTGAGE AT COMPLETION
MIX-ADJUSTED HOUSE PRICE INDEX(AT MGE COMPLETION)
ANNUAL % INCREASE
50
40
30
20
10
0
-10
1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987


MONTHLY HOUSE PRICES
MORTGAGE APPROVAL STAGE
MORTGAGE COMPLETION STAGE ALL HOUSES
ANNUAL % INCREASE
35
30
25
20
15
10
5
0
-5
-10
1979 1980 1981 1982 1983 1984 1985 1986 1987

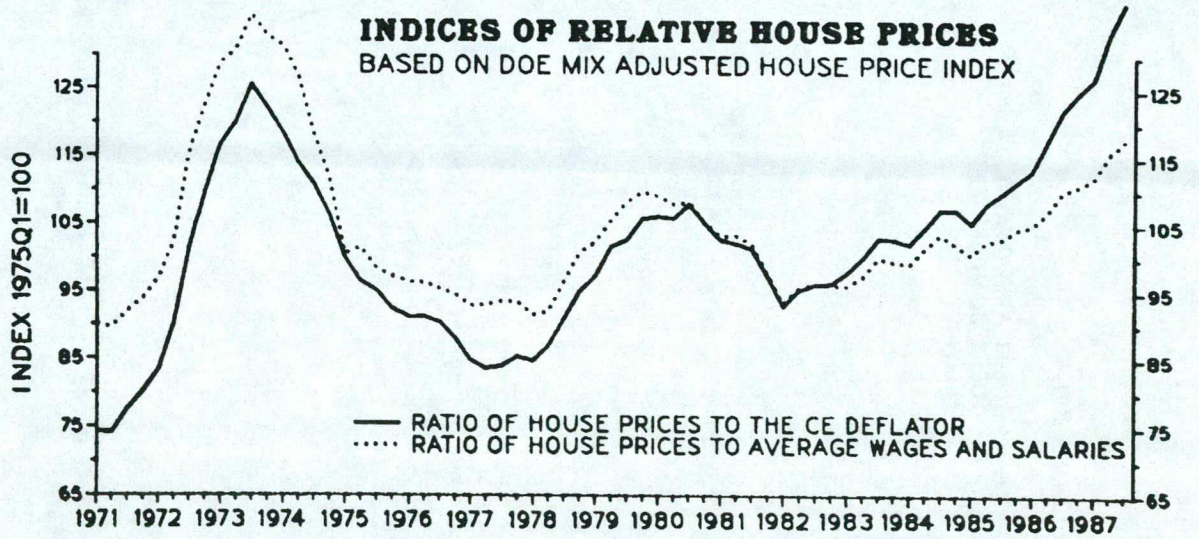
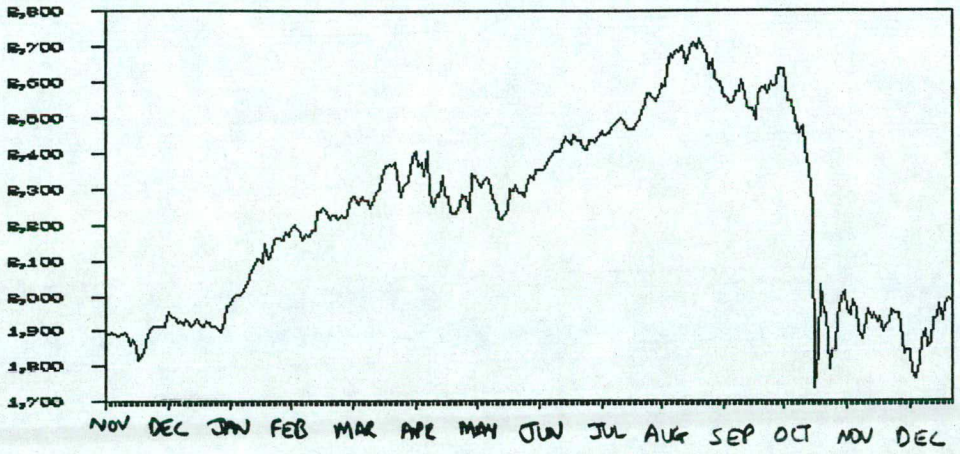
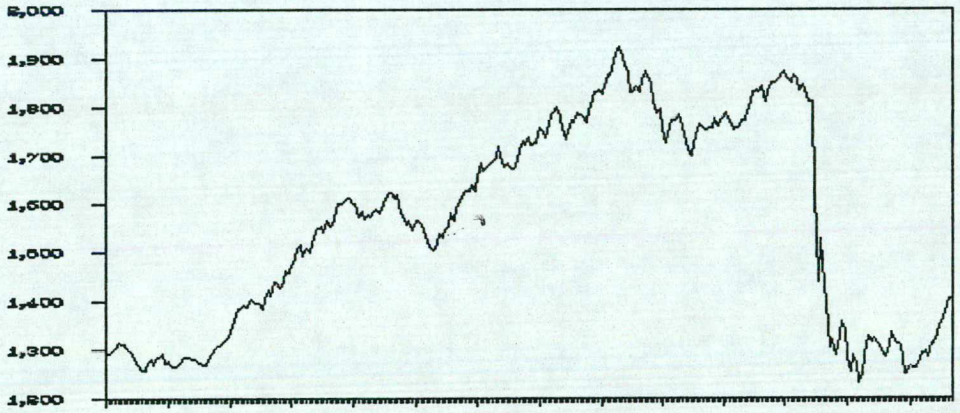

INDICES OF RELATIVE HOUSE PRICES
BASED ON DOE MIX ADJUSTED HOUSE PRICE INDEX
INDEX 1975Q1=100
125
115
105
95
85
75
65
RATIO OF HOUSE PRICES TO THE CE DEFLATOR
RATIO OF HOUSE PRICES TO AVERAGE WAGES AND SALARIES
1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987

CHART XIX - CAPITAL MARKETS

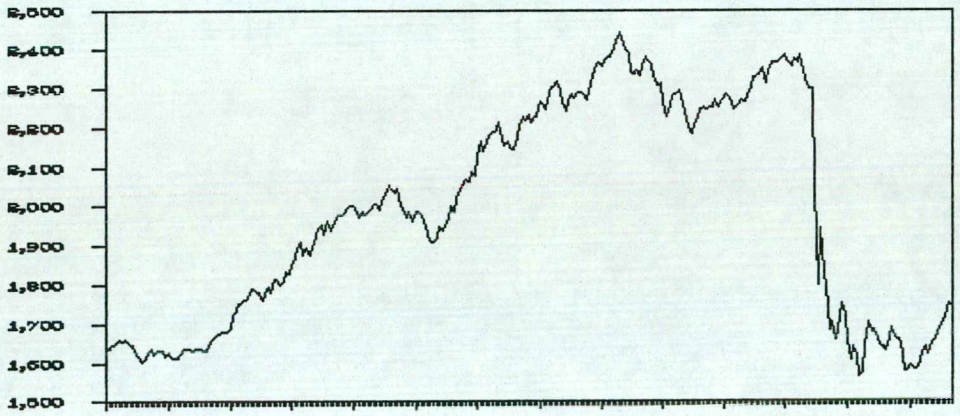
Dow Jones Industrial Average



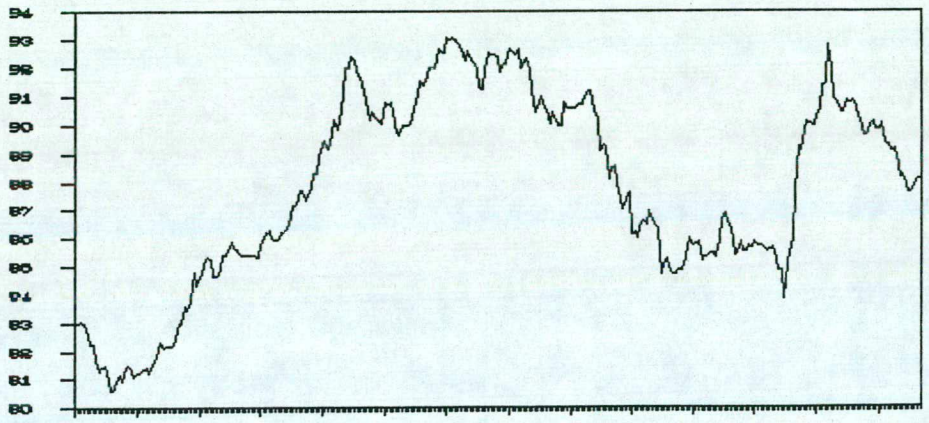
FT Ordinary Index



FTSE 100



Gilt Index



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MONTHLY MONETARY REPORT : TABLES

EXTERNAL

Table 1 -Economic Developments in G5
Table 2a -Interest rates in G5
Table 2b -Exchange rates in G5
Table 3a -Share prices in world stock markets
Table 3b -Commodity prices

U.K. REAL ECONOMY AND FISCAL POLICY

Table 4 - Recent indicators of activity and inflation
Table 5 - Fiscal Stance
Table 6 - CGBR(O)

EXCHANGE RATES AND EXTERNAL ACCOUNTS

Table 7 - Sterling Exchange Rates
Table 8 - UK Nominal and Real Interest Rates
Table 9 - Current Account

MONETARY AGGREGATES

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Table 12 - Real Growth Rates of Monetary Aggregates
Table 13 - Components of MO
Table 14 - Building Society Balance Sheet.
Table 15 - Components of M3
Table 16 - Components of M4 and M5
Table 17 - Retail Deposits
Table 18 - Components of Bank Lending
Table 19 - Counterparts to Broad Money.
Table 20 - Sterling Borrowing of Private Sector.
Table 21 - Net Finance of ICCs and Building Societies.
Table 22 - Funding and Money Market Assistance

FORECAST

Table 23 - Forecast growth rates of Monetary Aggregate
Table 24 - Forecast MO
Table 25 - Forecast Money Market Assistance
Table 26 - Privatisation Issues and Mergers

Table 1: Developments in the G5 (including UK)*

	Activity			Money supply		Costs and prices		
	Nominal GNP	Real GNP	Industrial production	M1	M2/M3	Unit labour costs	Consumer prices	GNP deflator
1983	7.1	2.9	3.7	9.8	8.6	-0.7	3.8	4.1
1984	8.6	4.9	8.0	6.6	8.6	-0.7	4.1	3.5
1985	6.6	3.2	3.0	8.2	8.4	0.3	3.5	3.3
1986	5.6	2.7	1.0	11.5	8.1	1.4	1.5	2.8
1987 Q1	5.0	2.5	1.0	13.5	8.8	0.5	1.5	2.4
Q2	4.7	2.2	2.1	12.4	8.9	-0.8	2.5	2.5
Q3	5.4+	3.1+	3.4	10.3+	8.4+		2.9	2.2+
1978 Jan			-0.2	14.4	9.0		1.0	
Feb			1.0	13.8	8.9		1.4	
Mar			2.0	12.4	8.6		2.0	
Apr			0.9	13.0	9.0		2.5	
May			2.5	12.8	9.0		2.5	
Jun			2.8	11.4	8.7		2.7	
Jul			3.0	10.6	8.5		2.6	
Aug			3.9	10.4	8.6		3.1	
Sep			4.0	9.9+	8.0+		2.9	
Oct			-				3.1	

* Percentage changes on a year before.

\+ Partly estimated.

TABLE 2: INTEREST AND EXCHANGE RATES IN G5

a. THREE MONTH NOMINAL INTEREST RATES IN THE G5 COUNTRIES*

	United States	Japan	Germany	France	UK
1983	9.1	6.5	5.8	12.5	10.1
1984	10.4	6.3	6.0	11.7	9.9
1985	8.1	6.5	5.5	10.0	12.2
1986	6.5	5.0	4.6	7.8	11.0
1987 Jan	5.8	4.3	4.6	8.4	11.0
Feb	6.1	4.0	4.0	8.5	11.0
Mar	6.2	4.0	4.0	8.0	10.0
Apr	6.5	3.9	3.9	8.0	9.8
May	7.0	3.8	3.8	8.2	8.8
June	7.0	3.7	3.7	8.2	9.0
July	6.7	3.7	3.9	7.9	9.2
Aug	6.8	3.7	4.0	7.9	10.1
Sept	7.4	3.8	4.0	7.9	10.1
Oct	8.2	3.9	4.8	8.2	9.9
Nov	7.4	3.9	3.9	8.6	9.0
Dec 22nd	7.8	3.9	3.8	8.6	8.9

* CD rate for US, Gensaki for Japan, Interbank rates for rest.

Note:- Figures are averages of end-week figures.

35/3 3567/005/JN

TABLE 2

b. EXCHANGE RATES

EFFECTIVE EXCHANGE RATE INDICES (1975 = 100)

	United States	Japan	Germany	France	UK	YEN/$	DM/$
1980	93.7	126.4	128.8	94.4	96.0	225.8	1.82
1981	105.6	142.9	119.2	84.3	94.8	219.5	2.25
1982	118.0	134.6	124.4	76.6	90.4	248.8	2.43
1983	124.8	148.4	127.1	70.0	83.2	237.4	2.55
1984	134.6	156.7	123.8	65.7	78.6	237.5	2.85
1985	140.7	160.5	123.6	66.3	78.2	238.4	2.94
1986	114.8	203.1	137.3	70.1	72.8	168.3	2.17
1985 Q1	149.7	154.3	119.3	63.4	72.1	257.5	3.26
Q2	145.8	155.2	121.6	65.2	78.9	250.6	3.08
Q3	138.4	157.6	125.0	67.2	82.1	238.6	2.85
Q4	128.8	174.9	128.5	69.3	79.8	207.4	2.59
1986 Q1	121.2	186.8	133.1	71.0	75.1	187.8	2.35
Q2	116.0	202.8	134.7	69.0	76.0	169.9	2.24
Q3	111.4	214.8	138.6	69.5	71.9	155.9	2.09
Q4	110.5	208.0	142.6	70.8	68.3	160.4	2.01
1987 Q1	104.2	210.1	147.7	71.9	70.2	155.2	1.84
Q2	101.1	222.9	146.9	71.6	72.7	142.6	1.81
Q3	102.5	218.0	146.4	71.4	72.7	147.0	1.84
1987 Jan	105.5	209.4	147.5	71.8	68.9	154.6	1.86
Feb	103.9	209.3	148.4	72.3	69.0	153.4	1.82
Mar	103.3	211.7	147.1	71.8	71.9	157.5	1.84
Apr	101.0	222.7	146.6	71.6	72.3	142.9	1.81
May	100.4	225.3	147.2	71.7	73.3	140.6	1.79
June	101.8	220.8	146.8	71.5	72.6	144.4	1.82
July	103.3	213.7	146.6	71.6	72.8	150.2	1.85
Aug	103.3	218.2	146.0	71.1	72.3	147.6	1.86
Sept	100.8	222.1	146.7	71.4	73.0	143.1	1.81
Oct	100.6	221.4	147.1	71.5	73.6	143.3	1.80
Dec 22nd	93.2	240.5	151.3	72.8	75.6	126.6	1.63
% Change since dollar peak (Feb 85)	- 40½	+ 53	+ 29	+ 17½	+ 7½	- 51½	- 52½
% Change since Plaza (Sept 85)	- 33	+ 53½	+ 20½	+ 8½	- 8½	- 47½	- 42½
% Change since Louvre Accord (Feb 87)	- 10½	+ 15	+ 2	+ 1	+ 9½	- 17½	- 11

Note: monthly figures are averages of daily figures

Table 3 (a): Share Prices for the Major Countries

	US St.& Poor Ind.	**Japan** Tokyo SE New	**Germany** Commerz -bank	**France** CAC Gen.	**UK** FT. All share	**Italy** Banca Com Ital	**Canada** Toronto Comp.	**Australia** All ord.	**H.Kong** Hang Sang Bank	**S'pore** Straits Times Index
1986 (Ave.)	262.3	1322.7	1998.8	361.5	778.5	694.0	2999.5	1207.4	1258.8	732.3
1987 Jan	297.0	1644.0	1888.0	415.2	880.1	718.0	3255.6	1529.0	1643.5	937.1
Feb	319.2	1744.8	1719.7	416.8	952.7	689.1	3492.1	1558.9	1770.0	1013.1
Mar	335.2	1848.0	1710.6	446.1	1001.3	694.8	3705.8	1644.2	1796.4	1061.2
Apr	335.2	2035.9	1832.4	451.5	989.2	739.7	3774.8	1725.3	1727.9	1097.2
May	336.2	2119.7	1773.5	440.6	1070.0	716.2	3750.6	1814.3	1846.9	1187.4
Jun	348.8.	2190.2	1791.2	410.7	1134.4	527.5	3705.6	1776.8	2009.7	1238.2
Jul	361.0	1982.0	1921.3	413.2	1194.0	683.3	3925.7	1910.6	2136.1	1349.0
Aug	384.3	2093.3	2024.5	410.2	1150.6	629.2	4042.7	2102.1	2300.0	1459.2
Sep	372.4	2088.7	1979.4	424.1	1174.0	619.3	3919.4	2232.2	2442.1	1417.9
Oct	314.9	2014.5	1802.4	364.9	1079.4	616.4	3132.7	1857.1	3357.3	1216.0
Nov	280.4	1850.6	1366.5	296.3	827.9	508.4	2958.4	1275.2	2165.9	825.9
15 Oct	343.6	2158.6	1902.6	366.1	1189.9	665.5	3674.9	2146.4	3695.5	1426.1
22 Dec	289.0	1825.5	1352.6	285.1	884.84	502.0	3156.6	1267.8	2276.4	823.4
Percentage changes										
1986-22 Dec	+10.2	+38.0	-32.3	-21.1	+13.7	-27.7	+5.2	+5.0	+80.8	+12.4
15 Oct - 22 Dec	-15.9	-15.4	-28.9	-22.1	-25.6	-24.6	-14.1	-40.9	-38.4	-42.3

The monthly figures are averages of weekly rates.

ONOMIST COMMODITY PRICE INDICES

TABLE 3B

1980=100

	All items indices				SDR indices		
	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
nnual							
980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
981	95.1	86.2	99.4	91.1	96.9	98.6	89.5
982	87.9	74.7	99.2	81.6	92.3	90.4	79.1
983	102.7	84.3	129.4	95.5	105.5	109.8	92.8
984	105.7	83.4	144.9	97.8	116.1	105.1	89.5
985	95.8	74.8	135.2	86.5	103.4	94.2	84.3
986	86.9	77.7	124.0	74.5	97.3	85.0	70.5
uarterly							
985 Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
986 Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
Q2	91.0	81.1	125.0	79.5	104.9	86.9	71.8
Q3	81.4	75.2	117.4	70.3	88.8	80.1	68.3
Q4	82.4	76.4	123.9	70.1	87.4	86.5	68.4
1987 Q1	81.6	79.2	119.2	68.9	82.4	91.0	69.0
Q2	86.8	86.4	122.2	73.3	85.5	98.0	75.2
Q3	91.4	89.6	128.9	75.9	82.6	107.1	87.5
Monthly							
December	81.9	76.1	122.7		85.4	87.5	68.4
January	80.3	77.0	118.8		82.5	88.8	66.7
February	81.7	79.6	120.5		82.6	91.7	68.5
March	82.9	81.0	118.2		82.1	92.4	71.8
April	84.2	83.8	119.0		83.2	94.8	72.6
May	87.3	87.6	122.0		87.1	97.2	74.8
June	88.9	87.8	125.2		86.2	101.7	78.3
July	90.7	88.4	127.8		84.0	105.1	84.7
August	92.2	89.8	130.9		81.2	109.7	90.2
September	91.4	90.6	128.2		82.7	106.6	87.6
October	94.8	94.2	132.2		86.7	101.9	94.3
November	93.6	97.0	127.6		86.5	97.1	93.8
Weekly							
September 29	93.5	91.9	131.1		84.4	103.9	92.8
October 6	95.7	94.1	134.1		86.6	105.2	95.2
13	96.1	95.4	134.7		86.7	102.5	97.9
20	93.4	93.3	131.0		86.2	101.1	91.5
27	93.9	94.2	129.1		87.2	98.9	92.7
November 3	91.0	93.6	124.9		84.3	96.8	89.8
10	92.1	96.5	125.5		85.3	95.4	92.3
17	94.8	97.8	128.8		87.3	98.3	95.4
24	96.4	100.0	131.1		89.2	98.0	97.7
December 1	96.5	101.2	129.2		89.4	98.9	96.9
8	96.0	100.4	129.8		88.1	98.3	97.7
15 (prov)	96.2	102.5	130.1		87.0	97.0	100.5

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals

TABLE 4: RECENT INDICATORS OF ACTIVITY AND INFLATION
(per cent changes on year earlier)

	MONEY		OUTPUT		PRICES AND UNIT LABOUR COSTS					
				Manufacturing		RPI excluding	Producer Prices***		Unit Wage Costs	
	GDP		GDP(O))	Output	RPI	mortgage payments	Output	Input	Manufacturing	Whole economy
1985-86	9.6	1985	3.7	2.9	6.1	5.2	6.3	4.4	5.6	5.1
1986-87	6.7	1986	3.1	0.8	3.4	3.6	4.3	-10.7	4.7	5.4
1986 2	6.3	1986 1	2.2	- 1.5	4.9	4.6	5.0	- 11.9	8.2	6.0
3	6.4	2	2.3	- 0.6	2.8	3.3	4.3	- 12.4	6.2	6.2
4	6.7	3	3.7	1.2	2.6	3.3	4.0	- 13.0	3.3	4.4
1987 1	7.4	4	4.0	4.0	3.4	3.4	4.0	- 5.6	1.2	5.0
2	8.6	1987 1	4.6	5.3	3.9	3.7	4.1	- 1.7	-0.1	4.0
3	10.4	2	4.3	5.2	4.2	3.6	4.5	4.6	0.8	4.6
4	8.2*	3	5.2	6.6					0.9	
1988 1	8.1	4								
1987-88	8.5									
		1986 October		5.2	3.0	3.4	4.0	- 7.4	2.7**	
		November		5.3	3.5	3.3	3.8	- 4.9	1.8	
		December		4.0	3.7	3.5	4.0	- 4.4	1.6	
		1987 January		4.1	3.9	3.7	4.2	- 2.5	1.2	
		February		4.6	3.9	3.7	4.2	- 2.9	0.8	
		March		3.2	4.0	3.8	4.1	0.4	- 0.1	
		April		4.3	4.2	3.6	4.3	3.0	- 0.4	
		May		6.3	4.1	3.8	4.5	3.4	0.0	
		June		5.2	4.2	3.5	4.5	7.2	0.8	
		July		6.3	4.4	3.7	4.7	13.4	1.2	
		August		5.8	4.4	3.7	4.7	14.5	0.9	
		September		5.5	4.2	3.5	4.7	10.8	0.9	
		October		5.9	4.5	3.9	4.7	7.8	1.1	
		November			4.1	4.0	4.9	5.3		

* Autumn Statement forecast.

** Wage cost figures show averages for three months ending in month indicated.

*** Excluding food, drink and tobacco.

TABLE 5: INDICATORS OF FISCAL STANCE

(a) Annual Data

	PSBR		PSBR excluding privatisation proceeds		PSFD	
	Cash (£ billion)	Ratio to GDP (per cent)	Cash (£ billion)	Ratio to GDP (per cent)	Cash (£ billion)	Ratio to GDP (per cent)
1970-71	0.8	1½	0.8	1½	-0.2	-½
1971-72	1.0	1¾	1.0	1¾	0.7	1
1972-73	2.4	3½	2.4	3½	2.0	3
1973-74	4.3	5¾	4.3	5¾	3.5	4½
1974-75	8.0	9	8.0	9	6.0	6¾
1975-76	10.3	9¼	10.3	9¼	8.1	7¼
1976-77	8.3	6½	8.3	6½	7.5	5¾
1977-78	5.4	3½	5.9	4	6.6	4½
1978-79	9.2	5¼	9.2	5¼	8.3	4¾
1979-80	10.0	4¾	10.4	5	8.0	3¾
1980-81	12.7	5¼	13.1	5½	11.7	5
1981-82	8.6	3¼	9.1	3½	5.2	2
1982-83	8.8	3	9.3	3¼	8.3	3
1983-84	9.7	3¼	10.9	3½	11.4	3¾
1984-85*	10.2	3	12.3	3¾	13.1	4
1985-86*	5.8	1½	8.5	2¼	8.3	2¼
1986-87	3.4	1	7.8	2	9.6	2½
1987-88 (October forecast)	-1.2	-¼	4.1	1	4.3	1

* If adjusted for coal strike, PSBR and PSFD ratios to GDP roughly 0.9 per cent lower in 1984-85 and 0.3 per cent lower in 1985-86.

(b) Quarterly Data

£ billion		PSBR		PSBR excluding privatisation		PSFD	
		s.a.*	u.a.	s.a.*	u.a.	s.a.+	u.a.
1985	Q2	1.2	2.6	2.5	3.9	2.9	4.6
	Q3	1.9	2.9	2.4	3.4	1.5	1.9
	Q4	1.5	2.1	2.1	2.6	2.1	0.7
1986	Q1	1.1	-1.9	1.5	-1.5	2.0	1.0
	Q2	2.1	2.3	3.2	3.4	2.2	3.6
	Q3	2.1	3.6	2.1	3.6	3.0	4.2
	Q4	-1.3	-1.6	0.9	0.5	1.6	0.0
1987	Q1	0.5	-0.7	1.7	0.4	2.6	1.9
	Q2	0.2	1.1	2.5	3.4	1.6	3.3

* financial year - constrained
\+ calendar year - constrained

Table 6: CGBR(O) April-November Comparison with Budget Profile

	£ billion
Receipts	
Inland Revenue	+ 2.1
Customs and Excise	+ 0.3
National Insurance contributions	+ 0.2
Privatisation proceeds	+ 0.4
Interest and dividends	- 0.2
Other receipts	+ 0.3
Total receipts	+ 3.1
Expenditure	
Interest payments	- 0.1
Departmental expenditure (1)	- 1.3
Total expenditure	- 1.4
Net effect on CGBR(O)	- 4.5

(1) on a cash basis, net of certain receipts and on-lending

\+ = higher receipts, higher borrowing and higher expenditure

\- = lower receipts, lower borrowing and lower expenditure

TABLE 7

EXCHANGE RATES

		Exchange Rate Index*	Real Exchange Rate @	ERI/(Oil Price Adjusted ERI)/	Dollar: Sterling exchange rate	D-Mark: Sterling exchange rate	Index against EMS currencies*	US-UK Interest rate differential	Brent spot price ($/bl)
1985	(1)	72.1	80.1	0.908	1.12	3.63	95.2	+4.1	27.7
	(2)	78.9	88.9	1.001	1.26	3.88	102.3	+4.4	27.0
	(3)	82.1	93.3	1.040	1.38	3.92	103.8	+3.6	27.4
	(4)	79.8	91.6	1.001	1.44	3.71	98.7	+3.5	28.3
1986	(1)	75.1	88.3	1.037	1.44	3.38	90.9	+4.5	17.8
	(2)	76.1	92.1	1.101	1.51	3.39	91.4	+3.2	12.8
	(3)	71.9	88.2	1.049	1.50	3.10	84.9	+3.8	12.4
	(4)	68.3	84.0	0.970	1.43	2.87	79.0	+5.1	14.8
1987	(1)	69.9	86.9	0.967	1.54	2.83	78.8	+4.3	17.9
	(2)	72.8	90.9	0.996	1.64	2.96	82.6	+2.1	18.6
	(3)	72.7	90.7	0.992	1.62	2.97	83.0	+2.8	19.0
1987	January	68.9	85.3	0.950	1.51	2.80	77.8	+4.9	18.4
	February	69.0	85.9	0.960	1.53	2.78	77.4	+4.4	17.2
	March	71.9	89.4	0.991	1.59	2.92	81.2	+3.4	18.0
	April	72.3	90.3	0.994	1.63	2.95	82.1	+2.9	18.2
	May	73.3	91.7	1.002	1.67	2.98	83.1	+1.6	18.8
	June	72.7	90.7	0.991	1.63	2.96	82.6	+2.1	18.9
	July	72.8	90.7	0.985	1.61	2.97	82.9	+2.6	19.8
	August	72.3	90.0	0.988	1.60	2.97	82.8	+3.2	18.9
	September	73.1	91.2	1.004	1.65	2.98	83.2	+2.6	18.3
	October	73.6	92.1	1.006	1.66	2.99	83.5	+1.7	18.8
	November	75.4	94.5	1.040	1.78	2.99	83.9	+1.5	17.8
	December 22nd	75.6	n/a	1,051	1.83	2.98	83.8	+1.0	16.9

/ Oil price adjusted ERI has roughly the same inflation implications as does an ERI of 80 given an oil price of $29 (their average values for January 1983 - November 1985). The ratio shown therefore indicates whether movements in the ERI are inflationary or otherwise, relative to the period Jan-1983 - Nov 1985, having allowed for oil prices.

* 1975=100

@ Figures for latest months are tentative forecasts based on extrapolated producer price indices

TABLE 8 : NOMINAL AND REAL INTEREST RATES

		NOMINAL RATES				REAL RATES				
		Three month interbank	Three month Eurodollar	Base Rate	Long Rate (20 year Gilts)	Expected inflation over 12 months*	Real 3-month interbank rate	Yield on Index-linked Gilts** 1990	2001	2011
1985	(1)	13.0	8.9	12.9	10.9	5.7	6.9	4.4	3.5	3.2
	(2)	12.6	8.2	12.6	10.8	5.6	6.6	4.3	3.8	3.4
	(3)	11.7	8.1	11.7	10.4	5.3	6.1	4.3	3.8	3.5
	(4)	11.6	8.1	11.5	10.3	4.2	7.1	4.1	3.9	3.6
1986	(1)	12.4	7.9	12.3	10.2	3.9	8.2	4.3	4.2	3.8
	(2)	10.2	7.0	10.4	9.0	3.6	6.5	3.6	3.6	3.4
	(3)	10.0	6.2	10.0	9.7	3.4	6.5	3.7	3.9	3.5
	(4)	11.2	6.1	11.0	10.7	4.1	6.8	3.7	4.1	3.8
1987	(1)	10.6	6.3	10.8	9.6	4.3	6.0	3.0	3.7	3.5
	(2)	9.2	7.1	9.4	9.0	3.8	5.2	2.4	3.8	3.6
	(3)	9.9	7.1	9.7	9.8	3.7	6.0	2.6	4.2	3.9
1987	January	11.0	6.1	11.0	10.0	4.1	6.6	3.5	4.0	3.7
	February	10.8	6.4	11.0	9.8	4.3	6.2	3.0	3.7	3.5
	March	9.9	6.5	10.4	9.1	4.5	5.2	2.5	3.5	3.4
	April	9.8	6.9	10.0	9.2	4.2	5.4	2.6	3.6	3.4
	May	8.8	7.2	9.1	8.8	3.7	4.9	2.1	3.6	3.6
	June	9.0	7.1	9.0	8.9	3.5	5.3	2.3	3.9	3.7
	July	9.3	6.9	9.0	9.3	3.4	5.7	2.2	4.0	3.8
	August	10.2	7.0	10.0	10.0	3.9	6.1	2.6	4.3	4.0
	September	10.1	7.5	10.0	10.0	3.9	6.0	3.1	4.2	4.0
	October	10.0	8.3	9.5	9.8	4.0	5.1	3.1	4.5	4.3
	November	8.9	7.4	9.0	9.2	4.1	4.6	1.9	4.0	3.3
	December 22nd	8.7	7.9	8.5	9.6	4.1	4.6	2.6	4.0	3.9

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

** Average of yields calculated for each Friday of month and quarterly for last Friday in each month. Assumes inflation averages 5 per cent per annum to redemption.

TABLE 9 CURRENT ACCOUNT

percentage change on previous year

		Export Volume less oil and erratics	Import Volume less oil and erratics	Terms* of Trade(AVI) 1980=100	Current balance £mn
1982		0.5	8.6	0.5	4035
1983		-1.1	9.5	-0.6	3338
1984		9.6	11.0	-1.9	1474
1985		6.8	4.2	1.8	2888
1986		2.4	5.7	-0.8	-944
1986	Q3	2.9	7.5	-2.4	-856
	Q4	9.3	9.9	-4.9	-989
1987	Q1	11.2	5.4	-1.5	572
	Q2	6.4	10.2	+0.9	-659
	Q3	9.1	12.0	+1.6	-1146
1987	Jan	7.3	6.4	-2.7	54
	Feb	18.2	8.5	-2.0	366
	Mar	7.9	1.0	+0.3	152
	April	10.4	10.6	+1.2	48
	May	5.6	14.5	-0.1	-532
	June	4.6	5.6	+1.5	-174
	July	7.7	11.2	+0.4	-291
	Aug	8.8	13.7	+1.2	-873
	Sep	10.9	11.0	+3.3	+17
	Oct	4.7	11.8	+2.0	-282
	Nov	3.5	8.2	+3.8	-595

* excluding oil and erratics.

TABLE 10

Key Monetary Indicators

	1986-87		1987-88										
	Nov	Dec	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov
MONETARY AGGREGATES 12 month % change (ua)													
MO	5.2	5.2	4.1	4.1	3.5	5.3	4.4	4.2	5.3	4.5	5.2	5.5	4.9
M3	18.6	18.0	17.6	19.0	19.0	20.4	18.9	19.1	20.9	22.1	19.5	22.2	21.3
M4	15.6	15.2	13.9	13.9	13.9	14.5	13.7	13.8	14.9	15.5	14.9	15.7	15.2
M5	15.1	14.4	13.2	13.3	13.4	14.0	13.4	13.5	14.4	14.8	14.3	15.2	14.6
STERLING LENDING 12 month % change (ua)													
Banks	20.8	21.8	22.5	21.7	20.7	21.4	21.7	21.5	22.2	21.5	23.5	22.8	22.4
Banks and building societies	19.6	20.2	20.4	19.8	19.1	19.4	19.4	19.2	19.4	18.8	20.0	19.3	18.9
OVER(-)/UNDER (+) FUNDING financial year to date: £mm	-3	-1,577	-3,931	-3,969	395	3,223	5,158	2,369	1,889	2,176	1,957	3,773	1,188
MONEY MARKET ASSISTANCE/ Level outstanding £mn	11,295	12,970	14,948	14,873	9,742	6,126	3,340	5,132	7,078	6,114	5,421	5,403	7,073
INTEREST RATES													
3 months*	11.3	11.3	11.0	10.8	9.9	9.8	8.8	9.0	9.3	10.2	10.1	10.0	8.9
20 yearϕ	10.9	10.6	10.0	9.8	9.1	9.2	8.8	8.9	9.3	10.0	10.0	9.8	9.2
EFFECTIVE EXCHANGE RATE	68.5	68.5	68.9	69.0	71.9	73.3	73.3	72.7	72.8	72.3	73.1	73.6	75.4

* Inter bank

ϕ par yield

/ banking months until August thereafter end calendar months

SECRET

TABLE 11

MONETARY AGGREGATES 1987-88

		APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV
M0	Averaged weekly								
	Monthly change (£ million)	+325	+42	-93	+423	+13	+14	-32	+47
	Monthly % change	+2.2	+0.3	-0.6	+2.8	+0.1	+0.1	-0.2	+0.3
	12 Monthly % change	+5.3	+4.4	+4.2	+5.3	+4.5	+5.2	+5.5	+4.9
M3	Monthly change (£ million)	+3,184	+3,246	+1,885	+4,297	+2,162	+1,646	+5,579	+1,361
	Monthly % change	+2.0	+2.0	+1.1	+2.6	+1.3	+0.9	+3.2	+0.7
	12 Monthly % change	+20.4	+18.9	+19.1	+20.9	+22.1	+19.5	+22.2	+21.3
M4	Monthly change (£ million)	+3,536	+3,437	+4,020	+5,382	+2,621	+2,968	+5,254	+1,680
	Monthly % change	+1.3	+1.3	+1.4	+1.9	+0.9	+1.0	+1.8	+0.6
	12 Monthly % change	+14.5	+13.7	+13.8	14.9	+15.5	+14.9	+15.7	+15.2
M5	Monthly change (£ million)	+3,545	+4,109	+4,124	+5,442	+2,480	+3,063	+5,404	+1,562
	Monthly % change	+1.2	+1.4	+1.4	+1.8	+0.8	+1.0	+1.8	+0.5
	12 Monthly % change	+14.0	+13.4	+13.5	+14.4	+14.8	+14.3	+15.2	+14.6
NIBMI	Monthly change (£ million)	+475	+1,168	+1,471	+84	-94	+383	+192	+533
	Monthly % change	+1.2	+2.8	+3.4	+0.2	-0.2	+0.9	+0.4	+1.2
	12 Monthly % change	+11.9	+12.1	+13.5	+12.4	+12.3	+6.0	+11.9	+10.6
M1	Monthly change (£ million)	+705	+2,967	+2,102	+1,069	+1,048	+1,584	+2,851	+526
	Monthly % change	+0.9	+3.7	+2.5	+1.3	+1.2	+1.8	+3.2	+0.6
	12 Monthly % change	+23.2	+23.7	+23.8	+22.7	+23.7	+20.4	+24.7	+21.8
WIDER £ AGGREGATE									
	Monthly change (£ million)	+3,714	+4,998	+510	+5,279	+1,413	+1,745	+7,568	+48
	Monthly % change	+2.0	-2.6	+0.3	+2.7	+0.7	+0.9	+3.7	+0.0
	12 Monthly % change						+18.5	+22.2	+20.3

TABLE 12

REAL PERCENTAGE GROWTH RATES OF MONETARY AGGREGATES

	RPI less Mortgage Element	Weekly Averaged M0	M3	M4	M5
FINANCIAL YEARS (12 month % changes to calendar March)					
1981-82	9.8	-6.5	4.2	3.7	3.0
1982-83	5.9	-0.6	5.4	7.9	8.0
1983-84	4.6	0.8	3.3	6.8	6.1
1984-85	5.2	0.3	6.0	8.2	8.2
1985-86	4.0	-0.5	12.2	10.1	9.1
1986-87	3.8	0.3	14.6	9.7	9.2
12 MONTH % CHANGES (ua except M0)					
OCTOBER	3.4	1.5	14.6	12.0	11.3
NOVEMBER	3.3	1.9	14.8	11.9	11.4
DECEMBER	3.7	1.6	13.8	11.1	10.3
1987 JANUARY	3.7	1.4	13.4	9.8	9.2
FEBRUARY	3.7	0.4	14.8	9.8	9.3
MARCH	3.8	0.3	14.6	9.7	9.2
APRIL	3.6	1.2	16.2	10.5	10.0
MAY	3.8	0.6	14.5	9.5	9.2
JUNE	3.5	0.7	15.1	10.0	9.7
JULY	3.7	1.6	16.6	10.8	10.3
AUGUST	3.7	1.0	17.7	11.4	10.7
SEPTEMBER	3.5	1.4	15.5	11.0	10.4
OCTOBER	3.9	1.6	17.6	11.4	10.9

TABLE 13

CONFIDENTIAL

MO, THE WIDE MONETARY BASE

Calendar months	Levels £ million (changes in brackets)							% change on previous Month		% change on year earlier			
	Notes and coin (nsa)	Notes and coin (sa)		Bankers' deposits	MO (nsa)	MO (s.a.)		Notes (sa) and coin	MO (sa)	Notes and Coin (nsa)	Notes and Coin (sa)	MO (nsa)	MO (sa)
1987													
June	14,946	15,075	(+91)	137	15,083	15,212	(+24)	+0.6	+0.2	+4.6	-4.6	+4.2	+4.2
July	15,271	15,166	(+91)	235	15,506	15,401	(+189)	+0.6	+1.2	+4.7	+4.7	+5.3	+5.4
August	15,337	15,258	(+92)	182	15,519	15,440	(+39)	+0.6	+0.3	+4.3	+4.6	+4.5	+4.7
September	15,349	15,376	(+118)	184	15,533	15,560	(+120)	+0.8	+0.8	+5.3	+5.0	+5.2	+4.9
October	15,299	15,457	(+81)	202	15,501	15,659	(+99)	+0.5	+0.6	+5.1	+5.2	+5.5	+5.6
November	15,365	15,525	(+68)	183	15,548	15,708	(+49)	+0.4	+0.3	+4.8	+4.8	+4.9	+4.9
December (3 of 5)	16,146	15,564	(+39)	158	16,304	15,722	(+14)	+0.3	+0.1	+2.8	+4.1	+2.2	+3.5
Latest 4 weeks/	15,974	15,562	(+51)	164	16,138	15,726	(+28)	+0.3	+0.2	+4.2	+4.4	+4.2	+4.4

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)
November						
4th	15,510	(+7)	128	15,638	(-67)	-0.4
11th	15,511	(+1)	225	15,736	(+98)	+0.6
18th	15,522	(+11)	193	15,715	(-21)	-0.1
25th	15,557	(+35)	185	15,742	(+27)	+0.2
December/						
2nd	15,576	(+19)	199	15,775	(+33)	+0.2
9th	15,596	(+20)	127	15,723	(-52)	-0.3
16th	15,519	(-77)	147	15,666	(-57)	-0.4

/ Most recent data include estimates only for coin and unbacked note issues. The percentage changes for December so far use as their base the average for the full relevant month; for the latest 4 week period changes are based on the previous 4 week period and a comparable period a year ago.

TABLE 14

SECRET

BUILDING SOCIETY BALANCE SHEET FLOWS

Unadjusted £ million

	Total Flow	ASSETS			LIABILITIES			
		Net Mortgage Advances & Unsecured Lending	Liquid Assets	Fixed Assets	Retail principal	Interest credited	Wholesale funds	Other (eg reserves)
1985 *	1459	1193	239 (18.0)	27	592	495	205	167
1986 *	1623	1589	17 (16.4)	17	553	498	523	49
1985 Q3*	1666	1157	479 (17.0)	30	590	384	153	539
Q4*	2172	1367	783 (18.0)	22	766	660	594	152
1986 Q1*	858	1271	-431 (17.5)	18	740	462	167	-511
Q2*	1591	1645	-74 (16.6)	20	478	522	321	270
Q3*	1783	1884	-112 (15.7)	11	56	402	1099	226
Q4*	2262	1556	686 (16.4)	20	938	649	403	272
1987 Q1*	1240	1120	105 (16.1)	15	484	594	279	-117
Q2*	1564	1240	309 (16.4)	15	612	457	182	313
Q3*	1487	1272	200 (16.1)	15	410	515	364	198
Oct	2136	1388	753 (16.4)	15	814	630	326	461
Forecast								
1987 Q4*	1972	1396	561 (16.5)	15	952	625	165	230
Nov+	2100	1512	573 (16.5)	15	1050	117	-90	1023
Dec	1681	1289	377 (16.6)	15	993	1431	50	-793
1988 Jan	1350	1262	73 (16.5)	15	869	1371	100	-990
Feb	1667	1315	337 (16.5)	15	669	97	300	601

* Monthly averages
+ Estimated ; part data

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TABLE 15

THE COMPONENTS OF M3

	NOTES AND COINS	BANK DEPOSITS: RETAIL NIB	BANK DEPOSITS: RETAIL IB	BANK DEPOSITS: WHOLESALE	M3
% CHANGES					
Financial years (ua)					
1984-85[1]	5.2	6.5	7.7	19.1	11.5
1985-86[1]	3.7	4.5	16.8	26.1	16.7
1986-87[1]	2.2	16.9	17.5	25.8	19.1
Over 12 months (ua)					
NOVEMBER	4.0	13.3	17.1	25.6	18.6
DECEMBER	5.1	14.4	18.7	22.2	18.0
1987 JANUARY	3.7	14.7	16.2	23.0	17.6
FEBRUARY	3.2	14.5	17.2	25.7	19.0
MARCH	-2.1	16.9	17.4	25.4	19.0
APRIL	6.5	14.5	17.1	27.9	20.4
MAY	3.7	16.4	19.0	23.1	18.9
JUNE	4.1	18.0	15.4	25.1	19.1
JULY	6.3	15.3	12.1	32.4	20.9
AUGUST	4.2	16.4	15.1	32.8	22.1
SEPTEMBER	5.7	6.1	14.2	31.9	19.5
OCTOBER	4.6	15.4	12.4	34.9	22.2
NOVEMBER	1.4	15.1	13.0	33.3	21.3
Over 6 months (sa)					
1987 JUNE	-1.9	25.4	12.1	37.0	24.0
JULY	2.0	14.4	12.3	46.9	26.4
AUGUST	3.6	13.2	14.5	41.5	25.0
SEPTEMBER	8.2	16.0	12.7	32.3	21.8
OCTOBER	6.4	33.2	11.7	33.8	25.2
NOVEMBER	6.6	17.5	13.1	31.1	21.7
CHANGES £ MILLION					
monthly average (sa)					
1984-85[1]	42	56	238	683	1017
1985-86[1]	17	90	161	556	1565
1986-87[1]	4	359	538	1255	2157
Over 1 month (sa)					
1987 JUNE	-35	1814	491	44	2314
JULY	279	-178	660	2936	3697
AUGUST	-5	150	533	1592	2270
SEPTEMBER	-17	310	434	1736	2463
OCTOBER	262	1238	170	4618	6288
NOVEMBER	-60	-923	578	434	29

[1]March on March

TABLE 16 SECRET

THE COMPONENTS OF M4 AND M5

	M3	BUILDING SOCIETIES RETAIL[1]	BUILDING SOCIETIES WHOLESALE	BUILDING SOCIETIES HOLDINGS OF M3	M4	MONEY MARKET INSTRUMENTS	M5
% CHANGES							
Financial years (ua)							
1984-85[3]	11.5	15.1				13.8	13.8
1985-86[3]	16.7	15.3	52.6	94	-0.1	13.5	14.5
1986-87[3]	19.1	10.8	11.4	50	-15.6	13.5	12.9
Over 12 months (ua)							
DECEMBER	18.0	17.0		17.9	15.2	1.7	14.4
1987 JANUARY	17.6	15.6		43.0	13.9	2.4	13.2
FEBRUARY	19.0	16.1		62.8	13.9	2.8	13.3
MARCH	19.0	17.2		57.6	13.9	4.3	13.4
APRIL	20.4	16.1		55.7	14.5	4.2	14.0
MAY	18.9	17.9		60.0	13.7	8.5	13.4
JUNE	19.1	16.4		69.0	13.8	8.3	13.5
JULY	20.9	13.4		69.2	14.9	5.0	14.4
AUGUST	22.1	15.6		67.6	15.5	2.8	14.8
SEPTEMBER	19.5	10.8		62.0	14.9	4.0	14.3
OCTOBER	22.2	13.5		60.0	15.7	5.2	15.2
NOVEMBER	21.3	13.8		67.7	15.2	4.4	14.6
Over 6 months (sa)							
1987 JUNE	24.0	11.1		72.8	15.2	8.7	14.8
JULY	26.4	11.5		45.1	18.5	12.0	18.2
AUGUST	25.0	12.2		48.3	18.0	5.9	17.4
SEPTEMBER	21.8	10.1		25.3	16.8	9.7	16.5
OCTOBER	25.2	9.1		23.4	18.4	15.9	18.3
NOVEMBER	21.7	10.9		21.0	17.0	1.5	16.1
CHANGES £ MILLION							
monthly average (sa)							
1984-85[3]	984	1034	42	-28	139	2221	2090
1985-86[3]	1565	1207	50	-362	-118	2480	2557
1986-87[3]	2157	938	17	-372	51	2791	2975
Over 1 month (sa)							
1987 JUNE	2314	1269	-2	412	3993	236	4229
JULY	3697	936	268	-571	4330	-109	4221
AUGUST	2270	1363	23	12	3668	-174	3494
SEPTEMBER	2463	223	457	207	3350	108	3458
OCTOBER	6288	658	-2	-618	6326	85	6411
NOVEMBER	29	2007	-357	-796	883	-39	844

[1]Net in flow including Term sharesand SAYE.
[2]Treasury bills, bank bills, LA temporary debt, CID's and some national savings accounts.
[3]March on March.

SECRET

TABLE 17

RETAIL DEPOSITS

	BANKS	BUILDING[1] SOCIETIES	NATIONAL SAVINGS[2]	TOTAL
% CHANGES				
Financial years (ua)				
1984-85[3]	7.1	15.1	11.9	12.0
1985-86[3]	11.6	15.3	7.5	12.9
1986-87[3]	17.2	10.8	10.8	12.7
Over 12 months (ua)				
DECEMBER	17.0	11.7	8.4	13.0
1987 JANUARY	15.6	11.4	9.1	12.3
FEBRUARY	16.1	11.0	10.1	12.4
MARCH	17.2	10.8	10.8	12.6
APRIL	16.1	10.6	11.0	12.1
MAY	17.9	10.5	10.8	12.6
JUNE	16.4	10.6	10.5	12.1
JULY	13.4	10.6	9.2	11.0
AUGUST	15.6	10.7	9.7	11.9
SEPTEMBER	10.8	11.7	9.3	10.7
OCTOBER	13.5	10.5	8.2	10.9
NOVEMBER	13.8	11.3	7.4	11.3
Over 6 months (sa)				
1987 JUNE	17.2	11.1	9.9	12.7
JULY	13.1	11.5	8.6	13.6
AUGUST	13.9	12.2	7.8	13
SEPTEMBER	14	10.1	6.8	11.3
OCTOBER	19.7	9.1	5.2	10.7
NOVEMBER	14.8	10.9	4.3	10.8
CHANGES £ MILLION				
monthly average (sa)				
1984-85[3]	42	1034	683	1759
1985-86[3]	255	1207	1093	2555
1986-87[3]	871	938	266	2075
Over 1 month (sa)				
1987 JUNE	2305	1269	271	3845
JULY	482	936	202	1620
AUGUST	683	1363	90	2136
SEPTEMBER	744	223	83	1050
OCTOBER	1408	658	-70	1996
NOVEMBER	-345	2007	63	1725

NOTES

[1] Total retail funds, including terms shares and SAYE.
[2] Total inflows.
[3] March on March.

SECRET

TABLE 18

Breakdown of Bank Lending by instrument (banking months before 1986 October)

						unadjusted	
		Advances	**Commercial Bills**	**Investment[1]**	**Other[2]**	**Total**	**Total s/a**
1984-1986							
% change[3]							
1984-85		15.5	27.7	18.0	n/a	17.5	17.5
1985-86		17.9	-7.4	81.3		16.9	16.8
Monthly average[3]							
1984-85		1131	186	25	91	1433	1452
1985-86		1438	56	157	11	1661	1692
Contributions to annual bank lending growth[4]							
Monthly changes							
1986	December	2700	1369	176	-272	3973	3599
1987	January	905	562	104	-136	1435	1640
	February	2618	-426	69	345	2606	2705
	March	4642	-2026	339	420	3375	2471
	April	1726	-409	210	-398	1129	2201
	May	3622	-2125	295	497	2289	2503
	June	5144	751	-7	-1206	4682	3979
	July	2134	1679	-60	890	4643	4530
	August	2842	-1519	119	-288	1154	2653
	September	5456	13	-24	66	5511	4321
	October	2545	-500	155	813	3013	2972
	November	2308	845	248	-66	3335	3308

1. Investment by banks in private sector
2. Market loans, shipbuilding repos, CD's and time deposits of building societies, commercial paper, and transit items.
3. April on April
4. First four columns equal fifth column.

TABLE 19 S E C R E T

COUNTERPARTS TO BROAD MONEY

£ million

	M3	M4
LATEST MONTH : NOVEMBER 1987		
PSBR	-1565	-1565
Debt sales (-): Other Public Sector	344	398
Central Government	-1426	-1389
Public external & fc finance (-)	62	62
Over(-)/under(+)funding	-2585	-2494
£ lending to private sector	3335	4539
Bank/bank & b society externals (-)	185	99
Bank/bank & b society £NNDLs (-)	419	-471
TOTAL	1354	1673
FINANCIAL YEAR 1987/88 TO DATE		
PSBR	-1109	-1109
Debt sales (-): Other Public Sector	2043	1225
Central Government	-2903	-3186
Public external & fc finance (-)	3157	3157
Over(-)/under(+)funding	1188	87
£ lending to private sector	25756	36512
Bank/bank & b society externals (-)	-1814	-2538
Bank/bank & b society £NNDLs (-)	-1777	-5170
TOTAL	23353	28891
FINANCIAL YEAR 1986/87		
PSBR	3343	3343
Debt sales to private sector (-)	-1235	-5840
Public external & fc finance (-)	-1700	-1700
Over(-)/under(+)funding	408	-4197
£ lending to private sector	30299	47406
Bank/bank & b society externals (-)	-676	-1553
Bank/bank & b society £NNDLs (-)	-4601	-8689
TOTAL	25430	32967

Table 20:- BORROWING BY PRIVATE SECTOR EXCLUDING BUILDING SOCIETIES (£ million)

	BANK/BUILDING SOC. STERLING BORROWING			OTHER STERLING BORROWING					ALL BORROWING		
	Banks	Building Societies	TOTAL	Sterling Commercial Paper	Equities	Bonds	Euro-Sterling (*)	TOTAL	Sterling	Foreign Currency	TOTAL
1984											
Q1	5141	3007	8148		163	44	25	232	8380	1102	9482
Q2	2781	4076	6857		429	75	0	504	7361	808	8169
Q3	3285	4087	7372		288	59	100	447	7819	1047	8866
Q4	4535	3402	7937		249	73	210	532	8469	1948	10417
1985											
Q1	7093	3189	10282		924	170	235	1329	11611	3225	14836
Q2	4158	3748	7906		1092	327	230	1649	9555	1382	10937
Q3	4148	3560	7708		873	274	130	1277	8985	-806	8179
Q4	4803	4232	9035		525	89	200	814	9849	939	10788
1986											
Q1	7431	3867	11298		471	209	350	1030	12328	2362	14690
Q2	5465	5083	10548		1369	344	325	2038	12586	1575	14161
Q3	5764	5592	11356		1431	290	231	1952	13308	3688	16996
Q4	10433	4667	15100	67	2338	-52	281	2634	17734	591	18325
1987											
Q1	7074	3464	10538	368	1553	-782	1231	2370	12908	7358	20266
Q2	8571	4240	12811	651	2259	352	655	3917	16728	4633	21361
Q3	11059	3889	14948	284	5950	732	570	7536	22484	-1129	21355
Average per quarter											
1984	3936	3643	7579	0	282	63	84	429	8007	1226	9234
1985	5051	3682	8733	0	854	215	199	1267	10000	1185	11185
1986	7273	4802	12076	16.75	1402	198	297	1914	13989	2054	16043
1987 to q3	8901	3864	12766	434	3254	101	819	4608	17373	3621	20994
1987											
JANUARY	1390	1304	2694	150	500	-67	110	693	3387	1369	4756
FEBRUARY	2600	980	3580	104	870	20	315	1309	4889	2402	7291
MARCH	3084	1180	4264	114	183	-735	806	368	4632	3584	8216
APRIL	1288	1590	2878	192	828	110	355	1485	4363	1236	5599
MAY	2268	1295	3563	171	415	184	150	920	4483	2693	7176
JUNE	5015	1355	6370	288	1016	58	150	1512	7882	749	8631
JULY	4525	1302	5827	131	1840	182	210	2363	8190	-2214	5976
AUGUST	1055	1269	2324	9	2090	390	150	2639	4963	1020	5983
SEPTEMBER	5479	1318	6797	144	2020	160	210	2534	9331	-1	9330
OCTOBER	2704	1510	4214	36	1565	195	45	1841	6055	3462	9517
NOVEMBER	3176	1266	4442	-32	975	55	60	1058	5500	-1602	3898

Table 21:- NET FINANCE OF U.K. INDUSTRIAL AND COMMERCIAL COMPANIES AND BUILDING SOCIETIES (£ million)

	BANK BORROWING				OTHER BORROWING						ALL BORROWING
	Sterling		Foreign		Sterling			Euro-Sterling(*)			
	ICC's	BSOC's	Currency	TOTAL	Commercial Paper	Equities	Bonds	ICC's	BSOC's	TOTAL	TOTAL
1984											
Q1	2905	-86	-895	1924		163	44	25	0	232	2156
Q2	559	-56	-193	310		429	75	0	0	504	814
Q3	1219	533	-74	1678		288	59	100	0	447	2125
Q4	2312	408	1433	4153		249	73	210	0	532	4685
1985											
Q1	3386	6	-606	2786		924	170	235	0	1329	4115
Q2	747	248	47	1042		1092	327	230	0	1649	2691
Q3	229	161	1469	1859		873	274	130	600	1877	3736
Q4	874	351	1444	2669		525	89	200	475	1289	3958
1986											
Q1	3935	89	-879	3145		471	209	350	935	1965	5110
Q2	-172	178	-1120	-1114		1369	344	325	1075	3113	1999
Q3	1055	976	-1072	959		1431	290	231	1575	3527	4486
Q4	4604	187	-50	4741	67	2338	-52	281	0	2634	7375
1987											
Q1	1063	306	2085	3454	368	1553	-782	1231	290	2660	6114
Q2	984	-490	727	1221	651	2259	352	655	50	3967	5188
Q3	3390	-188	-141	3061	284	5950	732	570	100	7636	10697
Average per quarter											
1984	1749	200	68	2016	0	282	63	84	0	429	2445
1985	1309	192	589	2089	0	854	215	199	269	1536	3625
1986	2356	358	-780	1933	17	1402	198	297	896	2809.	4743
1987 to q3	1812	-124	890	2579	434	3254	101	819	147	4754	7333
1986:- AUGUST					12	698	126	100	650	1586	
SEPTEMBER					31	385	113	0	750	1279	
OCTOBER					76	898	-49	105	0	1030	
NOVEMBER					77	835	-3	0	0	909	
DECEMBER					-86	605	0	176	0	695	
1987:- JANUARY					150	500	-67	110	0	693	
FEBRUARY					104	870	20	315	140	1449	
MARCH					114	183	-735	806	150	518	
APRIL					192	828	110	355	0	1485	
MAY					171	415	184	150	50	970	
JUNE					288	1016	58	150	0	1512	
JULY					131	1840	182	210	0	2363	
AUGUST					9	2090	390	150	0	2639	
SEPTEMBER					144	2020	160	210	100	2634	
OCTOBER					36	1565	195	45	0	1841	
NOVEMBER					-32	975	55	60	0	1058	

* Gross Issues announced by U.K. ICC's and Building Societies

NOTE/ Bank borrowing figures include monetary sector holdings of 'Other Borrowing' instruments, giving rise to some double counting in the 'All Borrowing' figures.

TABLE 22 SECRET

FUNDING AND MONEY MARKET ASSISTANCE - FINANCIAL YEAR 1987/88

	APR-NOV 1987	£ million u/a	
CGBR	3282		
Gilt sales to nbps and overseas (inc-)	-5736		
Other CG debt sales to nbps incl Treasury bills* (-)	-1855		
CG external and fc finance other than BGS(-)	7552		
Funding of the CGBR Over(-)/under(+)	**3243**		**3243**
		Other BGS sales (-)	1366
OPS net of on lending	-4391		
		Other CG debt sales (-)	-1477
OPS debt sales to nbps(-)	2043		
		Notes and coins (-)	-800
OPS currency finance(-)	293		
		Other incl exchequer (-)	150
Funding of OPS Over(-)/under(+)	-2055		
		CG bank deposits (+)	-84
Funding of PSBR Over(-)/under(+)	**1188**	**Total influences* (surplus+,shortage-)**	**2398**
		Change in bankers deposits (-)	272
		Change in level of assistance (+) #	**-2670**
		of which	
		Issue Department bills	-1893
		Banking Department bills	636
		Market advances	-1035
		Repos	-378
		Level of assistance	
		End March 1986	**13317**
		End March 1987	**9742**
		End November 1987	**7073**

* Treasury bills usually included below the line in the Money Market Assistance Table

\# Surplus on influences leads to a fall in assistance and vice versa

TABLE 23

SECRET

MONETARY AGGREGATES : FORECAST GROWTH RATES

percent

Not seasonally adjusted		M0	M3	M4
1 MONTH % CHANGE TO:				
1987 SEP		0.1	0.9	1.0
OCT		-0.2	3.2	1.8
NOV		0.3	0.7	0.6
DEC	)	n/a	1.7	1.7
JAN	)FORECAST	n/a	-1.3	-0.1
FEB	)	n/a	1.0	0.8
12 MONTH % CHANGE TO:				
1987 SEP		5.2	19.5	14.9
OCT		5.2	22.2	15.7
NOV		4.9	21.3	15.2
DEC	)	n/a	23.0	16.4
JAN	)FORECAST	n/a	22.4	16.4
FEB	)	n/a	21.2	16.2

Seasonally adjusted				
1 MONTH % CHANGE TO:				
1987 SEP		0.8	1.4	1.2
OCT		0.6	3.6	2.2
NOV		0.3	0.0	0.3
DEC	)	0.8	1.6	1.5
JAN	)FORECAST	0.5	0.3	0.1
FEB	)	0.4	1.0	1.3
12 MONTH % CHANGE TO:				
1987 SEP		4.9	19.8	14.6
OCT		5.6	23.0	15.7
NOV		4.9	21.8	15.0
DEC	)	4.2	23.2	16.2
JAN	)FORECAST	5.4	22.1	16.1
FEB	)	6.6	21.0	15.9

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TABLE 24: MO FORECAST

SEASONALLY ADJUSTED

	LEVELS £ MILLION			% CHANGE ON PREVIOUS MONTH		% CHANGE ON YEAR EARLIER	
	Notes and coin	Bankers' Deposits	MO	Notes and coin	MO	Notes and coin	MO
ACTUAL							
September	15,376	184	15,560	+0.8	+0.8	+5.0	+4.9
October	15,457	202	15,659	+0.5	+0.6	+5.2	+5.6
November	15,525	183	15,708	+0.4	+0.3	+4.9(4.9)	+4.9(5.0)
FORECAST							
December	15,640	190	15,830	+0.7	+0.8	4.7(4.7)	4.2(4.3)
1988 January	15,720	190	15,910	+0.5	+0.5	5.2(5.3)	5.4(5.4)
February	15,780	190	15,970	+0.4	+0.4	6.5(6.5)	6.6(6.6)
March	15,830	190	16,020	+0.3	+0.3	6.9(6.9)	6.5(6.5)
April	15,880	190	16,070	+0.3	+0.3	6.5	6.3
May	15,930	190	16,120	+0.3	+0.3	6.3	6.1
June	15,980	190	16,170	+0.3	+0.3	6.0	6.3
July	16,030	190	16,220	+0.3	+0.3	5.7	5.3
August	16,080	190	16,270	+0.3	+0.3	5.4	5.4
September	16,130	190	16,320	+0.3	+0.3	4.9	4.9
October	16,170	190	16,360	+0.2	+0.2	4.6	4.5
November	16,210	190	16,400	+0.2	+0.2	4.4	4.4
December	16,250	190	16,440	+0.2	+0.2	3.9	3.9

* Last month's forecast in brackets.

SECRET

TABLE 25: MONEY MARKET INFLUENCES

£ million

	Actual		Forecast	
	1987 NOV	DEC	1988 JAN	FEB
A. Money market influences				
(i) CGBR excl bank deposits (+)	-413	625	-5900	225
(ii) Reserves etc (+)	51	1925	100	0
(iii) Notes and coin (-)	334	-800	725	425
(iv) National Savings (-)	-16	-125	-225	-150
(v) CTDs (-)	47	-25	900	0
(vi) Gilts (-)	-101	-925	-1075	-1250
(vii) Other Exchequer items etc	319	-500	0	
A. TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	221	175	-5475	-750
B. Money market operations				
(i) Commercial bills (purchase +):				
Issue Department - outright	-79			
- repo terms	966			
Banking Department	-39			
(ii) LA bills (purchase +)				
Issue Department	29			
Banking Department	-7			
(iii) Treasury bills (purchase +)	-1967	500	1500	0
(iv) Market advances	329			
(v) Treasury bill Repos	471			
(vi) Export Credit/Shipbuilding Repos	0			
(vii) Gilt Repos	0			
B. TOTAL MONEY MARKET OPERATIONS	-297	-175	5475	750
C. Change in bankers balances = A + B	-76			
D. TOTAL ASSISTANCE OUTSTANDING (excluding Treasury bills) = previous level + B - B(iii)	7073	6400	10375	11125
of which commercial bills	5816			

TABLE 26

SECRET

TIMING OF GOVERNMENT SHARE SALES

The timetable now stands as follows:

1987

An issue of BT bonus shares is planned in December/January based on a record date of 30 November.
£250m of BT prefs are to be repaid on December 21.

1988

BGC(III)	19 April
BAA(II)	19 May
BP(II)	30 August

1989

BP(III)	27 April

From: **J ODLING-SMEE**

4th January 1988

CHANCELLOR OF THE EXCHEQUER -12/2

Thanks. Now with [illegible]! For publication, I should be grateful if Mr O-S would make the small changes I have marked on paras 8 & 11.

cc Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr R I G Allen
Mr Melliss
Mr Cropper
Mr Call

PUBLICATION OF COMMENTS AT CONFERENCE

Together with Messrs Melliss and Bredenkamp I attended a conference last month on policy making with macro-economic models organised by the National Institute. I attach at Annex A a summary of the papers and discussion.

2. Mr Melliss and I acted as discussants of two of the papers, and I attach our comments. The conference organisers have now asked us if they can publish them, in whole or in part, in the book containing the proceedings of the conference. I would be grateful for your approval of this.

3. Most of our comments were fairly technical. However, the first 11 paragraphs of my comments summarised our broad thinking about the role of models in policy making, and you might like to glance at these.

John O-S

J ODLING-SMEE

nicmem

COMMENTS AT NATIONAL INSTITUTE CONFERENCE ON POLICY-MAKING WITH MACRO-ECONOMIC MODELS

As the Treasury is the only major modelling group not giving a paper at the Conference, I shall make a few general observations about the use of models in policy making. In particular, I shall comment on how our thinking in the Treasury about the role of models has evolved over the last decade or so. These comments are grouped under two headings: modelling, and the policy context.

2. On models, we are now less confident than we were 10 or 15 years ago that models can provide the answers to all the questions of interest to policymakers. This is mainly because the margins of error surrounding numbers generated by models tend to be rather big, at least in relation to the orders of magnitude of policy changes which may be contemplated. The evidence on margins of error comes from a variety of sources, which all point in the same direction:

- changes in model properties over time: although in the Treasury we have a deliberate policy of trying to avoid sharp changes in model properties, nevertheless properties often change significantly when we alter only one or two of the more important equations.

- large differences, which have been well documented by the Warwick Bureau, between the properties of different models. Ten or twenty years ago we might have hoped that the data would enable us to discriminate between rival models. While this might eventually be possible, and it may be the case in respect to specific equations now, in general one cannot say that one model is clearly superior in terms of empirical content and coherence to another. Choices between models have to be based mainly on theoretical preferences and other a priori considerations.

- changes in models over time and differences between models are, of course, mainly a reflection of the parameter and specification uncertainty which modellers are all too

conscious of. There is often little to choose in terms of econometric tests between two alternative equations, yet they may have rather different implications in a whole model context.

3. However, the increased awareness of the margins of error has been accompanied by many improvements in the Treasury model as in other models, and in the way we use it. In particular we have filled what were gaping holes in, for example, the financial sector and the treatment of forward-looking expectations in the foreign exchange and gilts markets. Even so there are still many gaps. For example, the Treasury model provides a less than comprehensive explanation of supply side behaviour. Productivity growth is still largely explained by an exogenous time trend, although there is now an endogenous element in the form of productivity changes in response to changes in factor prices.

4. Another area where we have advanced is in simulation design. We now pay close attention to how simulations are set up and, in particular, to the assumptions about the macro-economic policy that is being pursued and to the assumptions about what forward-looking financial markets think is going to happen to policy in future. Our ability to vary assumptions about expectations of future policy changes enables us to model different degrees of credibility of announced policy changes - credibility in the sense of expectations about whether the policy change will be sustained or not. While I would not vouch for the precise quantitative results of such exercises, qualitatively they illustrate the kinds of jumps in the exchange rate and gilts prices that feature in both the theoretical literature and more popular discussion of market reactions.

5. Turning to the policy context, the main change here over the last decade has been the shift towards emphasising the medium-term effects of policy and its sustainability, and away from an emphasis on the short-term effects. This has affected us as modellers in that we have therefore put more effort into trying to answer questions about the longer-term consequences of policies.

6. It is too early to say whether cointeqration techniques will improve the reliability of our estimates of long-term relationships. It will probably still be necessary to rely to a considerable extent on theoretical considerations and a general view of how the world works in assessing the long-term effects of policy changes.

7. Our general view in the Treasury is that macro-economic policy has little effect on output, employment and other real variables in the long run unless there is an impact through changes in supply. Moreover the model does not include some of the possible routes in which supply might be affected, such as the effects of changes in public or private investment on the capital stock and hence productivity, or the effects of fluctuations in inflation on efficiency, confidence and investment. Thus we would not expect simulations of policy changes on the Treasury model to indicate sustained changes in output. When they do, it is often a signal that the simulation has been set up in the wrong way.

8. There ~~are~~ can be, of course, short-run effects on output from policy changes. ~~We do not subscribe to the new classical macro-economics doctrine of policy ineffectiveness in the short term.~~ These real effects are attributable largely to differing speeds of adjustment in different markets and hence to changes in relative prices. When we assume forward-looking expectations in financial markets we effectively speed up the adjustment of some relative prices and as a result alter the estimates of the real effects of macro-economic policy in the short term.

9. One aspect of the greater emphasis on the medium and long term is that we pay attention to a slightly different set of variables when looking at simulation results than we would if the short term were the main consideration. Whereas a decade or so ago the emphasis might have been entirely on output and employment, supplemented increasingly by inflation, we now look also at variables which might be signalling the build up of unsustainable disequilibria of one kind or another. Inflation is obviously of central interest in this respect. So also are the current account

deficit with its implications for changes in net overseas asse[redacted], changes in financial balances of domestic sectors, and the balance between consumption and investment.

10. The reduced emphasis on short-term effects means that we do not search for changes in the policy mix that might optimise some welfare function over the first few years but at the expense of difficulties later on. Examples of these would be a loosening of fiscal policy accompanied by a tightening of monetary policy (as pursued in the US), or a tax switch from employers' national insurance contributions to income tax. In some cases, such as the fiscal/monetary policy switch, we handle the long-term problems by assuming that they are anticipated by financial markets, who therefore assume that they will be reversed. This in turn means that the short-term impact of these policies is less than it would otherwise have been.

11. To sum up, it might seem at first sight that modelling has a less important role in policy making in the Treasury than it used to have. It is certainly true that we serve up fewer numbers from policy simulations straight to Ministers. That in itself does not, of course, mean that such work is ~~less~~ not influential. Economists in the Treasury still comment on the whole range of macro-economic policy issues, and provide quantification where necessary. The Treasury model is vital in this process:

- it is essential when numbers are needed

- it is an invaluable aid to clear thinking, especially since the interactions are usually too complex to work through in one's head or in a simple analytical model. We could not operate at all effectively in policy analysis without the model, even if we never showed Ministers a single number.

National Institute Paper

12. The paper is essentially about the specification and estimation of a forward-looking exchange rate equation and its effects on overall model properties. Although a particular policy proposal is

simulated, the comment on the results is primarily from a modelling point of view. My own comments are therefore mainly about modelling.

13. I think that the model of the exchange rate in terms of the current account and interest rate differentials, in either stock or flow terms, is very interesting. Moreover, the forward-looking nature of the specification means that in simulations the exchange rate at the beginning depends on what the model says would happen to the current account and interest rates over the whole period of the simulation. This seems to be the right way of specifying the behaviour of the exchange rate.

14. The authors conclude that they have been successful in fitting this model of the exchange rate to the data. This may be so, but it is difficult to judge without more information about the results which were discarded. It would be interesting to know, for example, the extent to which levels of the trade balance and the interest rate differential were superior to changes in them in some equations, and vice versa in others.

15. Where information is provided I might have interpreted it slightly differently. For example, the non-stationary nature of the variables in levels form suggested by the Dickey-Fuller statistics in Table 1 might lead one to prefer an exchange rate equation in stock terms (ie $\Delta E = f(\ \Delta r$ etc)). But that has not been taken into account in the estimation. Secondly, in interpreting the cointegration tests in Table 2, I would have been less inclined than the authors to be encouraged by results which do not fully satisfy cointegration criteria. Thirdly, many of the equations contain a high weight for E_{-1}, which would worry me because of the implication that they do not explain sharp movements in the rate.

16. I did not fully understand the test for the presence of bubbles described on pages 18-19. But I have the impression that it is not a very strong one. However to the extent that it points to evidence of bubbles, I presume that one should interpret simulations based on an exchange rate equation which excludes bubbles with some caution.

17. In discussing the export equation on page 30 the authors suggest that the higher coefficient on future relative export prices than on past relative export prices suggest that exporters tend to discount short-run movements in prices. This may be the correct concusion, but it would be helpful to see the two equations tested against each other, using the same data set and sample period. It might also be interesting to use relative export prices for an average of some past quarters and some future ones.

18. Finally, although the paper is not really about policy analysis, I would like to make an observation on the policy simulations in Section 3. In the light of what I was saying earlier about the longer-term consequences of policy changes, I think that one should ask whether rising output, rising inflation and a large current account deficit on this scale really are sustainable and will be perceived by financial markets to be sustainable. If the answer is no, then it might be necessary to reconsider the design of the simulation or perhaps it provides some evidence that the exchange rate is not performing in the way that one thinks it should.

J ODLING-SMEE
14 December 1987

COMMENTS ON USING MACROECONOMETRIC MODELS TO EVALUATE POLICY PROPOSALS

1. This paper is essential reading for anyone who engages in policy simulations using macroeconometric models. Section 2 on model handling gives a particularly lucid and comprehensive discussion of most of the main procedures involved in model simulations. In the past I think people have considered these topics too mundane or boring to bother committing to paper and for this reason alone this paper is very valuable. I want to focus my comments on just two aspects of the paper - firstly, the issue of exogenization and fixes and its effects on model structure, and secondly I want to comment on the issue of the policy framework and model simulations in relation to material in sections 3 to 5.

2. To my mind there is one important point in the discussion in Section 2 where the argumentation needs clarification and is perhaps in danger of being misleading. This is the issue of the status and structure of the model when various alternative fixes or exogenisations are made. The paper says on page 9 that "exogenisation appears to change the structure of the model but the underlying statistical classification of variables as endogenous or exogenous is not altered". A similar remark is made again on page 11. What the paper fails to emphasise sufficiently is that any intervention by way of fixes, second residuals, etc will change the structure and hence the model solution. We can illustrate this by reference to the partitioned model shown as equation 6 on page 8. Solving this for y_2 with y_1 fixed by type 1 and a change in the exogenous variable of δ we get

Type 1 Fix

$$\Delta y_{2t} = - B_{22}^{-1} [B_{21} y^*_{1t} + C_2 \delta]$$

$$= - B_{22}^{-1} C_2 \delta$$

and under a type 2 fix we get

$$\Delta y_{2t} = - B_{12}^{-1} C_1 \delta$$

When there is no fix we get

$$\begin{bmatrix} \Delta y_{1t} \\ \Delta y_{2t} \end{bmatrix} = - \begin{bmatrix} B_{11} & B_{12} \\ B_{21} & B_{22} \end{bmatrix}^{-1} \begin{bmatrix} C_1 \\ C_2 \end{bmatrix} \delta$$

There is no reason to suppose that any of these solutions will be the same.

3. The general point is that I would argue that there are in fact three different models being used in these three cases. With the type 1 fix those equations in the y_1 block are removed from the model, with the type 2 fix an additional equation has been inserted. In this context it is difficult to know quite what is meant by the statement on p11 that interest rates are not explained by the inverted money demand equation. What are they explained by? If one accepts the argument that the introduction of a particular fix or exogenization actually provides one with a different model then it follows that the version of the model with the default equations on fixes has no special significance. Of course it may provide a record of how the behavioural equations were estimated, although even that may not necessarily be the case.

4. Turning to the discussion of simulations, in various places the authors demonstrate that the need to make careful assessment of the various interventions and adjustments to the model, either to correct for known defects in specification or to take account of off-model knowledge about a particular policy. The first two examples considered illustrate well how these defects might be corrected. To my mind there is little to take issue with in the presentation of these results as far as they go. However the focus of the discussion is perhaps too narrowly drawn. Even in the simplest case the accompanying assumptions about fiscal and monetary policy need to be stated. My guess is that the housing investment simulations were done assuming fixed nominal interest rates, but this vital piece of supporting evidence has not been made explicit. Non-accommodation would have led to a very different profile of results.

5. In simple case such as increases in public expenditure or reductions in income tax the necessity to define the accompanying monetary and fiscal policy is well-known. In more complicated cases it may be necessary to broaden the areas over which judgement and intervention need to be applied. For example in the incomes policy simulation it seems quite likely that a government implementing an incomes policy would also reconsider the way that it operates, and the settings of, its fiscal and monetary policy instruments and intermediate targets. Among the factors that it would have to take into account are whether or not to allow the automatic stabilisers to work, whether or not to accommodate the fall in the price level and whether or not to assume that the underlying behaviour of wage bargains also changes.

6. A brief comment about the exchange rate simulation. Suppose that a fixed money GDP policy was in operation either instead of or in addition to the exchange rate target. The results in table 8 suggest that with no exchange rate target there would need to be a fall in output as a result of the upward pressure on prices. Table 8 also suggests that an exchange rate target, however operated, implies a fall in nominal GDP. Therefore under fixed money GDP, output would tend to rise as a result of appropriate fiscal and monetary policy action. So by changing the policy framework we appear to have a qualitative reversal of the results in the paper.

7. The lesson I draw from all this is that one needs to specify precisely the model and the policy framework on which the simulation is done. The policy simulator defines the model by appropriate choices about the various equations which specify the policy framework and expectational assumptions. This issue becomes central when we attempt to do simulation analyses of the stance or mix of monetary and fiscal policy or when we undertaken counterfactual simulations Of course this means that policy simulators need to make many of the same types of judgements as forecasters. It also makes the task of cross model comparisons much more difficult.

C Allen

15 December 1987

Recall

$$\begin{bmatrix} B_{11} & B_{12} \\ B_{21} & B_{22} \end{bmatrix} \begin{bmatrix} y_{1t} \\ y_{2t} \end{bmatrix} + \begin{bmatrix} c_1 \\ c_2 \end{bmatrix} Z_t = \begin{bmatrix} u_{1t} \\ u_{2t} \end{bmatrix}$$

Type 1 fix on y_{1t}. Assume $y_{1t} = y_{1t}^*$ by type 1, and $u_{1t} = 0$.

$$B_{21} y_{1t}^* + B_{22} y_{2t} + c_2 (Z + \delta) = 0$$

$$\Delta y_{2t} = - B_{22}^{-1} B_{21} y_{1t}^* - B_{22}^{-1} c_2 \delta$$

$$= - B_{22}^{-1} c_2 \delta$$

Type 2 fix on y_{1t}^*

$$y_{2t} = - B_{12}^{-1} B_{11} y_{1t} - B_{12}^{-1} c_1 Z_t + u_{1t} \quad (1$$

and $$B_{21} y_{1t} + B_{22} \left(- B_{12}^{-1} B_{11} y_{1t} - B_{12}^{-1} c_1 Z_t + u_t \right) + c_2 Z_t = u_{2t} \quad (2$$

Re-arranging (2) and assuming y_{1t}^* is fixed by varying u_{2t}

$$0 = - \left(c_2 - B_{22} B_{12}^{-1} c_1 \right) \delta + \Delta u_{2t}$$

$$\therefore B_{22} \Delta y_{2t} + c_2 \delta = \left(c_2 - B_{22} B_{12}^{-1} c_1 \right) \delta$$

$$\therefore \Delta y_{2t} = - B_{12}^{-1} c_1 \delta$$

No fix case

$$\begin{bmatrix} \Delta y_{1t} \\ \Delta y_{2t} \end{bmatrix} = - \begin{bmatrix} B_{11} & B_{12} \\ B_{21} & B_{22} \end{bmatrix}^{-1} \begin{bmatrix} c_1 \\ c_2 \end{bmatrix} \delta$$

ANNEX A

FROM: C MELLISS and
H BREDENKAMP
DATE: 22 December 1987

NOTE FOR THE RECORD

cc Sir Terence Burns
Mr Odling-Smee ⇐45/2
Mr Sedgwick
Mr Bottrill
Mr S Davies
Mr Grice
Mr Hibberd
Mr Matthews
Mr Kelly
Ms Turk
Mr Whittaker
Mr Cooper
Mr C Davies
Mr Pain

NATIONAL INSTITUTE CONFERENCE ON POLICY MAKING WITH MACROECONOMIC MODELS: 14-15 DECEMBER 1987

1. **Andrew Britton,** in his opening remarks, said that the timing of the conference was particularly apt since it marked the tenth anniversary of the conference on Demand Management organised by the National Institute and of the publication in March 1978 of the Ball Report on Policy Optimisation. The conference discussed seven papers from all the main modelling teams with the exception of the Treasury. Lists of the conference papers are attached. Copies of the papers are available from Miss South (X5575).

2. The conference was lively and enjoyable. This was partly due to there being a limited number of papers which most participants seemed to have read, permitting a relatively high ratio of discussion to presentation time. The papers were of variable quality, with the LBS, Vines and Weale, and Currie and Wren-Lewis papers perhaps being the most interesting. The Warwick Bureau paper makes very good reading for someone wanting to know about model simulations.

3. **The Exchange Rate and External Trade: A Gurney, Henry and B Pesaran - NIESR.** This paper extends the earlier work by Currie and Hall on econometric estimation of relationships for the real sterling effective exchange rate. The theory underlying the work is one of quadratic cost minimisation about some long-run target or equilibrium real exchange rate (E*). An innovation in the current work is the inclusion of a discount factor on the forward exchange rate. A further innovation is to include the trade balance and oil effects in the determination of E* alongside the current and lagged real interest rate differential. A preliminary analysis investigates the order of integration of the variables to be included in the empirical work and tests for cointegrating vectors. This work suggests that the exchange rate, interest rate differentials, and oil variables do not form a cointegrating set and the study does not proceed down this route.

4. In presenting the results, Brian Henry focused on just two of the estimated equations. In the first the actual exchange rate is determined by the previous period's actual exchange rate, the current interest rate differential is combined with forward terms in the trade balance representing E*. This is estimated by non-linear IV, and in the context of the model is called the forward recursive solution. (Forward terms in the interest rate differential were found not to be significant.) Secondly, an estimate based on the Euler equation with a second equation for the real interest rate differential was presented. This has the actual future real exchange rate on the right-hand side and a unit root. This is essentially a re-estimate of the equation by Currie and Hall used in the National Institute model. The paper claims that the Euler equation version is superior since a first difference estimate of the IV estimate is poor. This, it is claimed, provides some support for the ideas that there are bubbles in the exchange rate. The second half of the

paper examines the simulation properties of the National Institute model with different versions of the exchange rate equation and with different versions of the export of manufactures equation.

5. The first discussant of this paper, **John Odling-Smee**, took the opportunity of outlining the Treasury view on macroeconomic models, as well as commenting on the NIESR paper. These are reproduced at Annex A. **Sean Holly**, the other discussant, indicated that he thought that the choice of the real exchange rate and the use of the trade balance to proxy future expectations meant that this was an equation which influenced the quantity rather than price adjustment mechanism in the model. He criticised the theoretical underpinnings on the grounds that it was not clear which agents in the economy were suffering the costs of disequilibrium. He questioned the applicability of a model drawn from an inventory theory: adjustment costs in financial markets are very small. He doubted whether the model really was encompassing since it did not take account explicitly of the degree of substitutability between various financial assets. **David Currie** regretted the absence of stock effects in determining the exchange rate. He said that the unit root problem experienced before and which had led to a rather weird terminal condition was not a problem of the real exchange rate equation itself but one of simulation design: if government expenditure and real interest rates were fixed it was indeed difficult to see how the exchange rate might behave. **Patrick Minford** criticised the work for producing an equation which was independent of the rest of the National Institute's model. He also queried the idea that the level of the real interest rate differential could have an effect on the long-run equilibrium of the exchange rate. He thought that the unit root in the Euler equation might result from the supply side of the model. Overall, the paper and its discussion did not seem to support the papers' claim that "the supposition in the exchange rate is not amenable to modelling may be unfounded".

6. **Stabilisation Policy in Britain: A Budd, Christodoulakis, S Holly, P Levine.** Both the presentation and the discussion of this paper referred almost exclusively to the fourth section - the first three sections being a bit of a digression on the evolution of the LBS model and its use in policy analysis. **Paul Levine's** presentation described a policy optimisation exercise on a linearised version of the latest LBS model, the aim of which was to investigate:

(i) the robustness of simple rules for the stabilisation of an economy subject to shocks, given an optimised base;

(ii) the quantitative significance of time inconsistency, for both the simple feedback rules and the initial optimisation.

7. Simple rules were preferred to the fully optimal rule on the grounds that the latter (depending as it does on the state of all variables in the model) is too complex either to be of use to policymakers or to be amenable to monitoring by the private sector. On the other hand, simple rules (unlike the optimal rule) are not "certainty equivalent" - that is, their effectiveness depends on the particular sort of shock to which the economy is being subjected. It is quite possible for a simple rule chosen on the basis of its performance in the face of <u>one</u> set of shocks to be worse than no rule at all for <u>another</u> set. Given this, Levine said that it was encouraging that the paper was able to report simple feedback rules* on the LBS model which, for all four shocks considered (ie. earnings, world output, the dollar oil price and world interest rates), were at least never actually welfare-reducing!

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* Using government (current) spending and interest rates as instruments; output and CPI inflation as targets.

8. On the question of time inconsistency, the approach was to compare the level of welfare under the optimal time inconsistent (ie. reputational) policy with that under which the government reneges and is then penalised by a permanent loss of reputation. The optimal policy is sustainable if the former exceeds the latter, because there is then no incentive to renege. The authors show that this condition is satisfied for all four types of shock, provided the shocks are stochastic. They conclude that time inconsistency is not a significant problem in practice - at least not with the LBS model.

9. **Mike Artis** had two main comments. The first was that the simple rules were too simple. Other participants agreed with this; in particular **David Currie** suggested including responses to the exchange rate and world interest rates, and **David Vines** suggested wealth or the current account as an additional target. **Artis'** second comment was that the rules should differentiate between domestic and foreign shocks. Whereas accommodation of, say, higher wages might encourage further wage increases in the future, the same could not be said for a rise in oil prices or other world variables.

10. **Roy Batchellor** was concerned that no allowance was made for the effects of increased uncertainty (due to frequent changes in policy instruments) on consumers, investors, and the labour market. He also felt that unemployment might be preferred to GDP in the objective function - the two variables did not always move in line.

11. **Patrick Minford** found the notion that credibility was self-sustaining an implausible one. The paper failed to allow for the fact that politicians had limited horizons, and the penalties incurred by withdrawal of reputation implied an ad hoc degree of backward lookingness in an otherwise forward looking model. The need was for an explicit model of political credibility.

12. **A New Classical Policy Programme: P Minford University of Liverpool.** There are two entirely separate topics covered in this paper. The first section re-runs history (1979-82) on the assumption of a "cold-turkey" approach to bringing down inflation, in place of the "quasi-gradualist" approach actually adopted (according to Minford). Minford argues that the model which best explains the early 1980s is one in which expected monetary growth is determined by balanced PSBR financing, and the expected PSBR/GDP ratio is equal to its own lagged value. (This last assumption is rationalized by the existence of vested spending interests on one side and the political difficulties involved in raising tax rates on the other.)

13. Given this model, the least costly way of achieving disinflation would have been to reduce the PSBR ratio immediately to its new long run equilibrium level: this bypasses the credibility problem because there is no question of having to believe in future spending (and hence PSBR) reductions. In Minford's terms, the vested interests are seen to have been quashed at the outset, while static expectations ensure that no backsliding is expected. Expected monetary growth, and therefore expected inflation, fall in line with the PSBR. The model also explains, it is claimed, why unemployment actually rose by so much - that it, because gradual PSBR reductions come as a series of negative policy shocks to those agents with static expectations. And only when a sharp cut in the PSBR (in 1981) was implemented did inflation expectations (as reflected in long term interest rates) fall significantly.

14. The second section of the paper states simply that employment measures will only reduce unemployment in the long run to the extent that they shift the intersection of the aggregate supply and/or demand curves for labour to the right by more than the required increase in taxes shifts it to the left. The paper argues that this is not the case for some

Government programmes (Job Training Scheme, for example), but that it is for compulsory Workfare - since the latter effectively reduces the replacement ratio of the long term unemployed to zero.

15. **Paul Levine** was sceptical of the paper's claims for "cold turkey". For one thing, they were entirely model specific: running the same policy on the LBS model gave completely different results (in discussion **Minford** explained that this reflected the lack of a forward-looking money supply rule in the LBS model). Moreover, the Liverpool model's expectations assumptions did not get around the problems of credibility associated with incentives to renege - these were still present. On Workfare, this too was a function of the replacement ratio effects in the Liverpool model - which are imposed.

16. **Megnad Desai** put a different interpretation on the early years of the MTFS to that proposed in the paper. It was credibility with the electorate (as witnessed by low ratings in opinion polls), rather than with financial markets, that limited the Conservatives' room for manoeuvre up until the Falklands War. More severe disinflation would have risked large scale defections from worried backbenchers. He also disputed the practicability of Workfare: the Swedish example quoted in the paper was a poor analogy, since in Sweden the programme is tied to a commitment by government to the maintenance of high employment. Without this commitment, the unemployed would have poor prospects of leaving Workfare quickly, and this would make enforcement extremely difficult.

17. **David Currie** took issue with the paper's implicit view that government could not influence the way expectations are formed. In particular, he argued that it is preferable that governments should try to establish credibility for gradualist policies, rather than encouraging static expectations. He felt that one problem with the MTFS was

that it had been gradualist with respect to the wro[illegible] variables - ie. monetary growth, rather than the exchange rate or even inflation itself - and this could lead to changes in the economy which were far from gradual.

18. **Using Models to Evaluate Policy Proposals: D Turner, K Wallis and J Whitley - University of Warwick.** This paper has four main sections. In the first a textbook style introduction to such issues as type 1 fixes, exogenisation, type 2 fixes dynamic residuals are presented in a lucid fashion. The remaining sections in the paper discuss three examples where policy simulations require intervention to remedy shortcomings in the specification of the models being used. These are (i) housing investment where the LBS and National Institute models do not allow for the expected differential import and manufacturing output content, (ii) incomes policies where the Treasury and Liverpool models do not have explicit indices of incomes policy pressure in their wage equations, and (iii) exchange rate targeting in which the paper shows show how type 2 fixes might be used to control the exchange rate in the face of a shock to world oil prices using the Treasury and Bank of England models.

19. **Chris Melliss** showed how the structure of the model changes under alternative type 1 and type 2 fixes and argued that the default values in the programmed version of a model had no special significance. He welcomed the plea for greater openness on the part of the model simulators as to the type of fixes etc but said that the paper had not itself kept up to these high standards because it failed to give adequate attention to the policy framework under which the simulations were done. The other discussant, **Richard Layard,** focused on the incomes policy simulations. The main thrust of his points was that, historically speaking, incomes policies had been designed either to reduce inflation without there being loss in output or to raise output without incurring a rise in inflation. He therefore thought the focus on the real wage both in these simulations and the Treasury's Pay and Jobs exercise was misplaced. He was

sceptical about the results in the paper which tended to show for all the four models on which the experiment had been conducted a reduction in inflation and an increase in output. He concluded that in doing an incomes policy simulation it was important to consider what the policy-makers intended and the accompanying policy framework. **Patrick Minford** criticised some of the simulations in the paper for suggesting that it was possible to maintain an incomes policy for many years. He also thought that the simulations were unrealistic in that they did not show much overshooting of nominal wages when the temporary incomes policies were removed. He also noted that the simulations failed to take account explicitly of the state of the labour market when they were imposed.

20. **The Impact of Monetary Policy on Inflation: The UK Experience 1978-86 by D Mackie, D Miles, C Taylor and J Wilcox - Bank of England.** This paper comes in three relatively separate sections. The first discusses some of the theoretical background to monetary control as it is evolved since 1976. It makes the important point that there are some gaps between the relevant economic theory and the policy as it has been implemented. It claims that buffer-stock theories of money demand give some justification for the notion of money as a leading indicator and also as a suitable intermediate target. The second section of the paper describes the evolution of policy in the UK in the period since 1970, while the third conducts a series of counterfactual simulations on the Bank of England model to determine the contribution of monetary policy to the disinflation in the early 1980s. **Chris Taylor,** in presenting the paper said that he had had some misgivings about exposing this work in public but he thought this was important for maintaining the standards of the Banks' work. He explained that the Bank had more faith in some areas of the model than others. He noted that the assumption of backward looking expectations was a shortcoming.

21. The tone of the discussion was quite critical. **Simon Wren-Lewis,** said that if money did conform to buffer-stock theories then attempts to control it might be destabilising. He questioned whether buffer-stock ideas were, historically, part of the reason for wishing to control the money stock. He complained that the tables in the main body of the paper only focused on the inflation aspect of the counterfactuals - an appendix table in levels suggested either that the counterfactuals were nonsense or that the present government's policies have been damaging. **John Whitley,** the other discussant, noted that in the main counterfactual simulation the real exchange rate and nominal interest rates were both held constant at 1978 levels. He thought that this represented a highly inconsistent picture in which the policy instrument which established the constant real exchange rate was left undetermined. He also questioned the idea of policy neutrality which seemed to be embodied. **Chris Melliss** said that there was something very unsatisfactory about a technique in which the practitioners were often driven to saying that the results would have been better if only they had chosen more realistic counterfactual assumptions. He noted that one of the main problems was that in practice neutral policy was determined on a year by year basis given the circumstances at the time rather than by starting from some arbitrary fixed date. He said that had the model been estimated with the exogenous variables as in the counterfactual world then the parameter estimates would have been quite different from those which were actually obtained. **Andrew Britton** asked about whether this was a point applying to regime changes, i.e. the Lucas critique again, or whether it was a point about a reduction in noise or variance in the explanatory variables in the counterfactual world. If it were the latter he did not think that the coefficients with the model would be much changed. **John Flemming** said that he found the most objectionable part of the counterfactual simulations was that they implied a substantial and persistent wedge between real returns on UK and foreign assets.

22. **Wealth Targets, Exchange Rate Targets and Macroeconomic Policy: A Blake, D Vines and M Weale - Universities of Glasgow and Cambridge.** This paper is the latest in a series of reports by the "Meade group" on their long-running research project on demand management. There are two main lines of argument in the paper. The first concerns the methodology involved in setting up a macroeconomic policy regime. A three stage process is suggested; to examine (a) the steady state properties of the system - e.g. whether neutrality holds or not - (b) its stability, and (c) the comparative advantage of the available instruments in terms of their effects on the chosen target variables.

23. The second line of argument follows up the issue of comparative advantage, by demonstrating that which instrument is primarily directed towards which target depends crucially on the degree of indexation in the labour market - ie. the extent to which tax increases feed through into higher wage demands. Generally speaking, the higher the degree of indexation (to use the paper's terminology) the less one would want to direct a tax instrument towards price or money GDP stabilisation - cost push will tend to counteract (and may more than offset) demand pull effects and cause a perverse response in money GDP.

24. The last section of the paper illustrates this using a linearised (and much modified) version of the National Institute model, with final targets for money GDP and national wealth, and an intermediate target for the real exchange rate. The target real exchange rate is itself a function of deviations in money GDP and wealth from their target levels. The other instruments are short term interest rates and "fiscal policy" - i.e. an average of VAT and employees' NICs.

25. With full indexation from prices to wages, the authors find that the required response when money GDP is above target is a rise in the target real exchange rate and a cut in taxes, in the short run: this is because the cost push

effects of fiscal policy dominate. It is suggested that the result would be reinforced by the inclusion of a retention ratio effect in the National institute wage equation. With no indexation ("reformed wages"), fiscal policy is directed solely towards money GDP control, with the conventional sign - ie. taxes are increased when money GDP is above target. The rules are shown to be reasonably robust cross expectations assumptions (regressive v model consistent).

26. **Stephen Hall** felt that the paper's main contribution as its set of proposals on methodology, but that there were a number of problems with these which needed to be addressed. In particular, it was not possible to extend the formal analysis of steady state properties, stability etc. to non-linear models, for which no general analytical solution exists. Linearisation, on the other hand, invariably alters model properties (especially the criteria for stability). Problems of time inconsistency and the dependency of rules on the particular specification of policy instruments were also important.

27. **Steve Nickell** questioned the assumption that domestic and foreign assets were perfect substitutes, arguing that rules based on some measure of the trade balance would be more realistic. He also thought that it would be interesting to test the robustness of the rules given different assumptions about hysteresis. **Andrew Hughes-Hallett** stressed the need to avoid drifting from an approach based on what the authors call "comparative advantage" (which he fully supported) to one involving de-coupled policy rules. **David Vines** agreed, saying that the "Meade group" had now totally renounced its past associated with de-coupling. **David Currie** pointed out that the proposed rules were appropriate (if at all) only for a country acting on its own; they could not be applied in world where countries were reacting to each others' policies, particularly insofar as those policies relied on exchange rate changes for their effectiveness.

28. **Conflict and Cooperation in International macroeconomic Policy-making - The Past Decade and Future Prospects: D Currie and S Wren-Lewis - Queen Mary College and NIESR.** This paper sets out to evaluate the Miller/Williamson extended target zone proposal by using a counterfactual simulation on the National Institute world model for the period 1975-1986, given a set of optimised policy rules. These rules assume the following procedure for setting international macroeconomic policy:

- each country chooses its own money GDP growth target, conditional on its expected potential output growth, inflation objectives and cyclical factors;

- a consistent set of real exchange rate targets are chosen to ensure medium to long term current account equilibrium, subject to the growth of money GDP in each country;

- real exchange rate targets are aimed at using different combinations of fiscal and monetary policy; ie. countries alter their interest rate relative to the rest of the world, with fiscal policy moving to offset the effects on money GDP;

- the level of world interest rates is used to fine tune world aggregate money GDP (presumably to deliver a balanced mix of world fiscal and monetary policy, though it is not expressed in these terms).

29. The fiscal instrument is assumed to be government spending, thereby getting round the problems of cost-push effects from changing taxes, as described in Blake, Vines and Weale. Apart from country-specific constants to reflect differing inflation objectives etc, the parameters in the policy rules are assumed for simplicity to be the same for all countries. The "world" was defined to be the US, Japan and West Germany, with a presumption that the latter may be acting as a proxy for continental Europe as a whole, and that

the Canadian economy is closely tied to that of the US. Optimisation is done with respect to a world objective function which includes inflation, world capacity utilisation and changes in government expenditure relative to trend.

30. The results indicate that the Miller/Williamson proposal would have delivered significant welfare gains (equivalent to 1.5-2 per cent on the level of GDP) over the period 1975-86, relative to what actually occurred. The scheme is Pareto-improving for the three countries, though most of the benefits accrue to Germany and Japan; the main effect on the US was to rule out the big rise in the dollar in the early 1980s, which effectively exported inflation to the rest of the world.

31. Three qualifications are made. First, the welfare effects do not include potential efficiency gains from hauling more stable real exchange rates; secondly they may exaggerate the benefits of more expansionary policies in Germany, by underestimating the German aversion to inflation; and thirdly, the analysis does not test whether some other policy regimes may not have done even better than Miller/ Williamson.

32. **John Flemming** disputed the paper's claim that exchange rate targets eliminated the tendency for competitive over-valuation of exchange rates, as countries attempted to pursue non-inflationary expansion. As soon as bands were allowed around the central rates, scope would exist for countries to try to get to the top of their bands. If all countries tried to do this together, the bands would never be breached, but world monetary policy would get increasingly out of line with fiscal stance.

33. On the system described in the paper, he approved of the assumption that rules were the same for each country. He felt that what this imposition meant in terms of loss of flexibility would be more than made up for through its effects on the cohesion of the regime: with the possibility

of different rules for different countries, there was a risk that countries would try to tamper with their own rules so as to produce an outcome most favourable to themselves.

34. **Richard Portes** argued that the paper needed more discussion on the determination of equilibrium values for the current account, given the existence of structural capital flows. He also felt that, in some respects, the policy changes implied by the proposed regime failed to reflect political realities (eg. they implied a rise in German public spending in 1982-83, at a time when Germany was very concerned about its fiscal position). **Gerry Holtham** remarked that there were arguably three different sources of exchange rate misalignment over the period under discussion: speculative bubbles, "policy mistakes" (due to use of the wrong model, for example) and inconsistent national objectives. The paper only dealt with the last of these, and might benefit from some analysis of the other two. **David Currie** accepted this, along with many of the other comments made, and concluded that a lot more work needed to be done before the project could offer any robust judgements.

CM

C MELLISS
H BREDENKAMP

POLICYMAKING WITH MACROECONOMIC MODELS

A Conference Organised by the National Institute
to be held on December 14 and 15, 1987
at the Queen's Nursing Institute
57 Lower Belgrave StreeT London SW1
SEE MAP ENCLOSED

Programme

Monday 14 December
Coffee will be served from 10.45 a.m.

11.30 1.00 **The Exchange Rate and External Trade** :
A. Gurney, B. Henry and B. Pesaran NIESR
Discussants : J. Odling-Smee, S. Holly

LUNCH

2.00 - 3.15 **Feedback Rules for Fiscal and Monetary Policy** : Alan Budd and P. Levine, LBS
Discussants : M. Artis, R. Batchelor

TEA

3.45 - 5.00 A New Classical Policy Programme : Patrick Minford, Liverpool
Discussants : P. Levine, M. Desai

Tuesday 15 December

10.00 - 11.15 **Using Models to Evaluate Policy Proposals**
Ken Wallis et al. Warwick
Discussants : C. Mellis, R. Layard

COFFEE

11.45 - 1.00 **The Impact of Monetary Policy on Inflation : the UK experience.** D. Mackie, D. Miles, C. Taylor & J. Wilcox, Bank of England
Discussants : S. Wren-Lewis, J. Whitley

LUNCH

2.00 - 3.15 **Wealth Targets, Exchange Rate Targets and Macroeconomic Policy**, A. Blake, D. Vines and M. Weale, Cambridge & Glasgow.
Discussants: S. Hall, S. Nickell

TEA

3.45 - 5.00 **Policy Analysis for the World Economy** : D. Currie, Queen Mary College and S. Wren-Lewis, NIESR.
Discussants ; J. Flemming, R. Portes

COMMENTS AT NATIONAL INSTITUTE CONFERENCE ON POLICY-MAKING WITH MACRO-ECONOMIC MODELS

1. As the Treasury is the only major modelling group not giving a paper of the Conference, I shall make a few general observations about the use of models in policy making. In particular, I shall comment on how our thinking in the Treasury about the role of models has evolved over the last decade or so. These comments are grouped under two headings: modelling, and the policy context.

2. On models, we are now less confident than we were 10 or 15 years ago that models can provide the answers to all the questions of interest to policymakers. This is mainly because the margins of error surrounding numbers generated by models tend to be rather big, at least in relation to the orders of magnitude of policy changes which may be contemplated. The evidence on margins of error comes from a variety of sources, which all point in the same direction:

- changes in model properties over time: although in the Treasury we have a deliberate policy of trying to avoid sharp changes in model properties, nevertheless properties often change significantly when we alter only one or two of the more important equations.

- large differences, which have been well documented by the Warwick Bureau, between the properties of different models. Ten or twenty years ago we might have hoped that the data would enable us to discriminate between rival models. While this might eventually be possible, and it may be the case in respect to specific equations now, in general one cannot say that one model is clearly superior in terms of empirical content and coherence to another. Choices between models have to be based mainly on theoretical preferences and other <u>a priori</u> considerations.

3. However, the increased awareness of the margins of error has been accompanied by many improvements in the Treasury model as in other models, and in the way we use it. In particular we have

filled what were gaping holes in, for example, the financial sector and the treatment of forward-looking expectations in the foreign exchange and gilts markets. Even so there are still many gaps. For example, the Treasury model provides a less than comprehensive explanation of supply side behaviour. Productivity growth is still largely explained by an exogenous time trend, although there is now an endogenous element in the form of productivity changes in response to changes in factor prices.

4. Another area where we have advanced is in simulation design. We now pay close attention to how simulations are set up and, in particular, to the assumptions about the macro-economic policy that is being pursued and to the assumptions about what forward-looking ability to vary assumptions about expectations of future policy changes enables us to model different degrees of credibility of announced policy changes - credibility in the sense of expectations about whether the policy change will be sustained or not. While I would not vouch for the precise quantitative results of such exercises, qualitatively they illustrate the kinds of jumps in the exchange rate and gilts prices that feature in both the theoretical literature and more popular discussion of market reactions.

5. Turning to the policy context, the main change here over the last decade has been the shift towards emphasising the medium-term effects of policy and its sustainability, and away from an emphasis on the short-term effects. This has affected us as modellers in that we have therefore put more effort into trying to answer questions about the longer-term consequences of policies.

6. It is too early to say whether cointegration techniques will improve the reliability of our estimates of long-term relationships.

7. Our general view in the Treasury is that macro-economic policy has little effect on output, employment and other real variables in the long run unless there is an impact through changes in supply. Moreover the model does not include some of the possible routes in which supply might be affected, such as the

effects of changes in public or private investment on the capital stock and hence productivity, or the effects of fluctuations in inflation on efficiency, confidence and investment. Thus we would not expect simulations of policy changes on the Treasury model to indicate sustained changes in output. When they do, it is often a signal that the simulation has been set up in the wrong way.

8. There are, of course, short-run effects on output from policy changes. We do not subscribe to the new classical macro-economics doctrine of policy ineffectiveness in the short term. These real effects are attributable largely to differing speeds of adjustment in different markets and hence to changes in relative prices. When we assume forward-looking expectations in financial markets we effectively speed up the adjustment of some relative prices and as a result alter the estimates of the real effects of macro-economic policy in the short term.

9. One aspect of the greater emphasis on the medium and long term is that we pay attention to a slightly different set of variables when looking at simulation results than we would if the short term were the main consideration. Whereas a decade or so ago the emphasis might have been entirely on output and employment, supplemented increasingly by inflation, we now look also at variables which might be signalling the build up of unsustainable disequilibria of one kind or another. Inflation is obviously of central interest in this respect. So also are the current account deficit with its implications for changes in net overseas assets, changes in financial balances of domestic sectors, and the balance between consumption and investment.

10. The reduced emphasis on short-term effects means that we do not search for change sin the policy mix that might optimise some welfare function over the first few years but at the expense of difficulties later on. Examples of these would be a loosening of fiscal policy accompanied by a tightening of monetary policy (as pursued in the US), or a tax switch from employers' national insurance contributions to income tax. In some cases, such as the fiscal/monetary policy switch, we handle the long-term problems by assuming that they are anticipated by financial markets, who

therefore assume that they will be reversed. This in turn means that the short-term impact of these policies is less than it would otherwise have been.

11. To sum up, it might seem at first sight that modelling has a less important role in policy making in the Treasury than it used to have. It is certainly true that we serve up fewer numbers from policy simulations straight to Ministers. That in itself does not, of course, mean that such work is less influential. Economists in the Treasury still comment on the whole range of macro-economic policy issues, and provide quantification where necessary. The Treasury model is vital in this process:

- it is essential when numbers are needed

- it is an invaluable aid to clear thinking, especially since the interactions are usually too complex to work through in one's head or in a simple analytical model. We could not operate at all effectively in policy analysis without the model, even if we never showed Ministers a single number.

National Institute Paper

12. The paper is essentially about the specification and estimation of a forward-looking exchange rate equation and its effects on overall model properties. Although a particular policy proposal is simulated, the comment on the results is primarily from a modelling point of view. My own comments are therefore mainly about modelling.

13. I think that the model of the exchange rate in terms of the current account and interest rate differentials, in either stock or flow terms, is very interesting. Moreover, the forward-looking nature of the specification means that in simulations the exchange rate at the beginning depends on what the model says would happen to the current account and interest rates over the whole period of the simulation. This seems to be the right way of specifying the behaviour of the exchange rate.

14. The authors conclude that they have been successful in fitting this model of the exchange rate to the data. This may be so, but it is difficult to judge without more information about the results which were discarded. It would be interesting to know, for example, the extent to which levels of the trade balance and the interest rate differential were superior to changes in them in some equations, and vice versa in others.

15. Where information is provided I might have interpreted it slightly differently. For example, the non-stationary nature of the variables in levels form suggested by the Dickey-Fuller statistics in Table 1 might lead one to prefer an exchange rate equation in stock terms (ie E = f(r etc). But that has not been taken into account in the estimation. Secondly, in Table 2 for cointegration tests, I would have been less inclined than the authors to be encouraged by results which do not fully satisfy cointegration criteria. Thirdly, many of the equations contain a high weight for E_{-1}, which would worry me because of the implication that they do not explain sharp movements in the rate.

16. I did not fully understand the test for the presence of bubbles described on pages 18-19. But I got the impression that it was not a very strong one. However to the extent that it points to evidence of bubbles, I presume that one should interpret simulations based on an exchange rate equation which includes bubbles with some caution.

17. In discussing the export eqution 12 on page 30 the authors suggest that the higher coefficient on future relative export prices than on past relative export prices suggest that exporters tend to discount short-run movements in prices. This may be the correct concusion, but it would be helpful to see the two equations tested against each other, using the same data set and sample period. It might also be interesting to use relative export prices for an average of some past quarters and some future ones.

18. Finally, although the paper is not really about poli[illegible] analysis, I would like to make an observation on the policy simulations in Section 3. In the light of what I was saying earlier about the longer-term consequences of policy changes, I think that one should ask whether rising output, rising inflation and a large current account deficit on this scale really are sustainable and will be perceived by financing markets to be sustainable. If the answer is no, then it might be necessary to reconsider the design of the simulation or perhaps it provides some evidence that the exchange rate is not performing in the way that one thinks it should.

FROM: MOIRA WALLACE
DATE: 6 January 1988

MR ODLING-SMEE

cc Economic Secretary
Sir P Middleton
Sir T Burns
Mr R I G Allen
Mr Melliss
Mr Cropper
Mr Call

PUBLICATION OF COMMENTS AT CONFERENCE

The Chancellor has seen and was grateful for your minute of 4 January which he read with interest. For publication, he would be grateful if you could make two small changes:

Paragraph 8 - first sentence to read "There can be, of course, ..." and second sentence to be deleted;

Paragraph 11 - third sentence to read "does not, of course, mean that such work is not influential."

2. The Chancellor is otherwise content for your comments to be published.

MOIRA WALLACE

From : D L C Peretz
Date : 7 January 1988

PPS

cc PS/EST
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Scholar
Mr H P Evans
Mr Odling-Smee
Mr Grice o/r
Mr R I G Allen
Miss O'Mara
Mr Cropper

FRENCH MONETARY POLICY

The Chancellor and other recipients might be interested to see the attached note circulated by the French members of the EC Monetary Committee, describing the monetary guidelines and targets selected for 1988. These were announced, I understand, shortly before Christmas.

2. In 1987 the French had targets for M3 and M2 of 3-5% and 4-6% respectively. On the latest figures M3 was growing at a rate of 8.7%, and M2 3.4%. As was entirely predictable from our own experience, the French have found that the broad aggregates began to grow rather rapidly following the abolition of direct controls on credit.

3. You will see that for 1988 the French have resorted to the rather familiar (to us) formula of "closely following" the broader aggregates, and setting a target only for M2 - albeit with a range that makes some allowance for a possible increase in liquidity preference. I imagine it is only a matter of time before they find their M2 measure becomes distorted, like our M1, by a growth in interest-bearing current accounts.

D L C PERETZ

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TO ALL THE MEMBERS OF THE MONETARY COMMITTEE

GUIDELINES FOR FRENCH MONETARY POLICY IN 1988
- COMMUNICATION FROM THE FRENCH MEMBERS OF THE COMMITTEE -

FRENCH MONETARY POLICY IN 1988 WILL BE CONDUCTED IN A RIGOROUS MANNER IN ORDER TO ACCOMPANY THE DISINFLATIONARY PROCESS.

TO THIS END, SEVERAL MONETARY AGGREGATES WILL CONTINUE TO BE WATCHED IN 1988., ONLY FOR M2 WILL THERE BE A PUBLISHED TARGET.

IT IS IN FACT DESIRABLE ON THE ONE HAND TO WATCH AN AGGREGATE USED FOR THE SETTLEMENT OF TRANSACTIONS, IN ORDER TO SET A LIMIT TO ANY BUILD-UP OF DEMAND WHICH MIGHT PROVOKE EXTERNAL DISEQUILIBRIUM, AND, ON THE OTHER, TO FOLLOW THE DEVELOPMENT OF BOTH WIDE AND NARROW AGGREGATES IN THE VIEW OF THE GROWING INTEGRATION OF THE CAPITAL MARKETS.

HOWEVER, IT IS CONSIDERED PREFERABLE TO PUBLISH A TARGET ONLY FOR A RELATIVELY NARROW AGGREGATE WHICH CONSISTS SOLELY OF ASSETS WHICH CAN READILY BE USED FOR THE SETTLEMENT OF TRANSACTIONS. M2 HAS BEEN CHOSEN., THIS AGGREGATE CONSISTS OF MEANS OF PAYMENT AND SAVINGS AVAILABLE AT SIGHT.

THE FORECAST OF GDP GROWTH IS PUT AT 4.8 0/0 FOR 1988, WITHIN WHICH VOLUME GROWTH WOULD BE 2.2 0/0. IT IS AT THE SAME TIME POSSIBLE THAT THE CONSEQUENCES OF THE CRISIS ON THE STOCK EXCHANGES WILL RAISE PREFERENCES FOR THE WHOLE RANGE OF LIQUID ASSETS AND THUS CAUSE A REDUCTION OF THE VELOCITY OF THE CIRCULATION OF MONEY. FOR THESE REASONS A RANGE OF 4 0/0 TO 6 0/0 HAS BEEN SET FOR THE ANNUAL RATE OF GROWTH OF M2.

AT THE SAME TIME, OTHER AGGREGATES, INCLUDING M3, L AND A MEASURE OF FINANCING EXTENDED TO RESIDENTS - TOTAL DOMESTIC CREDIT - WILL BE FOLLOWED CLOSELY BY THE CENTRAL BANK.

A. KEES
COMEU B
NNNN

ph/228

UNCLASSIFIED

FROM: MISS M P WALLACE
DATE: 8 JANUARY 1988

MR PERETZ

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Scholar
Mr H P Evans
Mr Odling-Smee
Mr Grice o/r
Mr R I G Allen
Miss O'Mara
Mr Cropper

FRENCH MONETARY POLICY

The Chancellor has seen and was grateful for your minute of 7 January, which he found most interesting.

MOIRA WALLACE

94/2/sm/3103/41

MRS THATCHER ON EMS AT FPA PRESS CONFERENCE

AF12

Peter Zerg, German Foreign Trade News

QUESTION

As far as the EMS is concerned, the Chancellor of the Exchequer has always said its not the time now, but is it the time now for Britain to join the EMS?

Mrs Thatcher

No. I don't think the time is now to join the EMS. I think that the turbulence we've been through has shown that it is not yet the time to join. Britain is a different currency as you know from any other save the DM - we're both reserve currencies. We're the only other big reserve currency. We're different from the DM in that we're still affected as an oil currency. Our economy's with Germany at the moment are very different, we are growing very much faster than Germany and I think that past events have shown that the wise course for us, certainly to date, has been not to join the exchange rate mechanism of the EMS.

13 January 1988

BALLADUR SEEKS EC RESPONSE TO MONETARY PLANS NRHM

PARIS, JAN 14 - FRENCH FINANCE MINISTER EDOUARD BALLADUR SAID THURSDAY HE WAS AWAITING A RESPONSE FROM EUROPEAN COMMUNITY PARTNERS ON RADICAL PROPOSALS TO OVERHAUL THE EUROPEAN MONETARY SYSTEM (EMS) AND RIDE OUT WORLD MONEY MARKET TURBULENCE.

BALLADUR WROTE LAST WEEK TO HIS FELLOW EC FINANCE MINISTERS, SETTING OUT HIS IDEAS ON EUROPEAN AND GLOBAL MONETARY REFORM.

HIS RECIPE, REITERATED IN AN INTERVIEW WITH THE LE FIGARO DAILY NEWSPAPER TODAY, CALLS FOR ALL CURRENCIES IN THE EMS TO BE BROUGHT UNDER THE SAME CONDITIONS AND FOR STERLING TO FULLY ENTER THE SYSTEM.

14-JAN-1507 MON758 MONH

CONTINUED ON - NRHN

P

REUTER MONITOR 1530

BALLADUR SEEKS =2 PARIS NRHN

ALTHOUGH IT FORMS PART OF THE 12-CURRENCY ECU BASKET, THE BRITISH CURRENCY DOES NOT PARTICIPATE IN THE GRID REGULATORY MECHANISM. THE LIRA IS ALLOWED WIDER FLUCTUATION AGAINST OTHER CURRENCIES WITHIN THE EXCHANGE RATE MECHANISM.

BRITISH PRIME MINISTER MARGARET THATCHER, IN AN INDIRECT RESPONSE TO BALLADUR'S SUGGESTIONS, ON WEDNESDAY REAFFIRMED HER OPPOSITION TO PUTTING STERLING INTO THE EMS.

BALLADUR SAID HE ALSO FAVOURS CREATION OF A EUROPEAN CENTRAL BANK WHICH WOULD MANAGE A COMMON, BASKET CURRENCY, FOR EXAMPLE THE EUROPEAN CURRENCY UNIT (ECU).

14-JAN-1510 MON764 MONH

CONTINUED FROM - NRHM

CONTINUED ON - NRHO

P

REUTER MONITOR 1530

BALLADUR SEEKS =3 PARIS NRHO

HE SAID THE EMS WAS VITAL TO CURRENCY STABILITY IN THE EC, WHOSE MEMBERS CARRY OUT AT LEAST HALF THEIR TRADE INTERNALLY.

"ONE THING THAT IS SURE IS THAT THE STATUS QUO IS GOING TO BECOME IMPOSSIBLE," HE SAID. GREATER MONETARY AND ECONOMIC UNION WAS ESSENTIAL TO PREPARE FOR THE DISMANTLING BY 1992 OF ALL BARRIERS TO CAPITAL MOVEMENTS IN EUROPE.

BALLADUR SAID: "THE CREATION OF A UNIFIED ECONOMIC ZONE... NATURALLY SUGGESTS THE IDEA OF A COMMON CURRENCY FOR EUROPEANS."

BUT ECONOMISTS DOUBTED WHETHER OTHER COUNTRIES SHARED FRENCH ENTHUSIASM FOR A EUROPEAN CENTRAL BANK AND A SINGLE CURRENCY -- IDEAS BALLADUR HAS FLOATED IN THE PAST.

14-JAN-1511 MON765 MONH

CONTINUED FROM - NRHN CONTINUED ON - NRHP

P

REUTER MONITOR 1530

BALLADUR SEEKS =4 PARIS NRHP

BALLADUR ALSO WARNED THAT THE DOLLAR'S SLUMP WAS A REAL THREAT TO EUROPEAN TRADE AND ECONOMIES.

AS CURRENCIES OF MOST ASIAN EXPORTING NATIONS AND THE AMERICAS FOLLOWED THE DOLLAR, THESE COUNTRIES WERE BECOMING EVER MORE COMPETITIVE COMPARED WITH EUROPE.

"IT'S A POWERFUL REASON FOR STABILISING THE DOLLAR, WITHOUT WHICH EUROPE WOULD BE THE ONLY MAJOR INDUSTRIAL REGION IN THE WORLD WHICH WOULD BE CONTINUALLY FORCED TO REVALUE ITS CURRENCIES," HE SAID.

14-JAN-1511 MON766 MONH

CONTINUED FROM - NRHO CONTINUED ON - NRHQ

P

REUTER MONITOR 1530

BALLADUR SEEKS =5 PARIS NRHQ

"EUROPE MUST ADOPT A COMMON APPROACH TOWARDS THE DOLLAR AND THE YEN. IT SHOULD SPEAK WITH A SINGLE VOICE ON THE INTERNATIONAL MONETARY SCENE," BALLADUR SAID.

BALLADUR HAS NOT YET RECEIVED ANY REPLIES TO HIS PROPOSALS BUT HE HOPES TO REACH AGREEMENT ON AT LEAST A FRAMEWORK FOR DISCUSSION AT THE NEXT EC SUMMIT MEETING IN BRUSSELS ON FEBRUARY 11 AND 12.

14-JAN-1512 MON768 MONH

CONTINUED FROM - NRHP REUTER

P

REUTER MONITOR 1535

ps3/39T

CONFIDENTIAL

FROM: J M G TAYLOR
DATE: 18 January 1988

MR PERETZ

cc Sir G Littler

BALLADUR'S PAPER ON EUROPEAN MONETARY CO-OPERATION

I should record that someone from the Danish Embassy (whose name I did not catch) telephoned me today about this paper. Had we formed any view on it?

2. I said that we had only received the paper recently, and that we were still considering it. We had yet to make any judgements.

J M G TAYLOR

670/29

FROM: G SEGAL
DATE: 9 FEBRUARY 1988

PPS.

'X' is not at all helpful. RA 9/2

1. MR R ALLEN
2. SIR PETER MIDDLETON

cc PPS/Chancellor
PS/Economic Secretary
Sir G Littler
Mr Scholar
Mr Peretz
Miss O'Mara
Mr Bush

LE FIGARO: BRIEFING ON MONETARY POLICY

Isabelle Graviere, international economics correspondent of Le Figaro, has requested a briefing on monetary policy. She has specifically asked to see Sir Geoffrey Littler.

Ms Graviere, who is based in Paris, is visiting London this week for a conference sponsored by the IADB and the International Herald Tribune on Latin American debt. She is taking the opportunity to fix up some briefings with the Bank of England (John Flemming and Anthony Loehnis) and Lloyds Merchant Bank (the chief economic adviser) to discuss British monetary policy. In particular she wishes to ask about the interrelation between monetary and exchange rate policy. The intention is to put together an article for next Tuesday's edition. Le Figaro has a weekly circulation of 450,000.

Ms Graviere is hoping to come in on either Wednesday or Thursday afternoon this week.

G SEGAL

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SECRET

MONTHLY MONETARY ASSESSMENT : JANUARY 1988*

Summary Assessment

Although the economic indicators have been more mixed over the last month, this probably reflects reeaction from exceptionally strong indicators previously rather than pointing to any downturn. Money GDP in 1987-88 is now projected to grow by nearly 10 per cent compared to 8½ per cent growth projected in the Autumn Statement. The policy stance may also have eased over the last month; the oil adjusted exchange rate has fallen by ¾ point, mainly reflecting recovery in the dollar.

Main Points

M0 provisionally grew by 4.6 per cent in the year to January. The 12 month growth rate is projected to rise to around the top of the 2-6 per cent range in February and March (paras 26-28).

Broad money growth in December was moderate, despite some likely distortion from round-tripping. M4 grew by 1¾ per cent in December and the 12 month growth rate rose to 16¼ per cent from 15¼ per cent in November (paras 30-33).

Bank lending grew by 2.6 per cent in December. This was boosted by round-tripping and by arbitrage opportunities against dollar borrowing. But the underlying factor was probably companies' borrowing from banks to replace funds obtained from equity issues prior to the Stock Market fall. The same factor may have restrained monetary growth as firms drew on their liquidity (paras 30, 38-40, 52-53).

Sterling was broadly stable against the mark but fell against the dollar. The effective rate index fell by about 1½ per cent and the oil adjusted index by about ¾ per cent (para 21).

World economic growth quickened in the second half of 1987. Commodity prices resumed their rise in December after pausing in the previous two months (paras 1-2).

House price indicators give contradictory evidence. But the overall picture is of rapid inflation, concentrated in the region around London (para 15).

MG2 Division
5 February 1988

* This assessment was made before the ½ per cent base rate increase on 1 February.

A. External Developments

1. Overall in the major countries, **economic growth** quickened in the second half of 1987 (see table 1). Industrial production in November was over 10 per cent higher than a year earlier in Japan, while US GDP grew by 3.7 per cent over the year to the fourth quarter of 1987. There are few signs so far that the fall in **share prices** has weakened activity - although survey evidence points to a weakening of consumer confidence in the US. Growth is expected to remain strong in the first part of 1988, but weaken somewhat, in North America particularly, later in the year.

2. **Inflation** in the G5 countries has remained at about 3 per cent since August, following the rise earlier last year. Domestic cost pressures remain weak, with unit labour costs falling in most of the major countries last year (table 1). The rise in **commodity prices** was interrupted in late October and early November, following the share price falls, but has since been resumed. **Oil prices** fell in early December, but have since recovered.

3. Following concerted intervention, the **dollar** has risen since the beginning of the year, but is still lower, in effective terms, than at the time of the Louvre Accord (table 3b).

Conditions in West Germany

4. The differential between German and British consumer price **inflation** rates narrowed from almost 5 per cent to 3 per cent during 1987, as prices in Germany have gradually started to rise again. But German inflation is not expected to rise much beyond the current rate of 1 per cent; both unit labour costs and import prices (measured in DM) are barely rising. **Economic activity** remains sluggish, with real GDP rising by 1.7 per cent in 1987, and is expected to remain so in 1988.

5. Concern that fast growth in monetary aggregates might cause the Bundesbank to raise **interest rates** may have receded somewhat with the substitution of M3 for CBM as the targeted aggregate.

M3 growth has been close to the upper end of the 3-6 per cent target range, while CBM - which is more interest-elastic because of its large currency component - has been growing over 2 per cent above the range.

6. The Federal **borrowing requirement** in 1987 turned out at DM 27.5 billion - a DM 5 billion overshoot. For 1988, there is expected to be a DM 10 billion overshoot to DM 40 billion. This is due to the effects of a lower dollar on the DM value of Foreign exchange reserves, higher EC contributions and lower tax revenues due to sluggish growth. This estimate takes account of the tax cuts and public expenditure announcements made before Christmas. However, Stoltenberg has stated his intention to hold the deficit to DM 30 billion in 1989 despite his commitment "not to offset budget revenue losses arising from recent developments" in 1988 (G7 communique, 23 December). Further tax reductions are not scheduled until 1990.

B. Activity and Inflation

7. Table 4 summarises recent indicators of **activity and inflation.** This month's indicators of activity have been more mixed than last month's buoyant figures; this may reflect some moderation in economic activity following exceptionally strong growth through 1987. Inflation indicators showed little underlying change between November and December, much as anticipated.

Recent indicators of activity

8. Monthly figures for production industry output show a ½ per cent fall in **manufacturing output** in November. The first quarter CBI survey of manufacturers, published on 26 January, showed total and export order books still strong and buoyant output expectations. But a sharp reduction in business optimism is also reported, perhaps reflecting increased uncertainty following the share price fall.

9. **Consumer spending** appears to have been particularly strong in November, both retail sales and new car registrations proved

very buoyant. Provisional figures for retail sales in December show a fall-back of around 1 per cent, to a level 5 per cent up on a year earlier. The first preliminary estimate of fourth quarter consumers' expenditure shows spending virtually unchanged from the third quarter, but 5¼ per cent up on a year earlier.

10. **Private housing starts** recovered somewhat in November after a low outturn in October. As yet, there are no signs of a significant downturn in housing construction activity.

11. **Labour market indicators** released this month remain strong, but may hint at a slight easing in labour market conditions relative to recent months. Figures for overtime in November showed no change from record October levels. But the 35,000 fall in unemployment in December, though possibly affected by seasonal variation in Special Employment Measures, represents the smallest reduction for six months. The 12,000 fall in vacancies in the same month, though coming after sharp increases in the preceding three months, represents the first fall since February 1987.

Inflation

12. **Retail price inflation** fell to 3.7 per cent in December compared with 4.1 per cent in November. This fall was in line with expectations, and primarily reflected the initial effect on the index of the latest reduction in mortgage interest rates. Excluding the mortgage interest component, the index shows little change in underlying inflation in December relative to recent months.

13. The 12 month increase in the **producer price index** (excluding food, drink and tobacco) in December was 4.7 per cent, down 0.1 per cent from November. CBI Survey responses relating to manufacturers' price expectations - adjusted for seasonal variation - picked up slightly in January. The annual rate of increase in producer input prices (also excluding FDT) was 5.6 per cent in December, up marginally from the (revised) 5.1 per cent November outturn.

14. Underlying growth in **average earnings** rose to 8¼ per cent in November, following outturns of 8 per cent in October and 7¾ per

cent in the preceding 6 months. Most of the increase in the underlying growth rate in October and November can be accounted for by the effects of the recent settlement of Local Authority Manual workers and the second stage of the teachers' award.

15. The latest indicators of **house price inflation** tell contrasting stories, but the overall picture remains one of rapid growth in house prices led more by the areas around London (East Anglia, the South East and the Midlands) than by London itself. The Halifax index shows annual growth in house prices of 16.3% in January - up from 15.8% in December and the highest 12 month growth rate since the index began in 1983 - and 15.5% in the year to Q4, significantly higher than the 14.6% in Q3. DoE figures also show a rising inflation rate to 16.7% in Q4 from 15.0% in Q3 for completions (20.7% from 14.4% for approvals). In contrast, the Nationwide index for Q4 shows annual growth of 16%, down from 19% in the year to Q3. Recent forecasts for 1988 also differ markedly, from below 10% (Nationwide and Woolwich building societies) to 15% (Halifax), although all forecasters expect a slowdown in the growth of house prices towards the end of 1988. The Royal Institute of Chartered Surveyors monthly report confirms demand recovering strongly in the South East and continuing buoyant elsewhere, but concludes that the outlook for 1988 is still uncertain.

Projections for money GDP

16. The Autumn Statement forecast for 8½ per cent growth in **money GDP** in 1987-88 is now likely to prove too low both because of upward revision to past data for the GDP deflator and faster than anticipated real activity through 1987. The average increase in money GDP in the years to the second and third quarters of 1987 is currently estimated at 9½ per cent; the winter forecast shows growth for 1987-88 as a whole at just under 10 per cent. The uplift relative to the Autumn Statement comprises similar increases to the forecasts for activity and the GDP deflator. The winter internal forecast projects slower money GDP growth through 1988-89 - to average around 7½ per cent for the financial year as a whole. The deceleration relative to 1987-88 primarily reflects slower growth in real activity, though the GDP deflator also rises slightly more slowly.

17. The latest set of indicators are likely to shift external comment from the risks of overheating to the possibility that we are now seeing the first sign of a slowdown after the share price fall. This would, however, be reading too much into one month's figures. Activity in October and November seems to have been exceptionally high and some deceleration was to be expected.

C. Public Sector Finances and the Fiscal Stance

18. Table 5 gives the main indicators of the **fiscal stance.** The PSBR in December was £0.2 billion, the buyback offer for BP shares, which closed on 6 January, having had a negligible impact. The April to November outturn for the PSBR has been revised up by £0.4 billion giving a PSBR surplus of £0.4 billion, for the first 9 months of 1987-88 - £5.6 billion below the Budget profile. If privatisation proceeds are excluded, borrowing in April to December has been £2.8 billion lower than for the same period in 1986-87.

19. Central government own account borrowing is £5.5 billion below profile - Table 6 gives details - and public corporations' borrowing £0.5 billion below profile, but local authorities' borrowing is £0.4 billion above profile.

20. The latest (Winter internal) forecast for the PSBR in 1987-88 is a surplus of about £2¾ billion. This is appreciably further into surplus than expected in the Autumn (eg. the internal Autumn forecast pre-stock market fall was for a surplus of about £1¼ billion). It is also over £6½ billion lower than the FSBR forecast (which was for a PSBR of about £4 billion). On the basis of the internal Autumn forecast the assessment was made that, even after allowing for a higher level of activity, fiscal stance was turning out considerably tighter than envisaged at Budget time. In qualitative terms there would not seem to be anything in the latest forecast to alter this conclusion: the forecasts of activity and inflation in 1987-88 have been revised upwards since the Autumn, but the PSBR forecast shows a higher surplus. Thus fiscal policy would not appear to be contributing directly to the higher than expected growth of output.

D. UK Exchange Rate and External Accounts

21. In January **sterling** stabilised against the DM at around 2.97 to 2.98, despite continued weakness in the oil market, but it has firmed a little following the half point rise in UK base rates in early February. As the dollar has recovered since early January the $/£ rate has fallen back sharply, from 1.88 to around 1.77 now, and this largely accounts for the recent easing of the sterling index to around 74½.

22. **UK three month interest rates**, which fell by ¼ percentage point to 8¾ per cent during January, rose to 9 per cent following the base rate rise on 1 February. US rates have fallen by ½ point since early January, while German rates have edged down by about ¼ point. As a result the interest rate differential against German rates, which had fallen back to 5¼ per cent in the second half of January, has risen to 5¾ per cent.

23. The Brent **oil price**, which weakened sharply in mid-December following the failure of the OPEC meeting to agree on how to constrain production, rallied briefly around the turn of the year (because one large trader had managed to corner the market in January Brent cargoes) but has steadily fallen back in January to just over $16 a barrel. But the fall in the exchange rate index since the beginning of January has reduced the **oil adjusted ERI** by around ¾ per cent.

24. In the absence of upward pressure on the DM/£ rate over the past month there has been little further official intervention.

25. The December **trade figures**, published on 28 January, showed a current account deficit of £582 million, broadly unchanged from November but at the pessimistic end of the range of City expectations. Total export volumes rose slightly more than import volumes in December but this was offset by a small deterioration in the terms of trade. In 1987 as a whole non-oil export volumes were 7½ per cent higher than in 1986 compared with a 9½ per cent

rise in non-oil import volumes. The current account deficit for 1987 is now estimated at £2.7 billion, close to the FSBR and Autumn Statement forecasts of £2½ billion.

E. Domestic Monetary and Financial Market Developments

(see Tables 10 to 26)

Narrow Money

26. M0 growth has been below expectations since the last assessment, with the level of M0 falling back slightly in the month to January. On the assumption that this fall was erratic - possibly reflecting suspect seasonal factors - and that M0 growth resumes in February at recent levels, the 12 month growth rate of M0 is forecast to rise from 4½ per cent in January to around the top of its target range of 6 per cent in February and March, as the fall in M0 in February 1987 drops out of the annual comparison.

27. **M0** (seasonally adjusted) provisionally fell by 0.3 per cent in January but the 12 month growth rate rose to 4.6 per cent, from 4.3 per cent in December, reflecting the sharp fall in the level of M0 in January 1987. The erratic falls in the level of M0 in both January 1987 and 1988 suggest suspect seasonal factors at this time of the year.

28. Assuming a resumption of the steady growth of M0 from its lower level in January, the **forecast** has the 12 month growth rate of M0 rising sharply in February and March, to around 5¾ and 6 per cent respectively, before dropping back to under 6 per cent from July. The sharp increase in the annual rate forecast in February mainly reflects a fall in the level of M0 in February 1987. But the 12 month growth rate is unlikely to breach its 6 per cent target in February, as an abnormally low level of bankers' deposits in the first week of the month will depress the annual rate by about ¼ percentage point.

29. **NIB M1** rose by £0.4 billion (a fall of £0.1 billion seasonally adjusted) in December and the annual growth rate was little changed

at about 10½ per cent. Interest-bearing sight deposits fell by £0.7 billion in December, partly reflecting the unwinding of an equity issue in September, the proceeds of which (£0.3 billion) were initially placed on retail deposit prior to investment during December. Together with the increase in NIB M1, this gives a £0.3 billion fall in M1. But the 12 month growth rate of M1 rose to 22¾ per cent in December, from 21¾ per cent in November, reflecting the effects of the British Gas sale on M1 a year ago.

Broad Money

30. The main features of the December money figures were moderate broad money growth - below the average increase over the past year - coupled with very high bank lending, over £5 billion. The private external counterpart was heavily negative, slightly outweighing the effects of heavy intervention, so that the externals were contractionary. A number of factors many help to explain this pattern (see especially para 38 below). But the underlying feature may be the predicament of companies after the stock market fall (see para 52 below). The evidence is broadly consistent with their turning both to bank borrowing and to accumulated liquidity to replace the finance formerly but no longer available from equity issues.

31. **M4** grew by £5.0 billion (1.7 per cent) in December and at an annual rate of 16¼ per cent, compared to 15¼ per cent in November. Seasonally adjusted M4 growth in the month to December was around its average level of recent months, the higher 12 month rate mainly reflecting the high growth of broad money in November 1986 before the British Gas sale, which depressed the 12 month comparison in November. **M3** rose by £2.7 billion (1.4 per cent) in December, slightly below the average of recent months, and the 12 month rate increased to 22¾ per cent, from 21½ per cent in November.

32. With respect to the **M4 components**, holdings of M3 by the private sector excluding building societies rose by £1.7 billion, compared to an average of £2.2 billion over the previous 12 months. Private sector retail deposits with the building societies were £3.0 billion

in December, of which £1.9 billion was interest credited. Wholesale funding of the building societies by the private sector was £0.3 billion.

33. With respect to the **M3 components**, apart from the £0.4 billion increase in NIB M1, interest-bearing retail deposits fell by £1.0 billion - the first fall since August 1986 - and wholesale deposits including CD's rose by £3.3 billion, of which nearly £1.0 billion is accounted for by building societies. The large fall in retail deposits in December is largely unexplained, although a contributory factor may have been the higher than expected tax payments in December, including some Corporation tax paid early. Wholesale deposits may have been inflated - perhaps by up to £½ billion - by round-tripping (see paragraph 38), and by companies building up liquidity prior to their large Corporation tax payments in early January.

34. **Building societies' retail position** continued to benefit from the effect of the stock market crash on unit trust and equity investment, with a seasonally adjusted inflow of £¾ billion in December. This was considerably lower than the November figure, but that was distorted by inflows related to the BP privatisation and also reflected a competitive advantage, no longer present in December, over bank accounts. But societies also borrowed heavily (£¾ billion) on the wholesale markets. Some of this borrowing was probably related to the announcement of the raising of the limit on wholesale funding, which has also led to three societies setting up euro CD facilities for a total $1.25 billion recently, but over £300 million consisted of increases in time deposits and was probably involuntary.

35. As a result of these retail and wholesale inflows, **societies' liquid assets** rose by over £1 billion, the largest increase of 1987 - this despite tax payments of £310 million. Within liquid assets, bank deposits (including CD's) rose by £1 billion; gilts rose by £0.2 billion, possibly as a delayed response to societies' large disposals in October; and holdings of bank bills fell by £0.2 billion.

36. The **broad money forecast** for January is dominated by the funding position: M3 and M4 are forecast to fall in January by £2¾ billion (1½ per cent) and £1 billion (¼ per cent), respectively, because of the expected Central Government surplus of £5½ billion and consequent overfunding, in excess of that last year. 12 month growth rates of M3 and M4 are forecast to fall by about 1 per cent and ¼ per cent, respectively, to 22 per cent and 16 per cent in January.

Credit

37. **Bank and building society lending** rose by £5.9 billion (1.8 per cent) in December and at an annual rate of 18¾ per cent, slightly below the 19 to 20 per cent range typical of 1987.

38. **Sterling bank lending** grew by 2.6 per cent in December and at an annual rate of 22¾ per cent, the 12 month rate being in line with recent months. Several factors may have contributed to the high growth in December:

(i) Takeover activity has been increasing lately and the slump in equity issues may have led to some substitution of bank borrowing to finance this, including the use of syndicated loans. The CLSB returns also suggest a high level of corporate borrowing, particularly amongst property companies (see paragraph 42);

(ii) Both anecdotal and statistical evidence suggest widespread round-tripping throughout the second half of December, as the Bank's money market operations put downward pressure on 3 month bill rates relative to interbank rates. Monetary sector holdings of bills rose by £1½ billion in December, with most purchases occurring throughout the second half of the month. Outside commentators have estimated that round-tripping may have been of the order of £½ billion in December;

(iii) A significant differential opened up in the second half of December between 3 month bill rates and US commercial

paper rates (adjusted for forward cover), making it profitable for companies to switch their borrowing out of US paper into domestic bills, swapping the proceeds into dollars. Anecdotal evidence suggests this occurred on a significant scale in December;

(iv) December is an interest charging month, accounting for about £1¼ billion (0.6 percentage points) of the rise in bank lending, which is offset within NNDL's in the broad money counterparts.

39. Foreign currency lending fell by £1.9 billion in December after having fallen by £1.6 billion in November. It is possible that at least some of this further reduction in foreign currency borrowing by the private sector represents the unwinding of October's hedging activity, when the private sector increased its currency bank borrowing by £3½ billion. With the fall in stock markets - and hence a fall in the value of portfolios - institutions may still have been overhedged, giving rise to the repayment of some of their currency borrowing. Foreign currency deposits of the private sector fell by under £0.4 billion in December, so that if repayments of currency borrowing were largely financed by running down sterling deposits, this would have contributed to the below average growth of broad money in December.

40. Overall the private sector reduced its net foreign currency liabilities with the monetary sector by £1.5 billion, and increased its net sterling liabilities by £2.4 billion, in December. But it was probably not the same individuals engaging in these transactions. The quarterly industrial analysis to November and CLSB returns for December (see paragraph 42) confirm that investment and unit trusts have been the only group in which sterling and currency borrowing were usually inversely related during 1987.

41. Building societies' **mortgage lending** strengthened slightly in December to a seasonally adjusted £1.3 billion. This figure probably reflects the competitive position before the equity price crash and gives little indication of the effect of the crash on

mortgage demand. But commitments figures for the 15 largest building societies, with 86% of all societies' assets, show little evidence of downturn in mortgage demand.

42. Several analyses of recent bank lending figures - namely the CLSB banks' breakdown by industry for December, all banks' breakdown by industry in the quarter to November, and the sectoral breakdown in Q4 1987 - all point to a continuation of the pattern of lending seen in the previous quarter. Sterling borrowing by persons remained very buoyant, both for house purchase and consumption; sterling lending to industrial and commercial companies accelerated, with growth particularly concentrated in lending to property companies and lending to small businesses; and sterling lending to the financial sector moderated, driven in particular by continuing repayments of borrowing by securities dealers and gilt-edged jobbers and by building societies. There is, however, evidence of distress lending (of £0.3 billion) by the banks to their non-bank financial subsidiaries during Q4, following the stock market crash. (This lending was capitalised during December, with no net effect on total bank lending in December.) Repayments of foreign currency borrowing were again concentrated in the financial sector, with large repayments by unit trusts unwinding their hedging of overseas assets built up earlier in the year.

Other Broad Money Counterparts

43. A PSBR of £0.2 billion and an increase in the reserves of £1.9 billion were underfunded in December by £1.3 billion, with negligible debt sales to the overseas sector and debt sales to the private sector of £1.2 billion. Cumulative underfunding in 1987-88 to date is £2.4 billion. Assuming a full fund over the financial year with no further intervention (see Annex for details), there is expected to be overfunding of £6.2 billion in January and £0.7 billion in February, followed by underfunding of £4.1 billion in March. This implies gross gilt sales, excluding calls, of £1.6 billion over the remainder of the financial year. The building societies purchased £0.4 billion of public sector debt in December, giving a slightly more expansionary **public sector**

contribution to M4 of £1.7 billion, which is also the cumulative public sector contribution to M4 in 1987-88 so far. The residual counterparts to M4 were contractionary by £2.6 billion, nearly all of which was within the banks' external transactions.

44. External influences on money were mildly contractionary in December. This was against a background of a rising exchange rate in the first half of December - requiring spot market intervention of £2.6 billion to cap the DM/£ rate - but a weakening exchange rate thereafter (except against a weak dollar). The counterparties to the intervention seem to have been mainly banks and overseas residents: the banks switched into sterling by £1.8 billion and overseas residents increased their net sterling deposits by £0.5 billion. Hence it appears that the intervention has not fed through into money. Banks' **£NNDL's** in December were contractionary by £1.6 billion; banks' capital was boosted by the combined effects of interest charging and capital issues.

Money Markets and Interest Rates

45. **Money market rates** started January at a premium to base rates, ranging from 8.7 per cent at one month to 9.5 per cent at 12 months. The ½ per cent increase in base rates to 9 per cent, announced on 1 February had little effect on rates, which currently range from 8.8 per cent at one month to 9.4 per cent at 12 months. 3 month yields on eligible bills - which were typically over ¼ percentage point below interbank rates in the second half of December - remained at a similar discount to interbank rates in the first half of January, with the gilt repo on 13 January having little effect. But the interest differential narrowed during the second half of the month and has now disappeared. Anecdotal evidence suggests that round-tripping occurred on a significant scale in the first half of January, which will have inflated the money figures.

46. The stock of **money market assistance** rose to a seasonal peak of £12½ billion at the end of January from £7¼ billion at end December. Some £1½ billion of Treasury bills sold in October and November matured in January, reducing the need for commercial bill

purchases accordingly. The need for bill purchases was further reduced by a £1¼ billion gilt repo, although this was undertaken primarily in an attempt to influence money market rates (see para 45). The stock of assistance is expected to remain at about £12½ billion until the end of February, and to fall back in March, due to the seasonal CG deficit, to about £9½ billion.

Gilts

47. Gilts began January with the index at 88.4 and 5, 10 and 20 year par yields at 9.1, 9.6 and 9.5 per cent respectively. The rise in bank base rates at the beginning of February had some impact on gilt prices which fell immediately on the news, having risen slightly during January. These losses have since been recovered somewhat, and the gilt index currently stands at 89.3, with par yields at 9.2, 9.4 and 9.3, indicating a flattening of the yield curve since the beginning of January.

48. The third and final experimental gilt-edged auction was conducted on 13 January. The stock offered was a medium, 8¾% Treasury Stock 1987 "C". The auction was covered 1.07 times, and the stock was sold at a weighted average yield of 9.99%. The lowest price which stock was allocated was £91.50, implying a yield to redemption of 10.15%.

49. Real yields on **index-linked stock** began January at around 2.8 per cent at the short end, rising to 4.0 at the longer end, although very long issues were around 3.8 per cent. They subsequently moved up by around 0.1 per cent at all but the shortest maturities, before falling back to end January much as they began it. The base rate rise had little effect. Breakeven inflation rates for index-linked Treasury 1990 and 2006 are currently 4.5 and 5.4 per cent respectively, compared with 4.6 and 5.6 per cent at the end of December . Together with the easing of long gilt yields, this would be consistent with some reduction in inflation expectations over the past month, possibly related to the release of less buoyant statistics on the real economy recently which has

reduced fears of overheating (see paragraph 17). The **equity dividend yield** (based on the all-share index) stands at 4.2 per cent, unchanged from the end of December.

Capital Markets and Corporate Finance
(see tables 20-21)

50. **Equity prices** (measured by the FT All Share Index) strengthened a little further during January, having risen by 9 per cent during December, but the market remains nervous. This is reflected in the scarcity of equity issues, see paragraph 52. The index currently stands at 906, 1 per cent down on a year ago and 27 per cent down on its July peak.

51. There were net inflows into **unit trusts** of £150 million in December, compared to a small net outflow in November. Gross sales of unit trusts have continued to fall, however, from £1.7 billion in October to £0.7 billion in December. The net inflow of £150 million in December compares to a monthly average of £1.00 billion in Q3 1987 and £0.5 billion in 1987 as a whole.

52. The short-term effects of the stock market crash on the pattern of **corporate finance**, and thus on the money figures, are beginning to emerge. With their equity issues having fallen from an average of £2¼ billion per month in the third quarter of 1987 to just £¼ billion per month in December and January, UK industrial and commercial companies will have to turn to other sources of finance. While there have been signs of some resurgence in the eurobond market, issues by UK companies only picked-up during January and the rise in base rates has since depressed the market. Issues of sterling commercial paper were also depressed in December (see below). Hence the main counterparty to corporate financing is likely to have been the monetary sector.

53. Corporate bank borrowing may have been as high as £3½ billion in December, of which £1½ billion was bill finance - which may have been inflated by round-tripping. There also have been

announcements of considerable quantities of syndicated credit and multiple option facilities over the last month - some being takeover related. It seems probable that some of these facilities will be exercised, boosting bank lending.

54. Unpublished early estimates of **life assurance companies' investments** in the fourth quarter of 1987, which in the past have given a reasonable guide to the direction of flows, suggest that life companies sold overseas company securities heavily and acquired UK company securities, as well as accumulating liquid assets. The proportion of their assets held overseas may have fallen back sharply to mid-1983 levels, while the proportion invested in UK company securities fell only to the level in early 1987 and the gilts proportion recovered to the early 1987 level. Their liquidity proportion may have risen from about 2½ per cent to about 3¾ per cent.

55. The stock of **sterling commercial paper** (SCP) outstanding fell by £270 million in December, to £2.1 billion, with net redemptions by UK companies of £250 million reducing the stock to £1.2 billion. Monetary sector holdings of SCP fell by £200 million, to £0.5 billion. The fall in stocks in December mainly reflects lower issues, which in part could be seasonal - for example, retailers would curtail their SCP issues because of high seasonal revenues - and may also reflect the relative attractiveness of bill finance during December. But issues also fell in November and stocks of SCP outstanding are now back to their levels over the summer.

MG2 Division
5 February 1988

SECRET

Monetary developments since last month's report

	Latest outturns available at time of: July Report	Dec Report	Jan Report
Monetary aggregates (12 month % growth)	**(June)**	**(Nov)**	**(Dec)**
M0 (sa)	4.2	4.9	4.3(4.6+)
M3	19.1	21.4	22.8
M4	13.8	15.2	16.3
M5	13.5	14.6	15.7
Bank lending	21.5	22.5	22.7
Bank & building society lending (est)	19.3	19.0	18.8
Interest rates (%)	**28 July**	**22 Dec**	**3 Feb**
3 month interbank	9.3	8.9	9.0
20 year gilt-edged (par yield)	9.5	9.6	9.3
Yield gap	-0.2	-0.7	-0.3
UK real 3 month interbank	5.6	4.7	4.8
Equity dividend yield (all-share)	3.0	4.3	4.2
IG yield (2001) assuming 5% inflation	4.1	4.0	4.0
3 month UK interest differential with:			
Germany	5.4	5.2	5.7
US	2.4	1.0	2.2
World basket	3.0	2.2	2.9
Exchange rate			
DM/£	2.97	2.98	2.98
ERI	72.6	75.6	74.4
Oil adjusted ERI	98.4	105.1	104.3
(Oil-adjusted reference index)	(73.8)	(71.9)	(71.3)
Asset prices			
FT-A Index (% pa)	55.9	7.5	-0.7
FT-A Level (July peak: 1239)	1199	885	906
Halifax house index (% pa)**	14.3	15.8	16.3

+ January outturn (provisional)

* indicates what ERI would be if exchange rate simply responded to oil prices in the ratio 1:4. In determining the reference rate the base taken is the Jan '83 - Nov '85 average for the ERI and oil price.

** figures are for July, December and January.

ANNEX

BROAD MONEY FORECAST

1A. The broad money forecast for January is dominated by an expected Central Government surplus of £5½ billion, resulting in large overfunding and a fall in the level of broad money: M3 is forecast to fall by £2¾ billion (1½ per cent) and M4 by £1 billion (¼ per cent). The CG surplus is, of course, seasonal, with falls in both M3 and M4 also occurring in January 1987. The fall in 1987 is, however, less than is forecast for 1988 so that annual growth rates of M3 and M4 are expected to fall by about 1 per cent and ¼ per cent, respectively, to 22 per cent and 16 per cent. The seasonal adjustments should, in theory, smooth the CG surplus and its effect on money growth over the financial year. In practice, however, the adjustments are based on much lower forecasts of the CG surplus, so that even in seasonally adjusted terms money growth is expected to be low in January - a rise of only 0.1 per cent in M3 and a fall of 0.2 per cent in M4.

2A. The unadjusted annual growth rate of M3 is forecast to fall further to 21½ per cent in February and 20¼ per cent in March, while annual growth of M4 is expected to remain at about 16 per cent.

3A. There are few other special factors affecting the money and bank lending forecasts (see tables 1 and 2). It is assumed that there will be no intervention during the forecast period, and that the PSBR and the reserves increase will be fully funded over the financial year (including an extra £0.4 billion of funding to compensate for the 1986-87 underfund). The impact of January's overfund on money is partly offset by an assumed boost of £¾ billion to bank lending - £¼ billion of it due to a fall in the bill leak associated with Bank of England purchases of commercial bills. In addition it is likely that bank lending may be boosted in the forecast period by increased use by companies of syndicated bank credits to replace equity issues. The magnititude of the switch is uncertain, since although a number of large credits are known to have been arranged recently, the draw-down dates for the facilities are not known and many of the loans are in foreign currencies. The forecast assumes a boost to sterling lending of £100 million per month.

4A. Building societies' retail inflows are forecast to remain extremely buoyant over the next few months at a level only slightly lower than that of December. But large tax payments will mean little growth in liquid assets and societies may therefore borrow small sums on the wholesale markets; at least one society is known to have issued eurobonds in January and the large recently arranged euro-CD facilities also point towards significant wholesale borrowing requirements in the near future. Within liquid assets, societies are likely to run down CTD holdings as tax payments fall due.

5A. The reasonably strong performance of mortgage commitments over the post-crash period points to moderate growth in societies advances over the next three months, although anecdotal reports of withdrawals from offers on houses, if true, may lower the number of completions relative to approvals. Whether the steady performance of building society commitments is a result of overall housing market conditions or reflects a growth in market share by societies is less easy to judge, but we do expect societies to gain share over the medium term at least.

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ANNEX TABLE 1

Broad Money Forecasts

£ million not seasonally adjusted

	1987 DECEMBER		1988 JANUARY		FEBRUARY		MARCH	
	M4	M3	M4	M3	M4	M3	M4	M3
(i) Underlying Increase*	4424	2106	-1875	3700	3275	2925	7125	6175
Special Factors:-								
Bank lending	550	550	900	900	100	100	-50	-50
(ii) Total Special Factors	550	550	900	900	100	100	-50	-50
(iii) Total Increase	4974	2656	-975	-2800	3375	3025	7075	6125
% Change on previous month	1.7	1.4	-0.3	-1.5	1.1	1.7	2.3	3.3
% Change on previous year	16.3	22.8	16.1	21.9	16.3	21.6	16.0	20.3
Memo								
Underlying % Change on previous year	14.9	20.3	14.3	18.8	14.5	18.5	14.3	17.4
% Change expected at Budget time	15.2	17.0	15.6	16.8	15.4	15.7	14.2	13.5

[Line (iii) = Line (i) + Line (ii)]

*Based on the following assumptions:

(a) Underlying bank lending rises by £3.6 billion per month and building society lending rises by £1.4 billion per month, both seasonally adjusted

(b) The public sector contribution to M4 and M3 is as follows:

	December	January	February	March
M4	1640	-6275	-775	3950
M3	1262	-6175	-675	4050

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ANNEX TABLE 2

Lending Forecasts

£ million

	1987 DECEMBER			1988 JANUARY			FEBRUARY			MARCH		
	Bank Lending	Building Society Lending	Lending Counterpart to M4*	Bank Lending	Building Society Lending	Lending Counterpart to M4*	Bank Lending	Building Society Lending	Lending Counterpart to M4*	Bank Lending	Building Society Lending	Lending Counterpart to M4*
(i) Underlying Increase	4354	1068	5084	3600	1350	4900	3600	1400	4900	3650	1450	4900
Special Factors												
PSBR offset	500	-	500	-500	-	500	0	-	0	-150	-	-150
Bill leak	-50	-	-50	300	-	300	-	-	-	-	-	-
Take-overs	100	-	100	100	-	100	100	-	100	100	-	100
(ii) Total Special Factors	550	-	550	900	-	900	100	-	100	-50	-	-50
(iii) Total Increase (seasonally adjusted)	4904	1068	5634	4500	1350	5800	3700	1400	5000	3600	1450	4950
Total Increase	5372	907	5941	4000	1150	5100	3600	1225	4725	2475	1475	3850
% Change on previous year	22.7	13.2	18.8	24.0	12.8	19.5	24.2	12.9	19.7	23.3	13.0	19.2
Memo												
Underlying % Change on previous year	22.4	13.2	18.6	23.2	12.8	19.0	23.3	12.9	19.0	22.5	13.0	18.7
% Change expected at Budget time	18.5	15.8	16.9	18.9	16.0	17.1	18.5	16.3	17.0	18.4	16.6	17.3

*Excludes bank lending to building societies (which is included under Bank Lending)

SECRET

ANNEX TABLE 3 BROAD AGGREGATES FORECAST

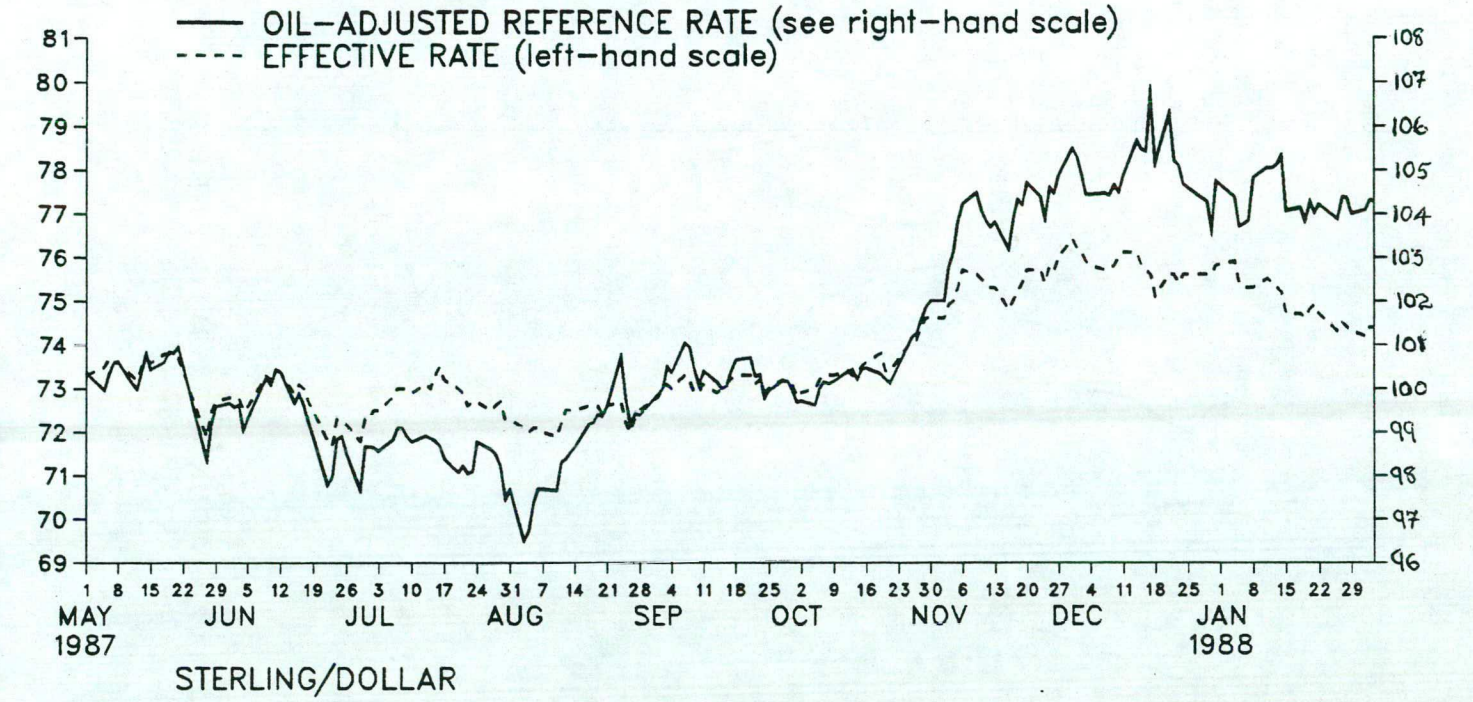
£ mn u/a

	OUTTURN 1987 DEC	FORECAST 1988 JAN	FEB	MAR
1. CG (OA) (SURPLUS-)	-536	-5725	375	3050
2. LABR	638	-300	-100	900
3. PCBR	94	-125	-300	-125
4. PSBR(1+2+3)	196	-6150	-25	3825
5. NET DEBT SALES TO NBPS (-)				
GILTS	-701	-625	-500	200
TREASURY BILLS etc	9	325	0	0
NATIONAL SAVINGS	-165	-225	-175	-200
CTDs	-18	400	75	25
OPS DEBT	-264	100	100	300
TOTAL	-1139	-25	-500	325
6. EXTERNAL FINANCE OF PUBLIC SECTOR (INC-)	2205	0	-150	-100
7. OVER (-)/UNDER (+) FUNDING (4+5+6)	1262	-6175	-675	4050
8. STERLING LENDING TO NON-BANK PRIVATE SECTOR	5372	4000	3600	2475
(seasonally adjusted)	(4904)	(4500)	(3700)	(3750)
9. PRIVATE NET EXTERNALS AND NET NON-DEPOSIT LIABILITES	-3978	-625	100	-400
10.M3 (7+8+9)	2656	-2800	3025	6125
BUILDING SOCIETIES:				
11. RETAIL DEPOSITS	2980	2325	800	825
12. WHOLESALE DEPOSITS NBPS	324	25	50	150
13. HOLDINGS OF M3 (-)	-986	-525	-500	-75
14.M4 (10+11+12+13)	4974	-975	3375	7025

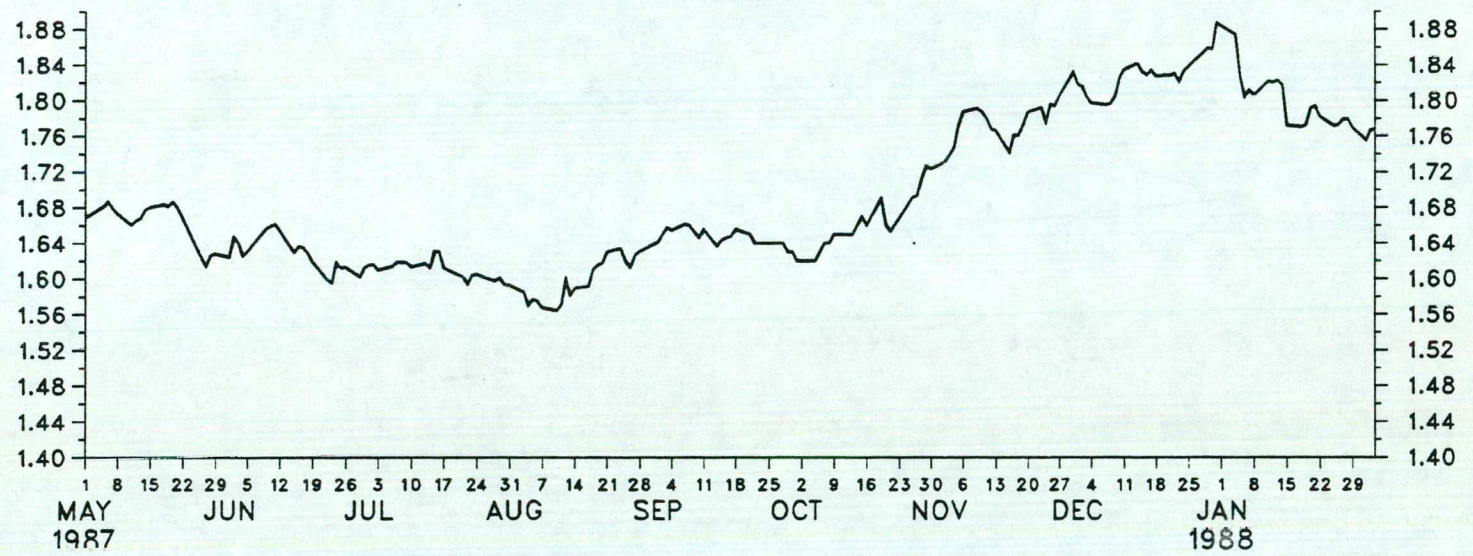
SECRET

MONTHLY MONETARY REPORT : CHARTS

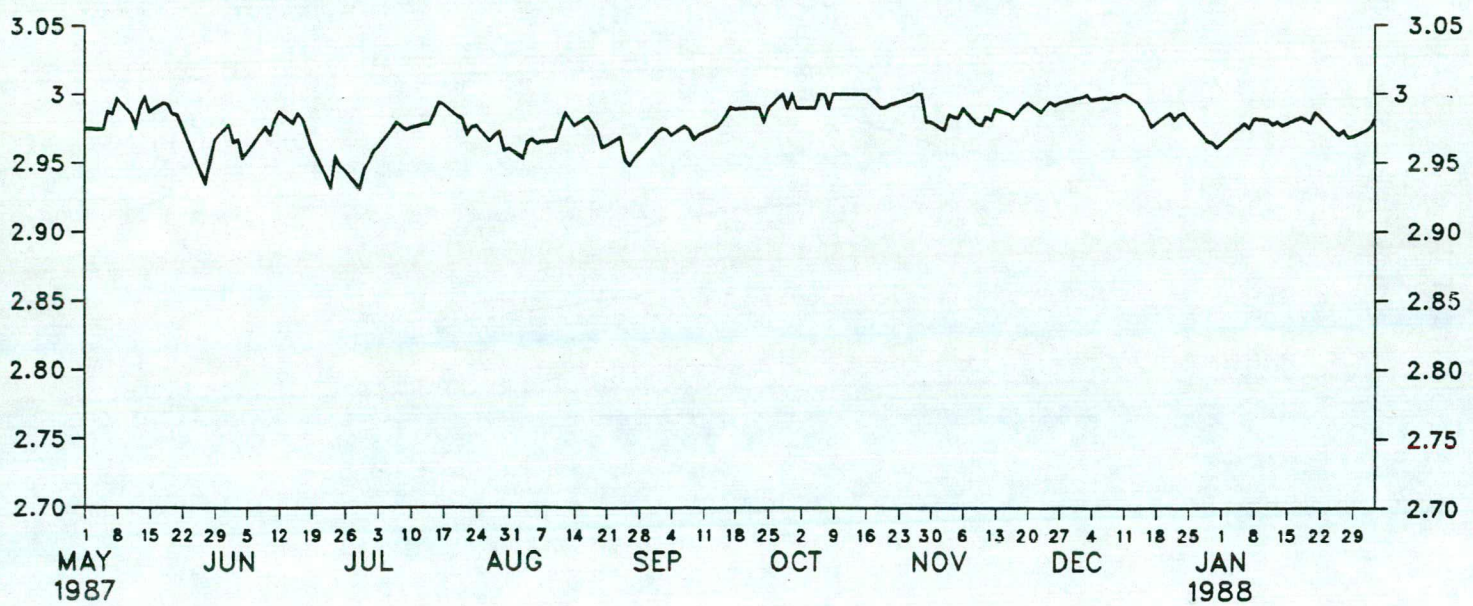
CHART I:EXCHANGE RATE



STERLING/DOLLAR



STERLING/DEUTSCHEMARK



UK/US INTEREST RATE DIFFERENTIAL

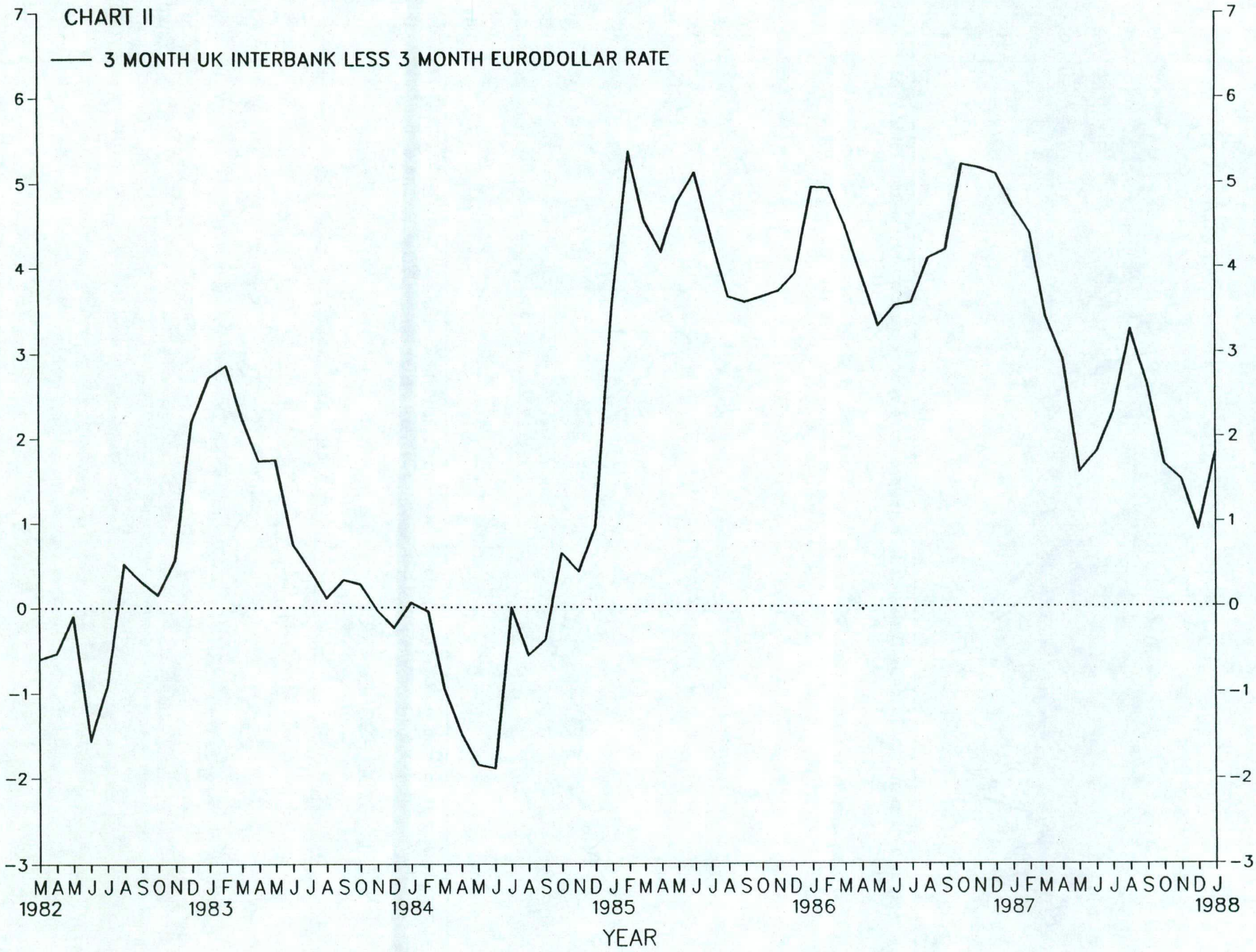


CHART III NARROW MONEY

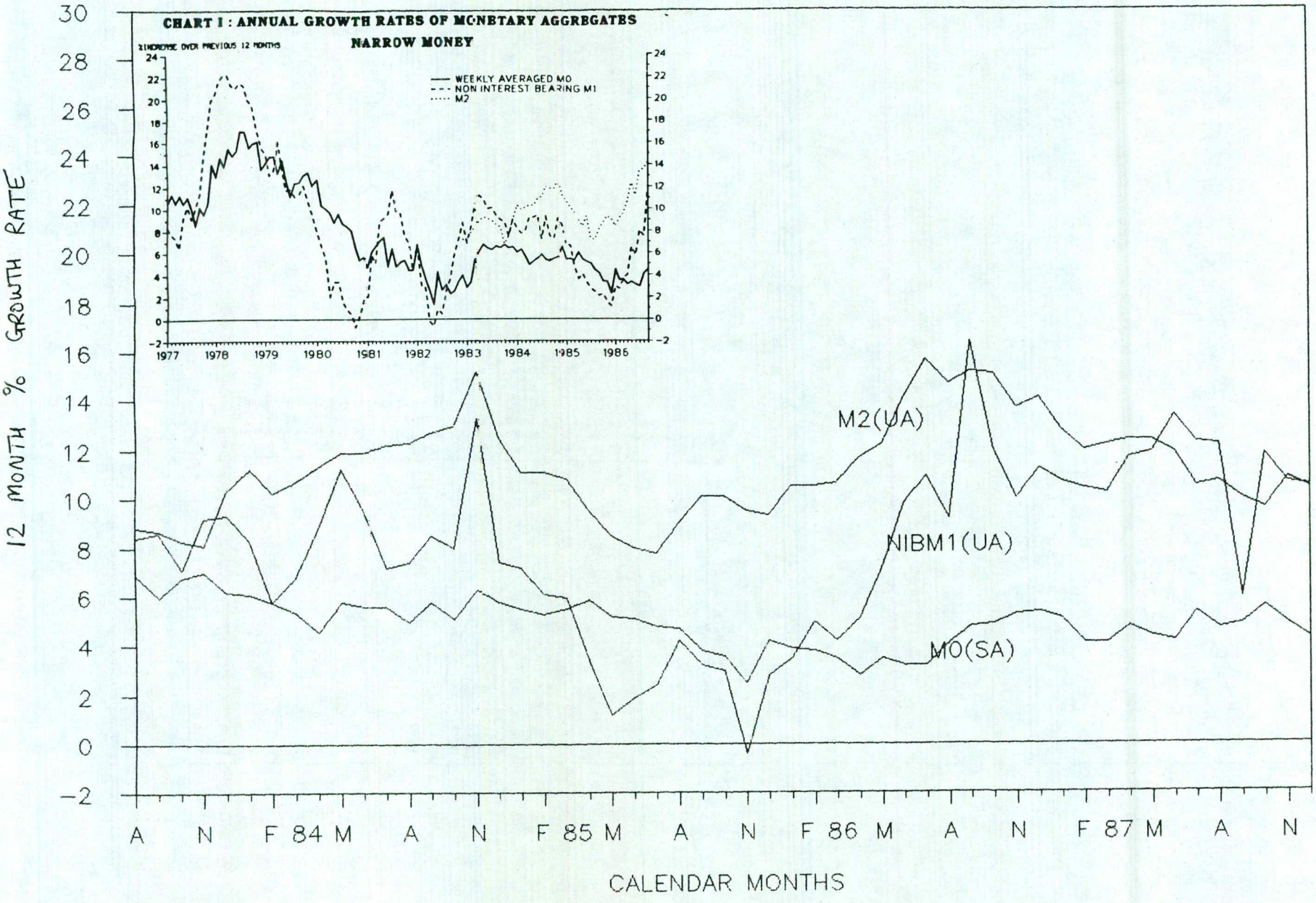


CHART IV BROAD MONEY

Annual percentage growth (ua)

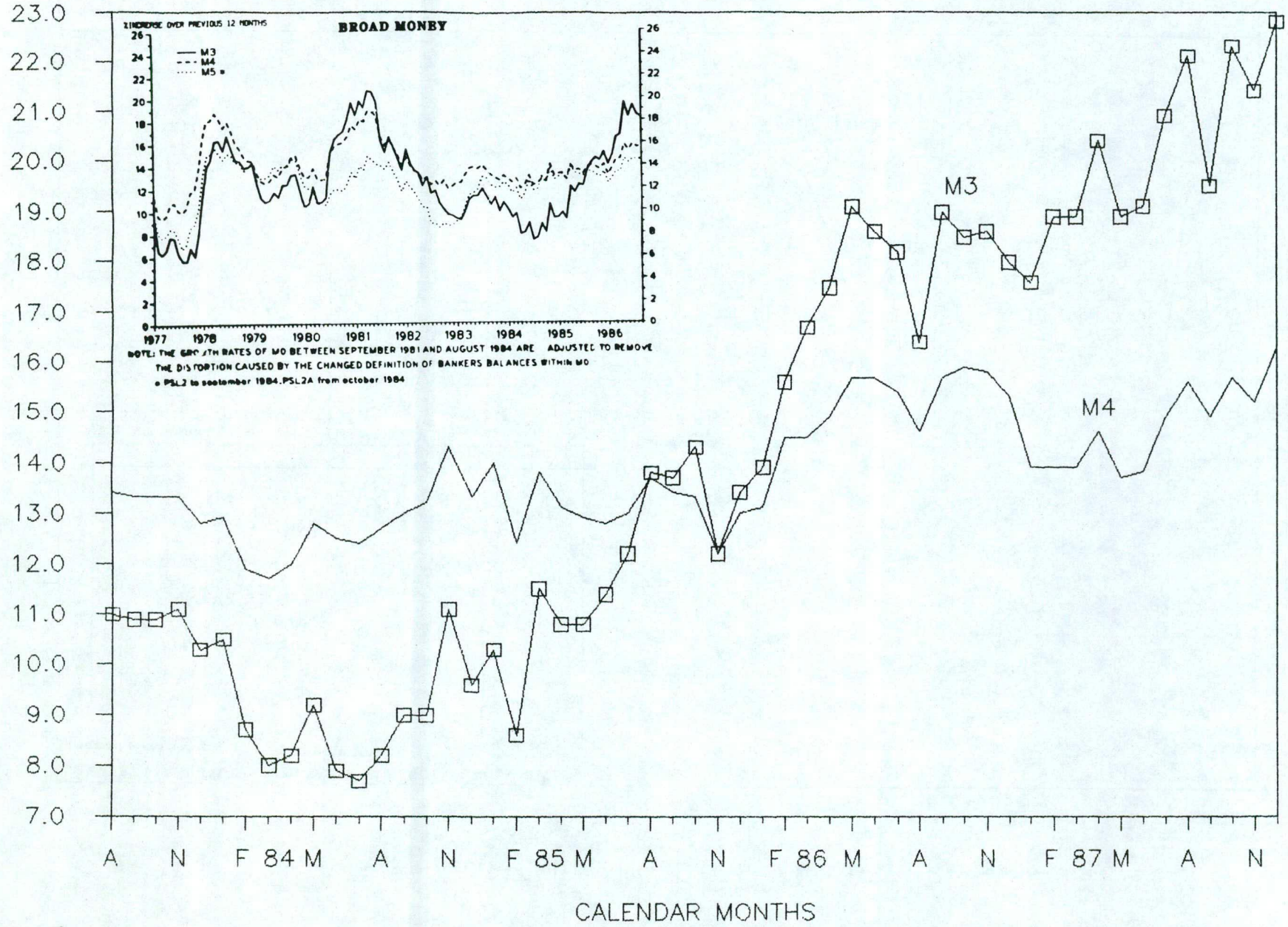


CHART V REAL M0

Annual percentage growth (sa)

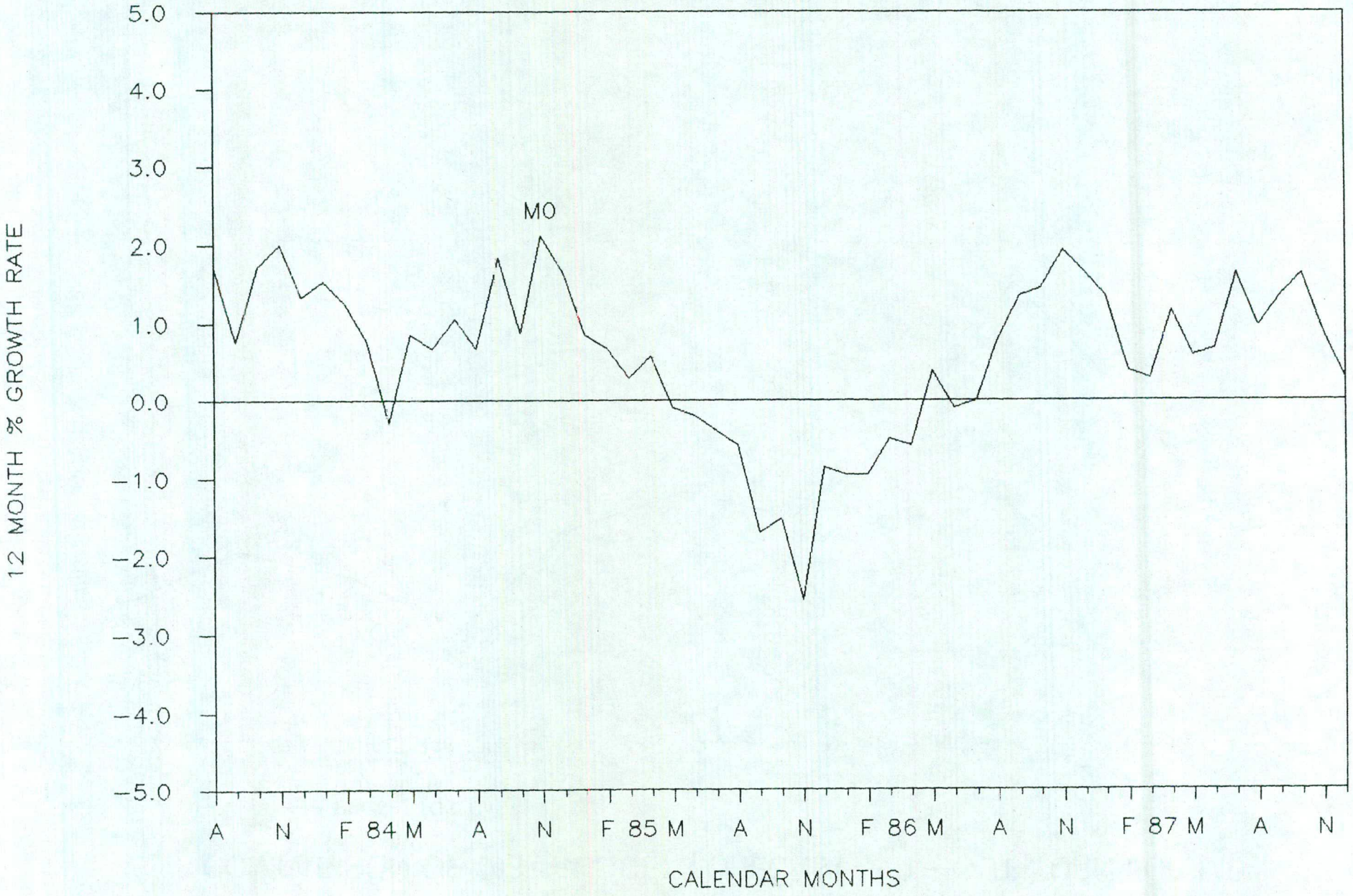


CHART VII

COMPARISON OF 1987 BUDGET FORECAST WITH OUT-TURN FOR M0

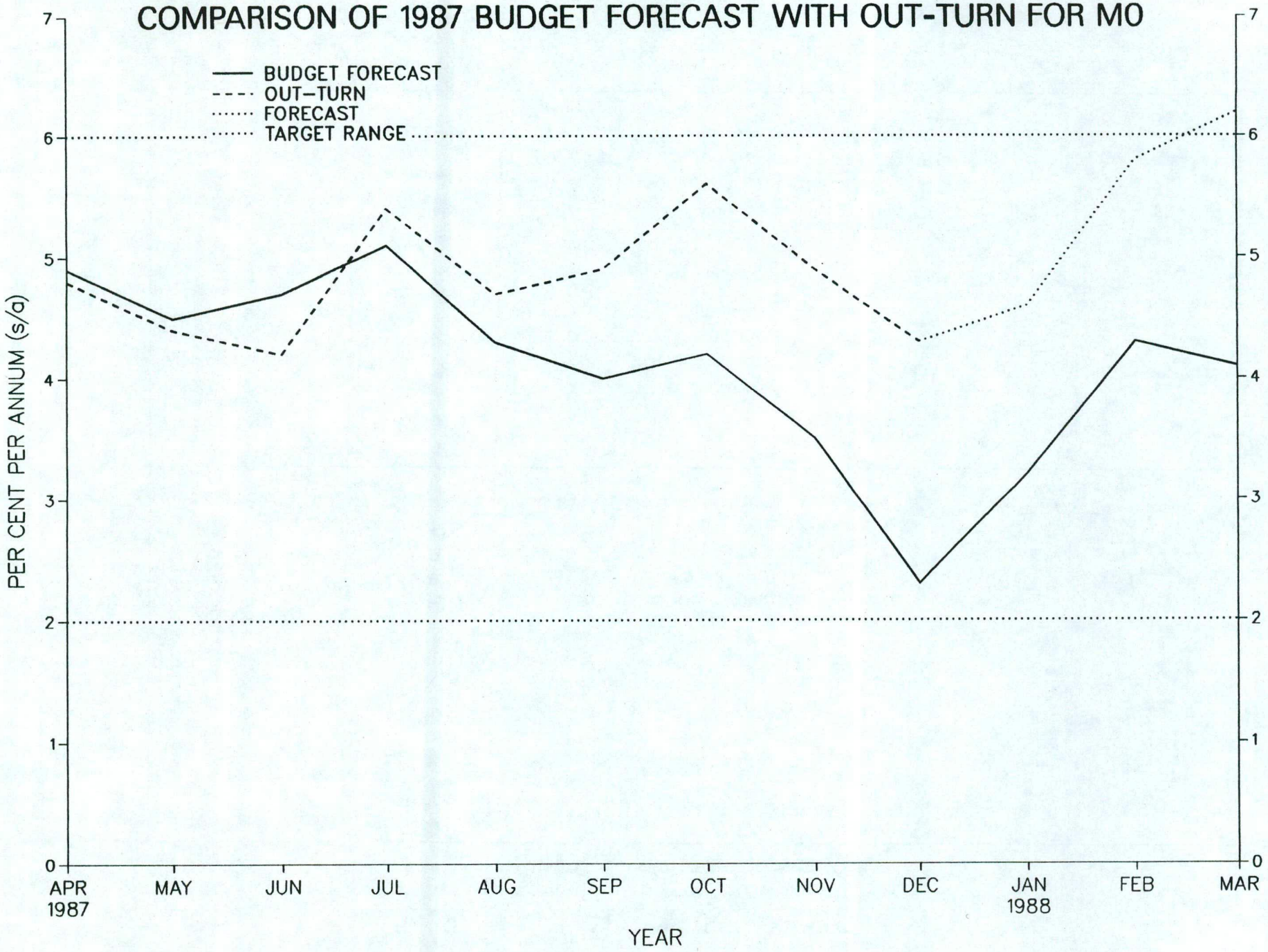


CHART VIII

COMPARISON OF 1987 BUDGET FORECAST WITH OUT-TURN FOR M3

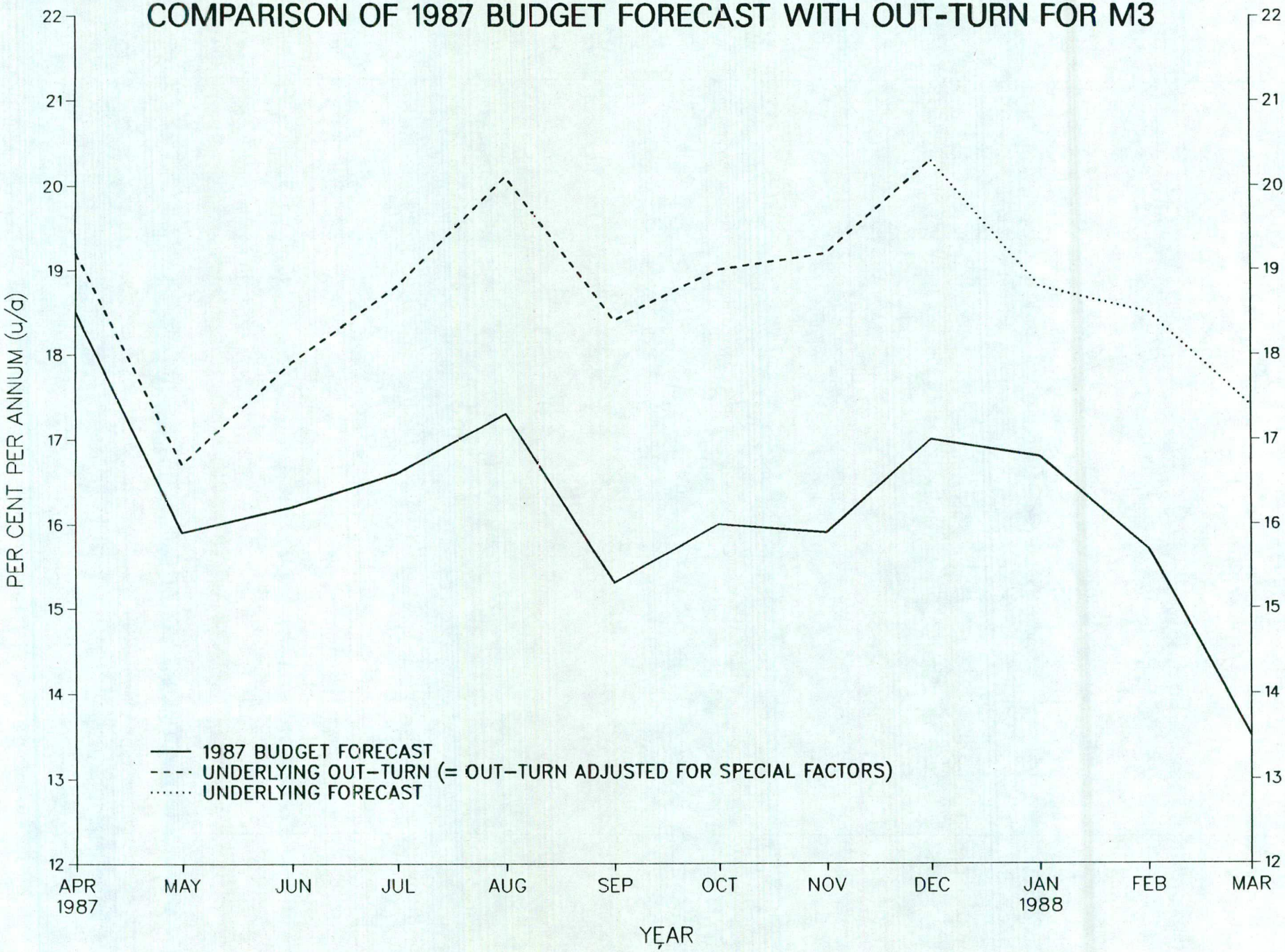


CHART X RETAIL DEPOSITS

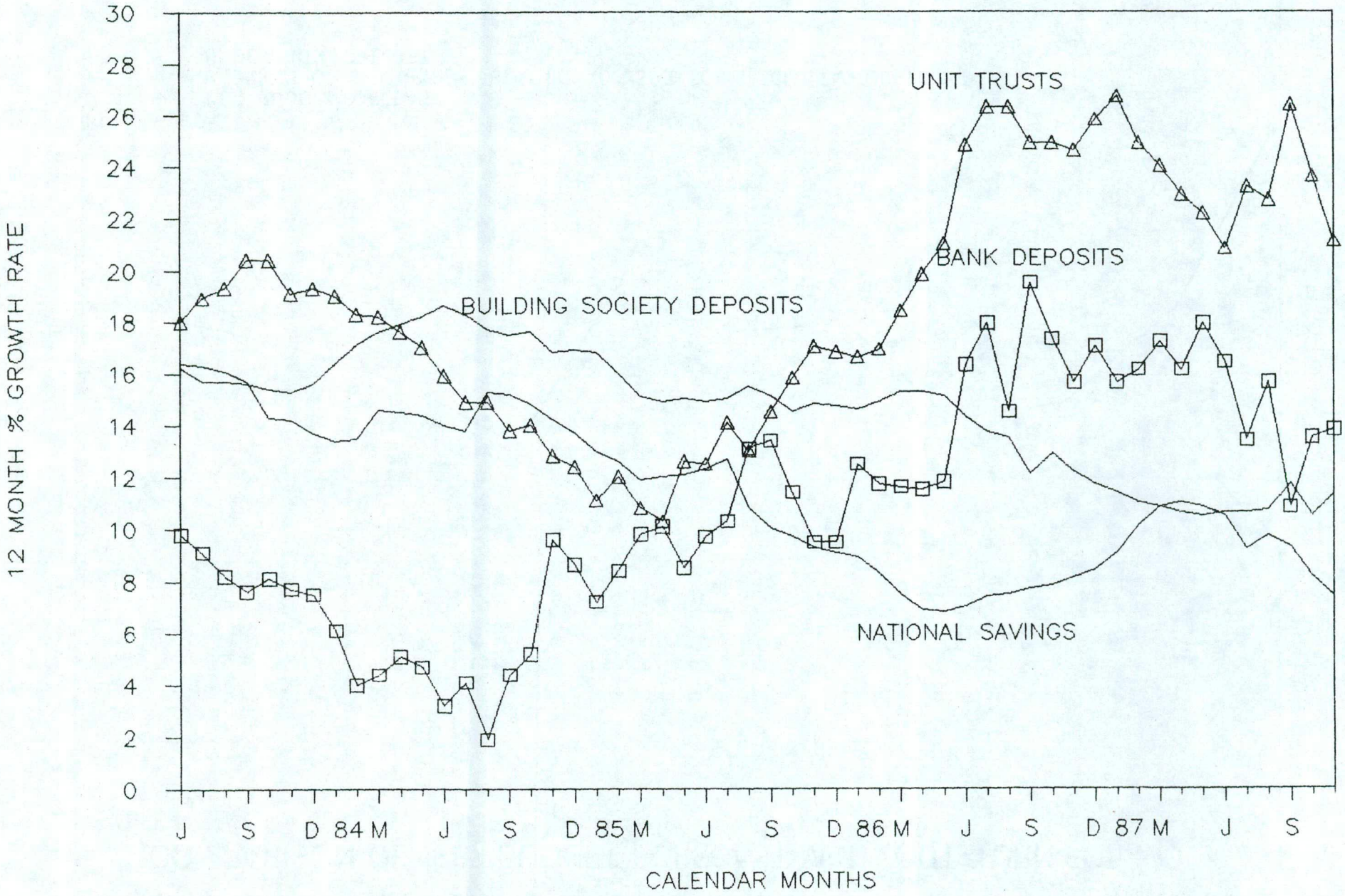
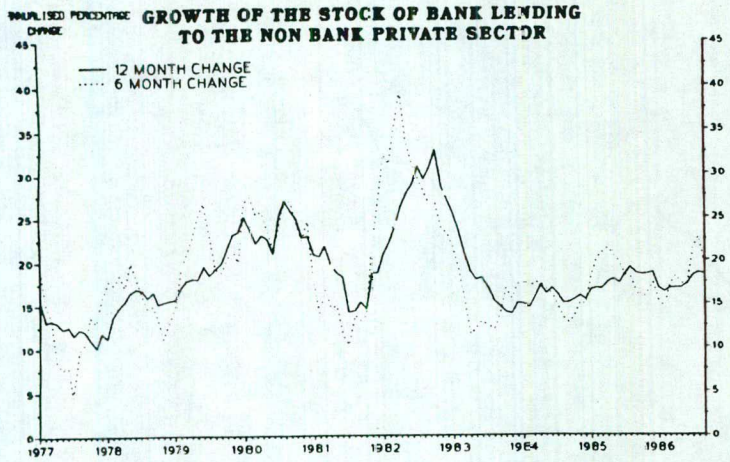


CHART XI

ANNUAL GROWTH OF THE STOCK OF LENDING TO THE NON BANK PRIVATE SECTOR



BANK LENDING

BANK AND BUILDING SOCIETY LENDING

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

CHART XII

STERLING BOND ISSUES BY UK AND OVERSEAS INSTITUTIONS

(DOMESTIC AND EURO MARKETS)

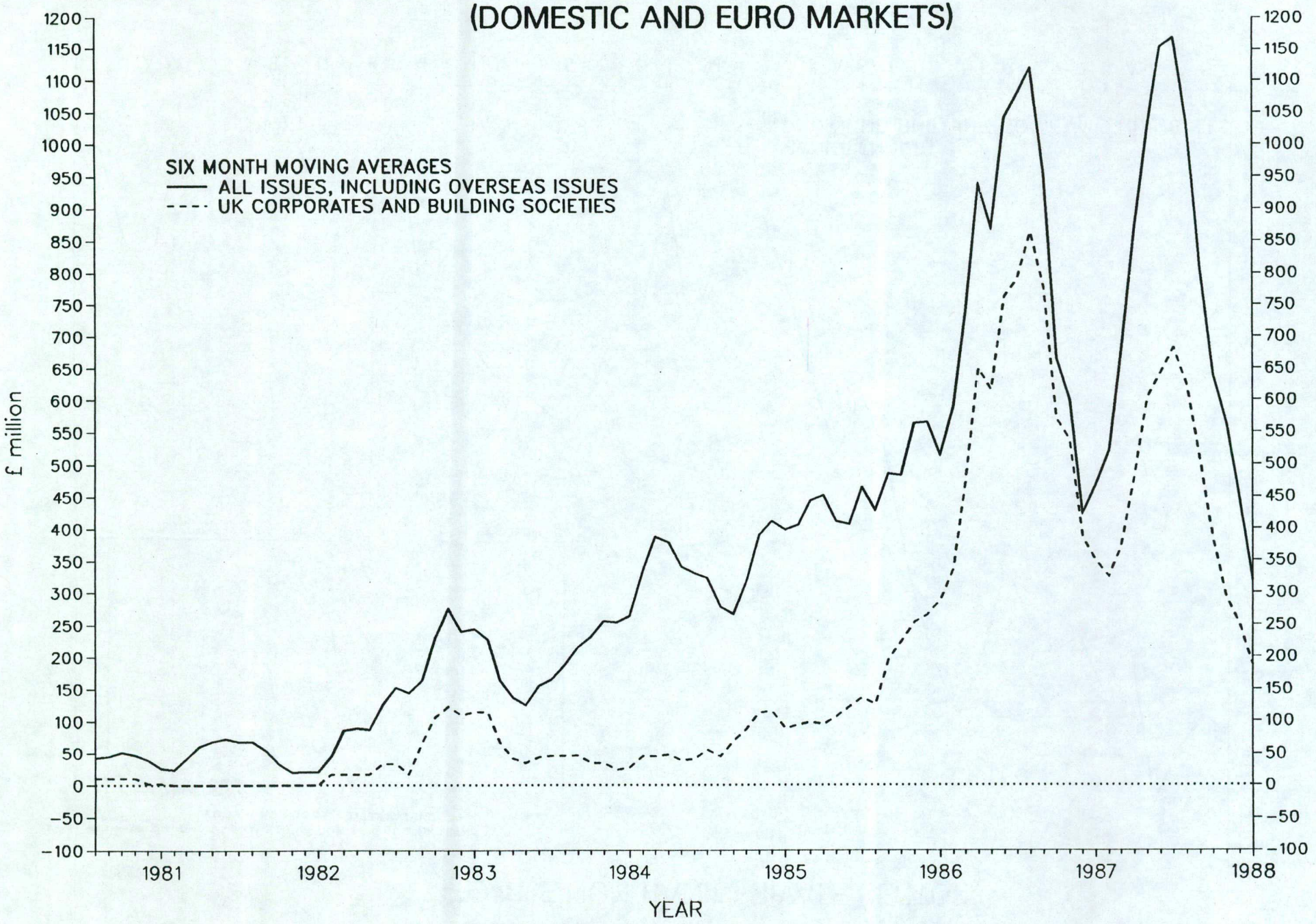
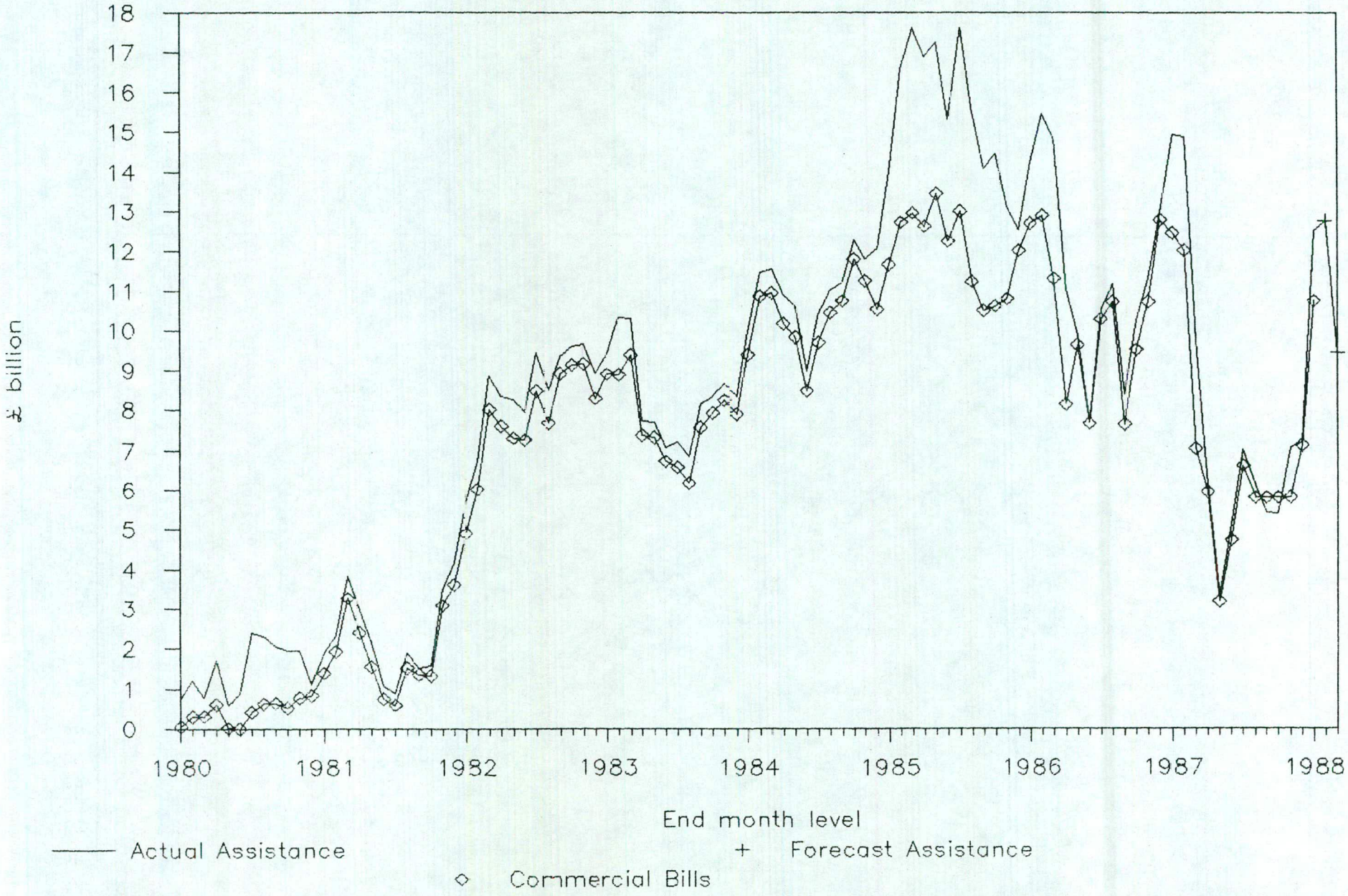
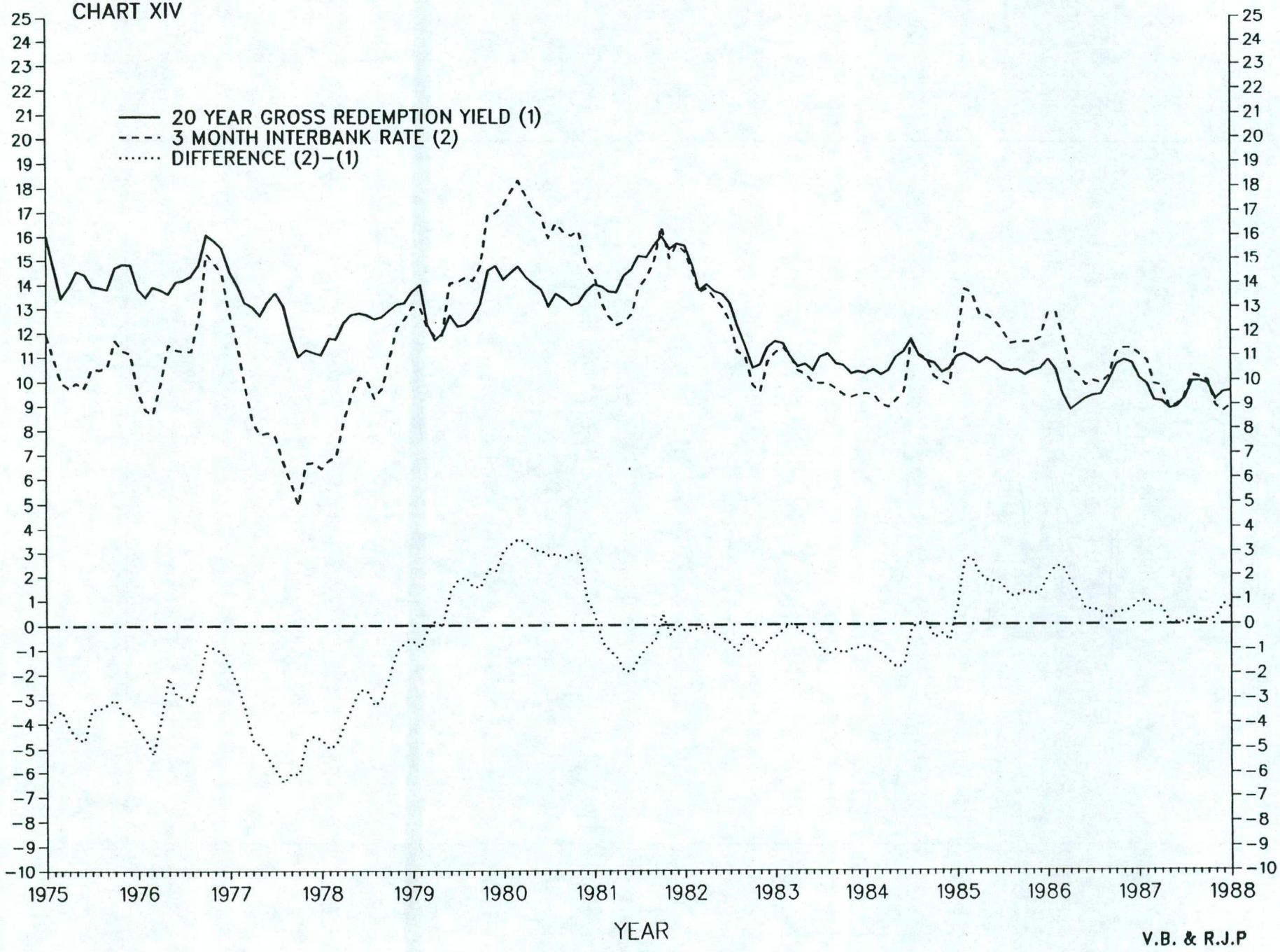


CHART X II – MONEY MARKET ASSISTANCE



NOMINAL INTEREST RATES

CHART XIV



V.B. & R.J.P

CHART XV

The curves have been fitted to the gross redemption yields on stocks with one year or more to maturity. They are not reliable below 2 years, and the 1-year yield is calculated as an average of 4 stock yields.

LA: 3-month deposit rate.
TB: Market rate of discount, expressed as an annual yield.
Debenture Yield: FT 15 year
FT All Share Index gross dividend yield 4.15

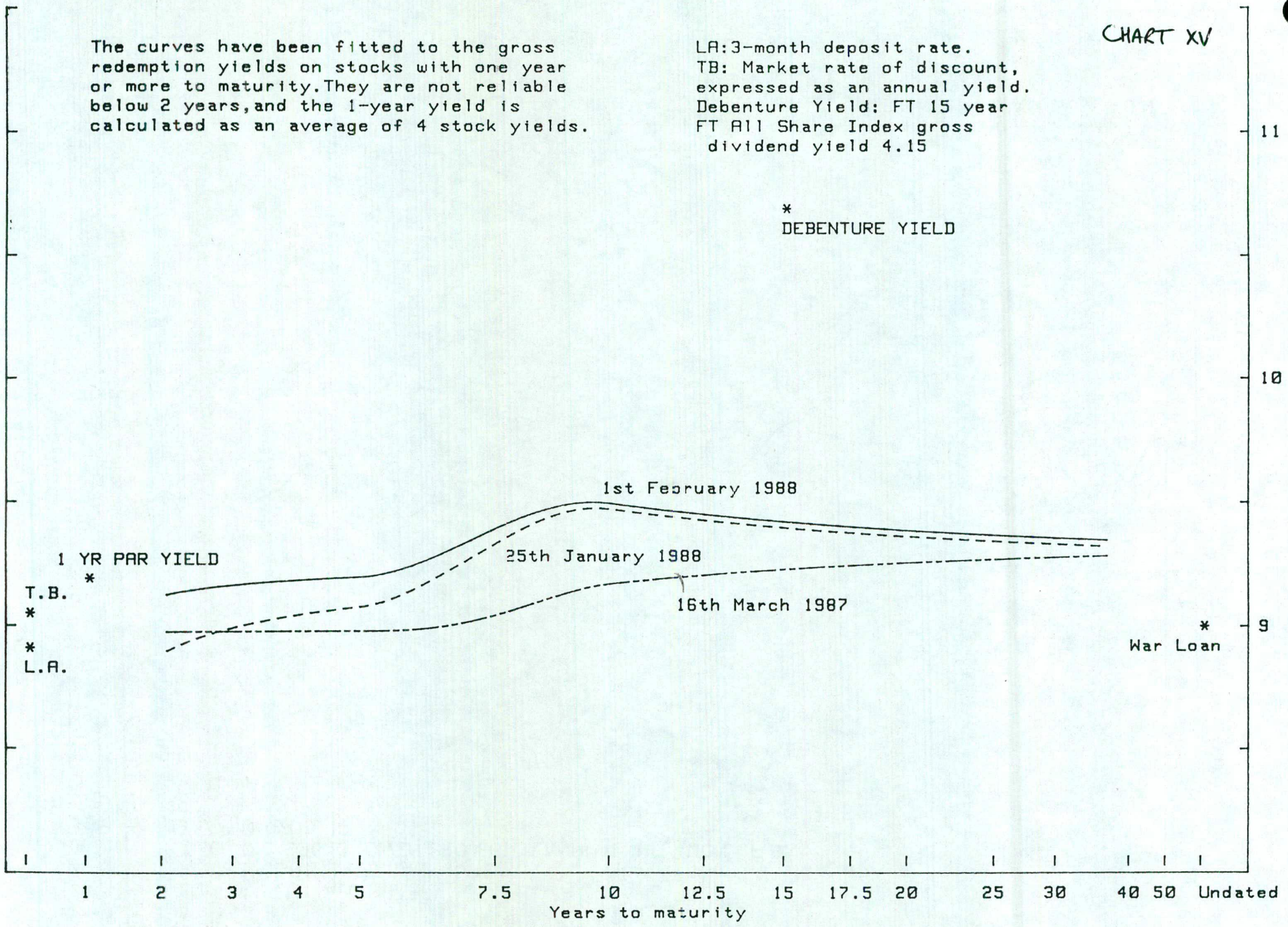
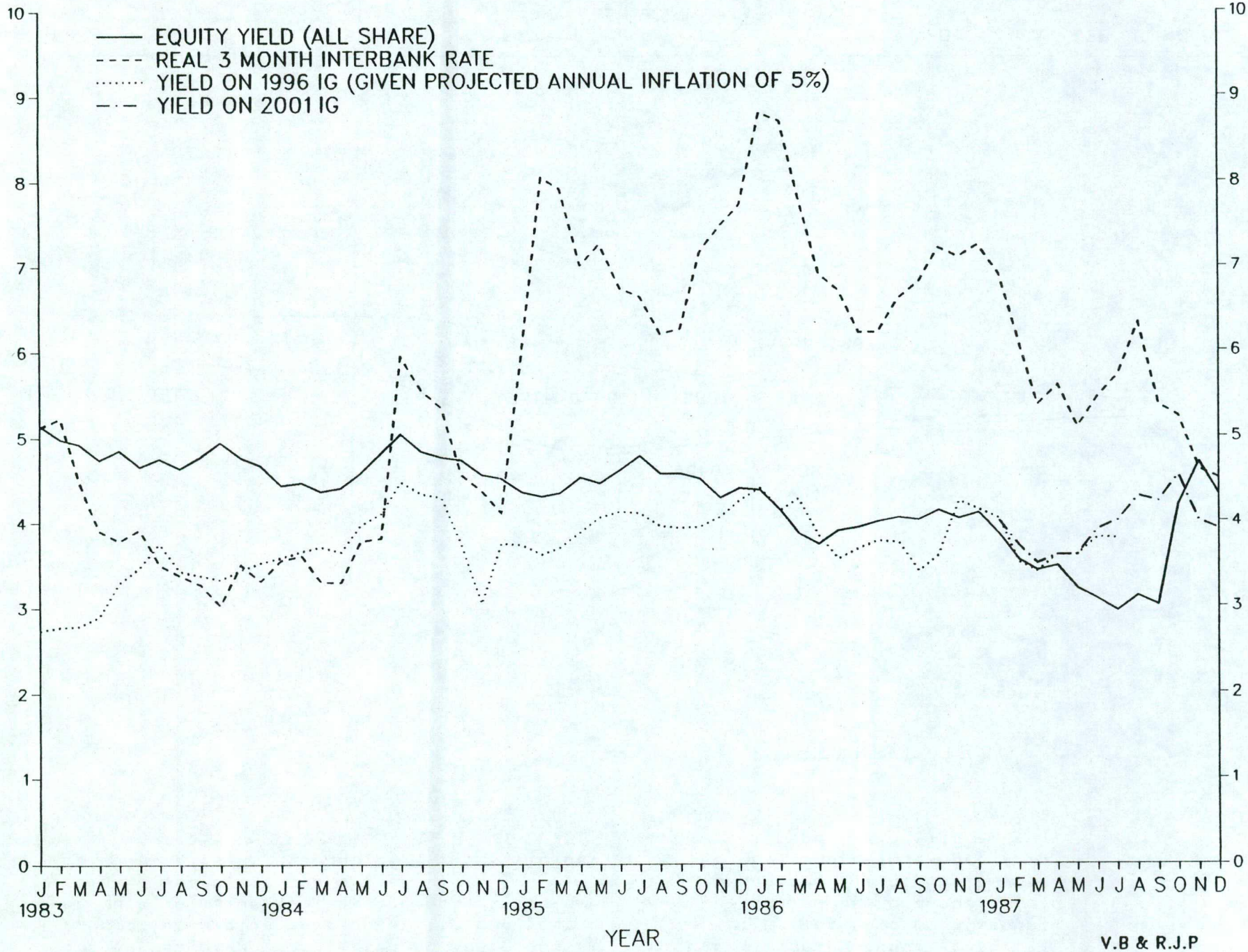


CHART XVI

REAL YIELDS



V.B & R.J.P

ANNUAL HOUSE PRICE INFLATION

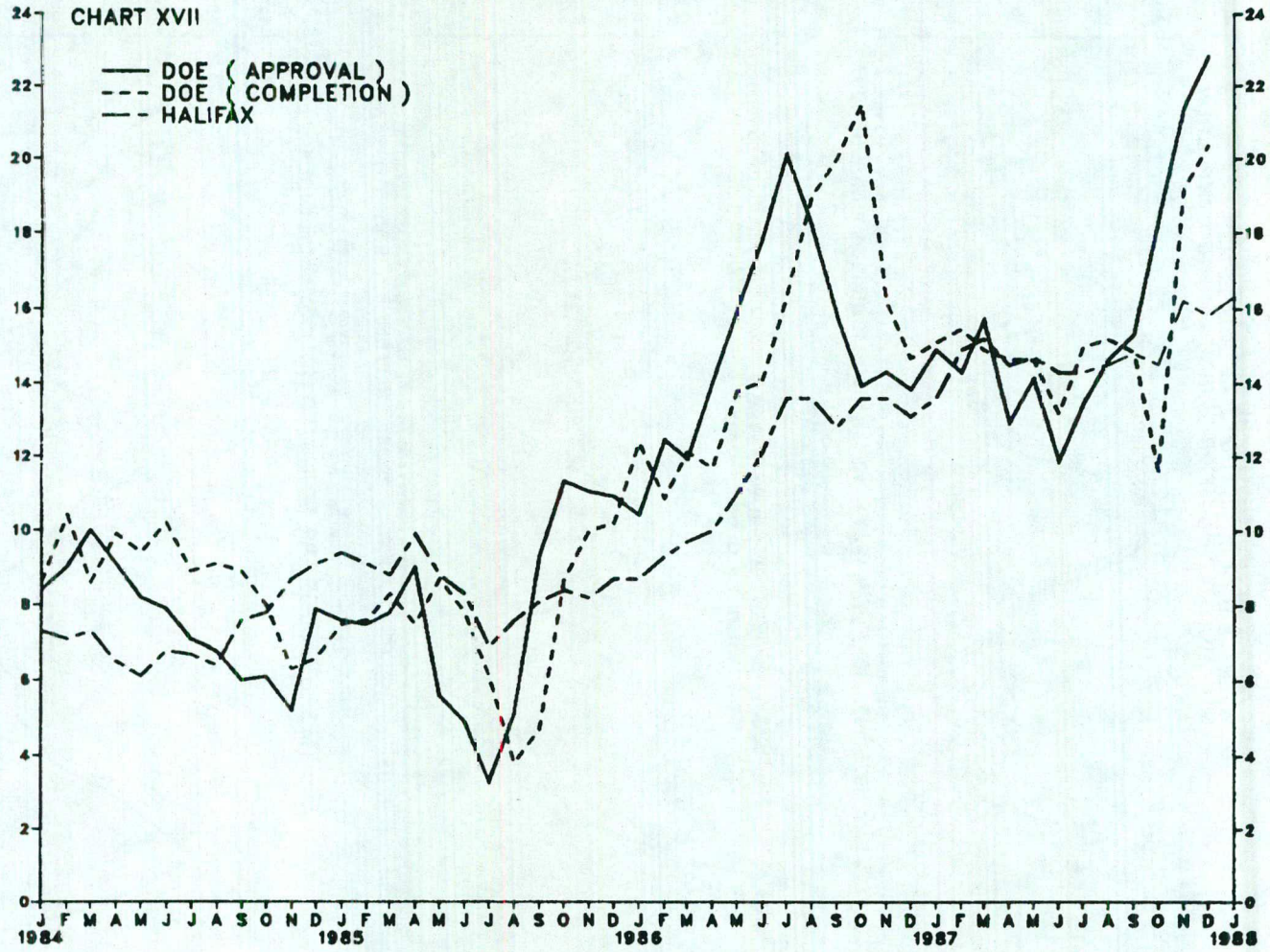
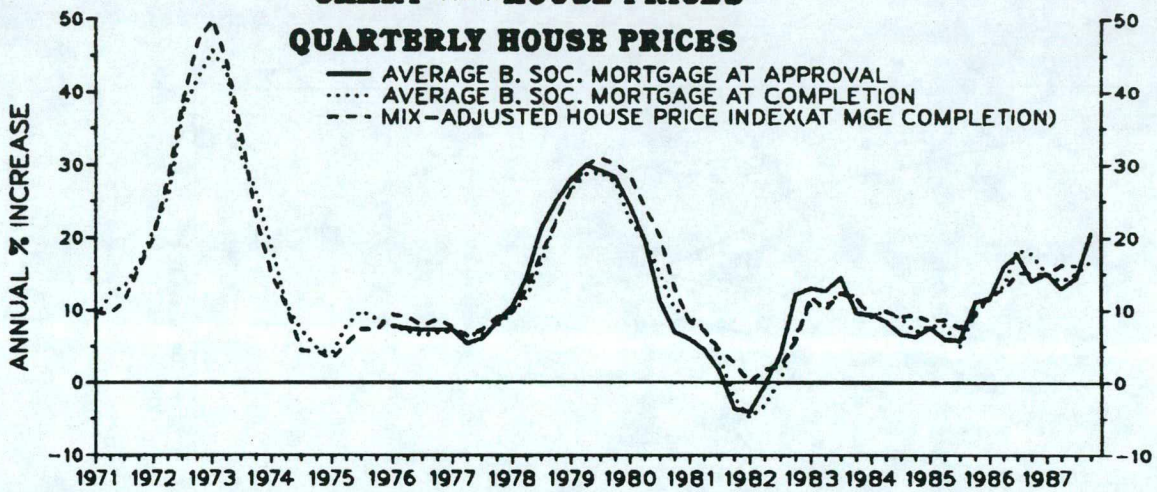
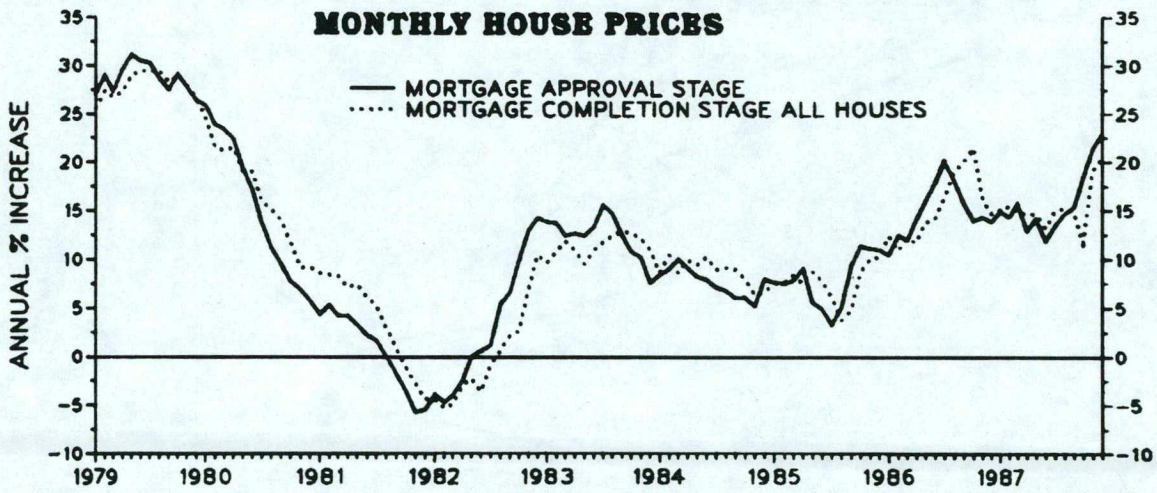
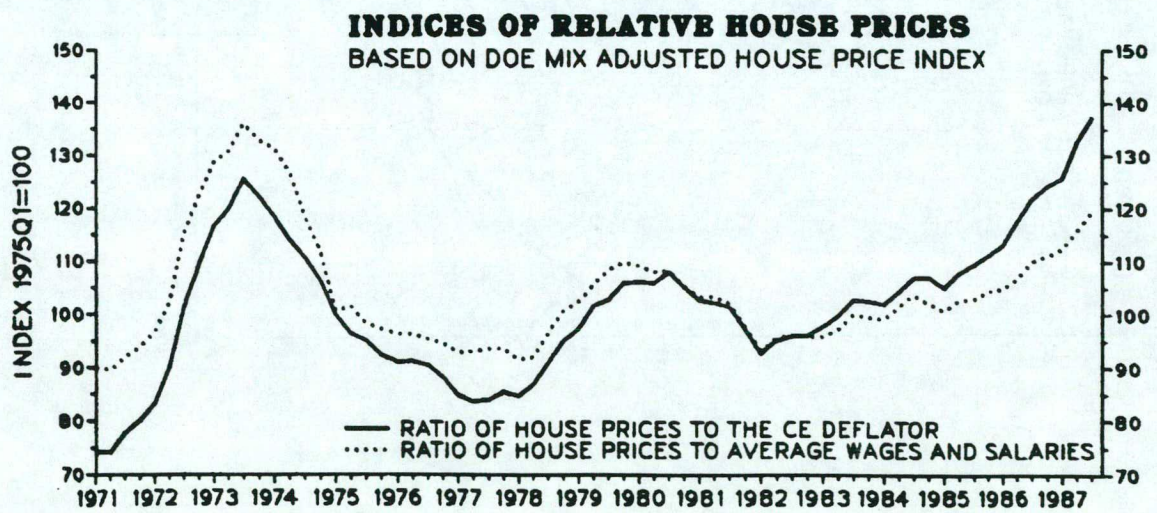


CHART XVIII HOUSE PRICES



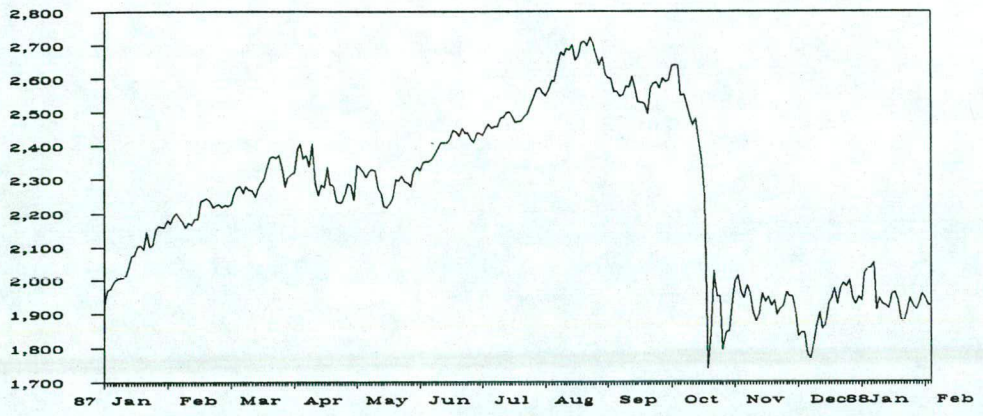




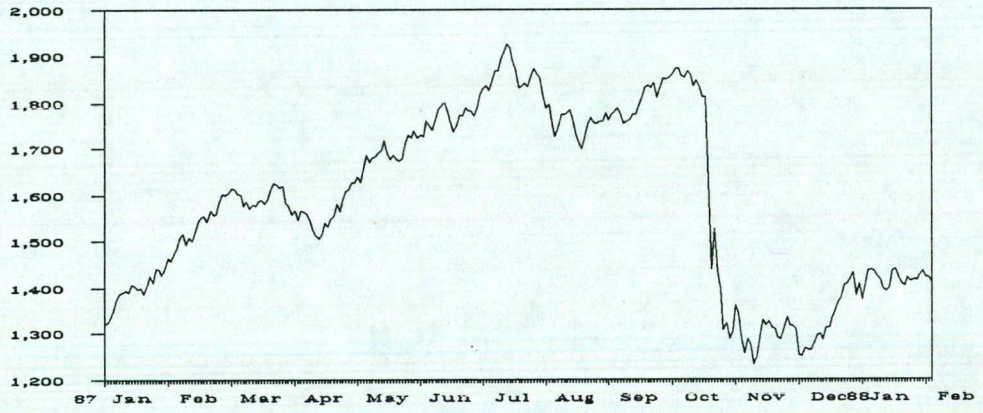
CAPITAL MARKETS

CHART XIX

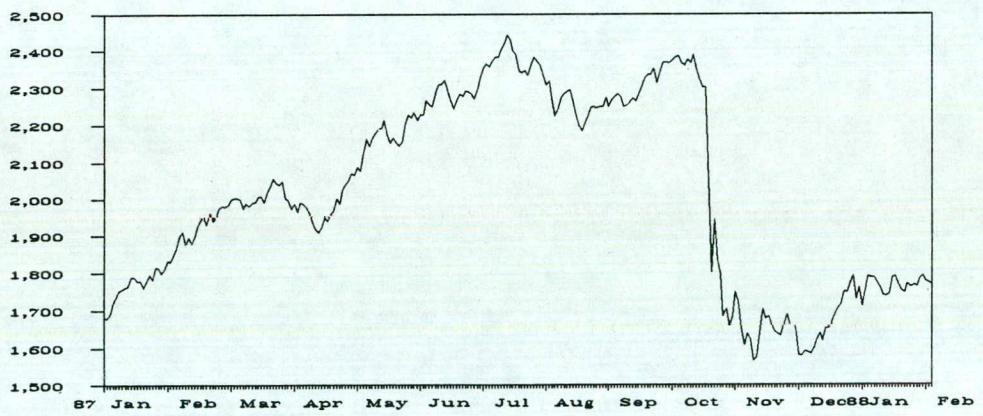
Dow Jones Industrial Average



FT Ordinary Index



FTSE 100



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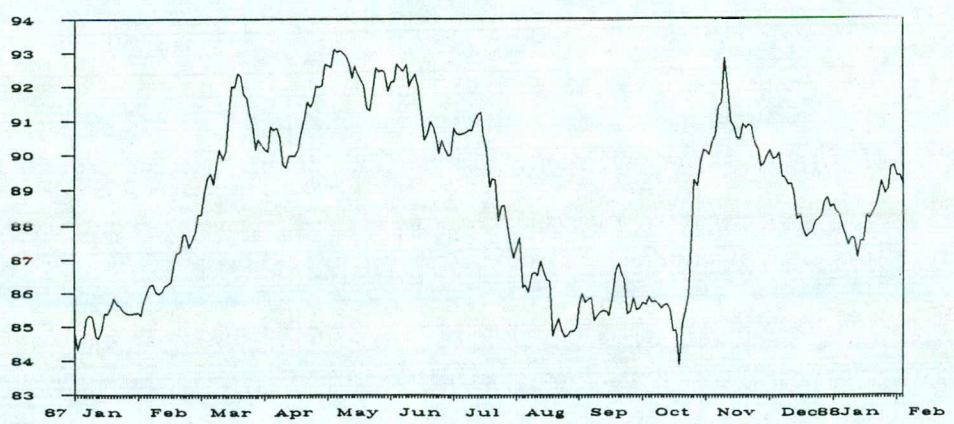

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Table 1: Developments in the G5 (including UK)*

	Activity			Money supply		Costs and prices		
	Nominal GNP	Real GNP	Industrial production	M1	M2/M3	Unit labour costs	Consumer prices	GNP deflator
1984	8.6	4.9	8.0	6.6	8.6	-0.7	4.1	3.5
1985	6.6	3.2	3.0	8.2	8.4	0.3	3.5	3.3
1986	5.6	2.7	1.0	11.5	8.1	1.4	1.5	2.8
1987 Q1	5.0	2.5	0.9	13.5	8.8	0.5	1.5	2.4
Q2	4.7	2.2	2.0	12.4	8.9	-0.8	2.5	2.5
Q3	5.5	3.2	3.6	10.2	8.5		2.9	2.2
1978 Jan			-0.2	14.4	9.0		1.0	
Feb			1.0	13.8	8.9		1.4	
Mar			2.0	12.4	8.6		2.0	
Apr			0.9	13.0	9.0		2.5	
May			2.5	12.8	9.0		2.5	
Jun			2.8	11.4	8.7		2.7	
Jul			3.0	10.6	8.5		2.6	
Aug			3.9	10.4	8.6		3.1	
Sep			4.0	9.5	8.3		3.0	
Oct			4.4	9.7+	8.8+		3.1	
Nov			5.4	8.1+	8.6+		3.1	

* Percentage changes on a year before.

\+ Partly estimated.

TABLE 2

GERMANY: KEY FIGURES

	INDUSTRIAL PRODUCTION %pa	CONSUMER PRICES %pa	TRADE SURPLUS* $bn	MONEY SUPPLY (M3) %pa
1984	3.4	2.4	1.7	3.3
1985	5.4	2.2	2.2	4.1
1986	2.1	- 0.2	4.5	4.0
1987 J	- 1.9	- 0.8	4.8 (4.5)	6.8
F	0.0	- 0.5	6.1 (4.7)	6.8
M	- 0.9	- 0.2	4.8 (4.9)	6.7
A	- 0.9	0.1	5.3 (5.0)	7.7
M	2.9	0.2	6.0 (5.2)	8.5
J	- 0.9	0.2	4.6 (5.1)	7.0
J	- 2.8	0.7	5.6 (5.1)	6.6
A	1.6	0.8	4.9 (5.1)	6.7
S	0.7	0.4	5.8 (5.2)	5.8
O	0.7	0.9	4.8 (5.2)	6.3
N	1.5	1.0	6.1 (5.3)	5.9

* Yearly figures are monthly averages. Monthly figures in brackets are averages of past 12 months.

TABLE 3a

THREE MONTH NOMINAL INTEREST RATES IN THE G5 COUNTRIES*

	United States	Japan	Germany	France	UK
1983	9.1	6.5	5.8	12.5	10.1
1984	10.4	6.3	6.0	11.7	9.9
1985	8.1	6.5	5.5	10.0	12.2
1986	6.5	5.0	4.6	7.8	11.0
1987	6.9	3.9	4.0	8.2	9.7
1987 Jan	5.8	4.3	4.6	8.4	11.0
Feb	6.1	4.0	4.0	8.5	11.0
Mar	6.2	4.0	4.0	8.0	10.0
Apr	6.5	3.9	3.9	8.0	9.8
May	7.0	3.8	3.8	8.2	8.8
June	7.0	3.7	3.7	8.2	9.0
July	6.7	3.7	3.9	7.9	9.2
Aug	6.8	3.7	4.0	7.9	10.1
Sept	7.4	3.8	4.0	7.9	10.1
Oct	8.2	3.9	4.8	8.2	9.9
Nov	7.4	3.9	3.9	8.6	9.0
Dec	7.8	3.9	3.6	8.7	8.7
Jan	7.0	3.9	3.4	8.3	8.9
Feb 2nd	6.7	3.9	3.3	7.6	9.0

* CD rate for US, Gensaki for Japan, Interbank rates for rest.

TABLE 3b

EFFECTIVE EXCHANGE RATE INDICES (1975 = 100)

	United States	Japan	Germany	France	UK	YEN/$	DM/$
1980	93.7	126.4	128.8	94.4	96.0	225.8	1.82
1981	105.6	142.9	119.2	84.3	94.8	219.5	2.25
1982	118.0	134.6	124.4	76.6	90.4	248.8	2.43
1983	124.8	148.4	127.1	70.0	83.2	237.4	2.55
1984	134.6	156.7	123.8	65.7	78.6	237.5	2.85
1985	140.7	160.5	123.6	66.3	78.2	238.4	2.94
1986	114.8	203.1	137.3	70.1	72.8	168.3	2.17
1987	101.2	219.6	147.6	71.8	72.7	144.7	1.80
1986 Q1	121.2	186.8	133.1	71.0	75.1	187.8	2.35
Q2	116.0	202.8	134.7	69.0	76.0	169.9	2.24
Q3	111.4	214.8	138.6	69.5	71.9	155.9	2.09
Q4	110.5	208.0	142.6	70.8	68.3	160.4	2.01
1987 Q1	104.2	210.1	147.7	71.9	70.2	155.2	1.84
Q2	101.1	222.9	146.9	71.6	72.7	142.6	1.81
Q3	102.5	218.0	146.4	71.4	72.7	147.0	1.84
Q4	97.0	227.4	149.4	72.3	75.2	134.0	1.71
1987 Jan	105.5	209.4	147.5	71.8	68.9	154.6	1.86
Feb	103.9	209.3	148.4	72.3	69.0	153.4	1.82
Mar	103.3	211.7	147.1	71.8	71.9	157.5	1.84
Apr	101.0	222.7	146.6	71.6	72.3	142.9	1.81
May	100.4	225.3	147.2	71.7	73.3	140.6	1.79
June	101.8	220.8	146.8	71.5	72.6	144.4	1.82
July	103.3	213.7	146.6	71.6	72.8	150.2	1.85
Aug	103.3	218.2	146.0	71.1	72.3	147.6	1.86
Sept	100.8	222.1	146.7	71.4	73.0	143.1	1.81
Oct	100.6	221.4	147.1	71.5	73.6	143.3	1.80
Nov	96.5	228.4	150.9	72.3	75.4	135.3	1.68
Dec	93.9	232.4	150.2	73.1	76.6	123.4	1.65
1988 Jan	93.9	239.5	150.4	72.5	74.9	127.8	1.65
Feb 2nd	94.6	240.4	149.4	72.0	74.4	128.1	1.68
% Change since dollar peak (Feb 85)	- 40	+ 53	+ 27½	+ 16	+ 6	- 51	- 51
% Change since Plaza (Sept 85)	- 32	+ 53½	+ 19	+ 7	- 9½	- 46½	- 41
% Change since Louvre Accord (Feb 87)	- 9	+ 15	+ 1	- ½	+ 7½	- 16½	- 8
% Change since Stock market crash (16 Oct 1987)	- 5½	+ 8½	+ 1.7	+ ½	+ 1	- 10½	- 6½

Table 3C

	All items indices			SDR indices			
	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
Annual							
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982	87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983	102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984	105.7	83.4	144.9	97.8	116.1	105.1	89.5
1985	95.8	74.8	135.2	86.5	103.4	94.2	84.3
1986	86.9	77.7	124.0	74.5	97.3	85.0	70.5
1987	88.8	88.4	125.2	73.7	84.4	98.8	82.1
Quarterly							
1986 Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
Q2	91.0	81.1	125.0	79.5	104.9	86.9	71.8
Q3	81.4	75.2	117.4	70.3	88.8	80.1	68.3
Q4	82.4	76.4	123.9	70.1	87.4	86.5	68.4
1987 Q1	81.6	79.2	119.2	68.9	82.4	91.0	69.0
Q2	86.8	86.4	122.2	73.3	85.5	98.0	75.2
Q3	91.4	89.6	128.9	73.9	82.6	107.1	87.5
Q4	95.3	98.2	130.4	78.2	87.0	99.0	96.8
Monthly							
January	80.3	77.0	118.8		82.5	88.8	66.7
February	81.7	79.6	120.5		82.6	91.7	68.5
March	82.9	81.0	118.2		82.1	92.4	71.8
April	84.2	83.8	119.0		83.2	94.8	72.6
May	87.3	87.6	122.0		87.1	97.2	74.8
June	88.9	87.8	125.2		86.2	101.7	78.3
July	90.7	88.4	127.8		84.0	105.1	84.7
August	92.2	89.8	130.9		81.2	109.7	90.2
September	91.4	90.6	128.2		82.7	106.6	87.6
October	94.8	94.2	132.2		86.7	101.9	94.3
November	93.6	97.0	127.6		86.5	97.1	93.8
December	97.4	103.4	131.4		87.9	97.9	102.2
Weekly							
October 20	93.4	93.3	131.0		86.2	101.1	91.5
27	93.9	94.2	129.1		87.2	98.9	92.7
November 3	91.0	93.6	124.9		84.3	96.8	89.8
10	92.1	96.5	125.5		85.3	95.4	92.3
17	94.8	97.8	128.8		87.3	98.3	95.4
24	96.4	100.0	131.1		89.2	98.0	97.7
December 1	96.5	101.2	129.2		89.4	98.9	96.9
8	96.0	100.4	129.8		88.1	98.3	97.7
15	96.2	102.5	130.1		87.0	97.0	100.5
22	98.3	104.8	133.1		87.6	98.0	105.1
29	99.8	108.0	134.9		87.3	97.1	110.6
January 5	98.9	106.2	134.9		88.5	98.6	105.4
12 (prov)	99.0	105.2	134.2		89.0	97.8	105.4

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals

CONFIDENTIAL

TABLE 4: RECENT INDICATORS OF ACTIVITY AND INFLATION
(per cent changes on year earlier)

	MONEY		OUTPUT		PRICES AND UNIT LABOUR COSTS					
				Manufacturing		RPI excluding	Producer Prices***		Unit Wage Costs	
	GDP		GDP(O))	Output	RPI	mortgage payments	Output	Input	Manufacturing	Whole economy
1985-86	9.6	1986	3.1	0.8	3.4	3.6	4.3	-10.8	4.7	5.4
1986-87	6.7	1987	n/a	n/a	4.1	3.7	4.5	5.3	n/a	n/a
1986 2	6.3	1986 1	2.2	- 1.5	4.9	4.6	5.0	-11.9	8.2	6.0
3	6.5	2	2.3	- 0.6	2.8	3.3	4.3	-12.4	6.2	6.2
4	6.8	3	3.7	1.2	2.6	3.3	4.0	-13.0	3.3	4.4
1987 1	7.3	4	4.0	4.1	3.4	3.4	4.0	- 5.6	1.2	5.0
2	8.7	1987 1	4.6	5.3	3.9	3.7	4.1	- 1.7	0.1	4.0
3	10.3	2	4.3	5.2	4.2	3.6	4.5	4.6	0.8	4.6
4	10.2*	3	5.2	6.6	4.3	3.6	4.7	12.9	0.9	
1988 1	10.3	4			4.1	4.0	4.7	6.2		
1987-88	9.5									
		1987 January		4.1	3.9	3.7	4.2	- 2.5	1.2**	
		February		4.6	3.9	3.7	4.2	- 2.9	0.8	
		March		3.2	4.0	3.8	4.1	0.4	- 0.1	
		April		4.3	4.2	3.6	4.3	3.0	- 0.4	
		May		6.3	4.1	3.8	4.5	3.4	0.0	
		June		5.2	4.2	3.5	4.5	7.2	0.8	
		July		6.3	4.4	3.7	4.7	13.4	1.2	
		August		5.8	4.4	3.7	4.7	14.5	0.9	
		September		5.5	4.2	3.5	4.7	10.8	0.9	
		October		5.9	4.5	3.9	4.7	7.8	1.1	
		November		5.0	4.1	4.0	4.8	5.1		
		December			3.7	4.0	4.7	5.6		

* Winter internal forecast.

** Wage cost figures show averages for three months ending in month indicated.

*** Excluding food, drink and tobacco.

TABLE 5 : INDICATORS OF FISCAL STANCE

(a) Annual data

	PSBR		PSBR EXCLUDING PRIVATISATION PROCEEDS		PSFD	
	Cash £ billion	Ratio to GDP (per cent)	Cash £ billion	Ratio to GDP (per cent)	Cash £ billion	Ratio to GDP (per cent)
1970-71	0.8	1.5	0.8	1.5	-0.2	-0.4
1971-72	1.0	1.6	1.0	1.6	0.7	1.1
1972-73	2.4	3.6	2.4	3.6	2.0	3.0
1973-74	4.3	5.8	4.3	5.8	3.5	4.6
1974-75	8.0	9.0	8.0	9.0	6.0	6.7
1975-76	10.3	9.3	10.3	9.3	8.1	7.3
1976-77	8.3	6.4	8.3	6.4	7.5	5.7
1977-78	5.4	3.6	5.9	3.9	6.6	4.4
1978-79	9.2	5.3	9.2	5.3	8.3	4.8
1979-80	10.0	4.8	10.4	5.0	8.0	3.9
1980-81	12.7	5.4	13.1	5.5	11.7	5.0
1981-82	8.6	3.3	9.1	3.5	5.2	2.0
1982-83	8.8	3.1	9.3	3.3	8.3	2.9
1983-84	9.7	3.2	10.9	3.5	11.5	3.7
1984-85*	10.2	3.1	12.3	3.7	13.1	4.0
1985-86*	5.8	1.6	8.5	2.3	8.2	2.3
1986-87	3.4	0.9	7.8	2.0	9.2	2.4
January forecast 1987-88	-2.8	-3/4	2.2	1/2	3.0	3/4

*If adjusted for coal strike, PSBR and PSFD ratios to GDP roughly 0.9 per cent lower in 1984-85 and 0.2 per cent lower in 1985-86

(b) Quarterly Data

£ billion		PSBR		PSBR excluding privatisation		PSFD	
		sa*	ua	sa*	ua	sa+	ua
1985	Q2	1.2	2.6	2.5	3.9	2.9	4.6
	Q3	1.9	2.9	2.4	3.4	1.5	1.9
	Q4	1.5	2.1	2.1	2.6	2.1	0.7
1986	Q1	1.1	-1.9	1.5	-1.5	2.0	1.0
	Q2	2.1	2.3	3.2	3.4	2.2	3.6
	Q3	2.1	3.6	2.1	3.6	3.0	4.2
	Q4	-1.3	-1.6	0.9	0.5	1.5	0.0
1987	Q1	0.5	-0.8	2.8	1.6	2.5	1.9
	Q2	0.0	1.0	1.6	2.6	1.5	3.2
	Q3	-0.1	0.4	1.1	1.5	0.8	1.7

*financial year - constrained
+calendar year - constrained

Table 6: CGBR(O) April-December Comparison with Budget Profile

	£ billion
Receipts	
Inland Revenue	+ 2.9
Customs and Excise	+ 0.4
National Insurance contributions	+ 0.2
Privatisation proceeds	+ 0.6
Interest and dividends	- 0.2
Other receipts	+ 0.5
Total receipts	+ 4.3
Expenditure	
Interest payments	- 0.2
Departmental expenditure (1)	- 1.0
Total expenditure	- 1.2
Net effect on CGBR(O)	- 5.5

(1) on a cash basis, net of certain receipts and on-lending

\+ = higher receipts, higher borrowing and higher expenditure

\- = lower receipts, lower borrowing and lower expenditure

TABLE 7 EXCHANGE RATES

		Exchange Rate Index*	Real Exchange Rate @	ERI/(Oil Price Adjusted ERI)/	Dollar: Sterling exchange rate	D-Mark: Sterling exchange rate	Index against EMS currencies*	US-UK Interest rate differential	Brent spot price ($/bl)
1985	(1)	72.1	80.1	0.908	1.12	3.63	95.2	+4.1	27.7
	(2)	78.9	88.9	1.001	1.26	3.88	102.3	+4.4	27.0
	(3)	82.1	93.3	1.040	1.38	3.92	103.8	+3.6	27.4
	(4)	79.8	91.6	1.001	1.44	3.71	98.7	+3.5	28.3
1986	(1)	75.1	88.3	1.037	1.44	3.38	90.9	+4.5	17.8
	(2)	76.1	92.1	1.101	1.51	3.39	91.4	+3.2	12.8
	(3)	71.9	88.2	1.049	1.50	3.10	84.9	+3.8	12.4
	(4)	68.3	84.0	0.970	1.43	2.87	79.0	+5.1	14.8
1987	(1)	69.9	86.9	0.967	1.54	2.83	78.8	+4.3	17.9
	(2)	72.8	90.9	0.996	1.64	2.96	82.6	+2.1	18.6
	(3)	72.7	90.7	0.992	1.62	2.97	83.0	+2.8	19.0
	(4)	74.9	94.0	1.030	1.76	2.99	83.8	+1.2	18.1
1987	January	68.9	85.3	0.950	1.51	2.80	77.8	+4.9	18.4
	February	69.0	85.9	0.960	1.53	2.78	77.4	+4.4	17.2
	March	71.9	89.4	0.991	1.59	2.92	81.2	+3.4	18.0
	April	72.3	90.3	0.994	1.63	2.95	82.1	+2.9	18.2
	May	73.3	91.7	1.002	1.67	2.98	83.1	+1.6	18.8
	June	72.7	90.8	0.991	1.63	2.96	82.6	+2.1	18.9
	July	72.8	90.7	0.985	1.61	2.97	82.9	+2.6	19.8
	August	72.3	90.0	0.988	1.60	2.97	82.8	+3.2	18.9
	September	73.1	91.2	1.004	1.65	2.98	83.2	+2.6	18.3
	October	73.6	92.1	1.006	1.66	2.99	83.5	+1.7	18.8
	November	75.4	94.6	1.040	1.78	2.99	83.9	+1.0	17.8
	December	75.7	95.2	1.045	1.83	2.98	84.0	+0.9	17.7
1988	January	74.8	n/a	1.038	1.78	2.98	83.5	+1.8	16.7
	February 3rd	74.4	n/a	1.043	1.77	2.98	83.7	+2.3	16.2

/ Oil price adjusted ERI has roughly the same inflation implications as does an ERI of 80 given an oil price of $29 (their average values for January 1983 - November 1985). The ratio shown therefore indicates whether movements in the ERI are inflationary or otherwise, relative to the period Jan-1983 - Nov 1985, having allowed for oil prices.

* 1975=100

@ Figures for latest months are tentative forecasts based on extrapolated producer price indices

TABLE 8 : NOMINAL AND REAL INTEREST RATES

		NOMINAL RATES				REAL RATES				
		Three month interbank	Three month Eurodollar	Base Rate	Long Rate (20 year Gilts)	Expected inflation over 12 months*	Real 3-month interbank rate	Yield on Index-linked Gilts** 1990	2001	2011
1985	(1)	13.0	8.9	12.9	10.9	5.7	6.9	4.4	3.5	3.2
	(2)	12.6	8.2	12.6	10.8	5.6	6.6	4.3	3.8	3.4
	(3)	11.7	8.1	11.7	10.4	5.3	6.1	4.3	3.8	3.5
	(4)	11.6	8.1	11.5	10.3	4.2	7.1	4.1	3.9	3.6
1986	(1)	12.4	7.9	12.3	10.2	3.9	8.2	4.3	4.2	3.8
	(2)	10.2	7.0	10.4	9.0	3.6	6.5	3.6	3.6	3.4
	(3)	10.0	6.2	10.0	9.7	3.4	6.5	3.7	3.9	3.5
	(4)	11.2	6.1	11.0	10.7	4.1	6.8	3.7	4.1	3.8
1987	(1)	10.6	6.3	10.8	9.6	4.3	6.0	3.0	3.7	3.5
	(2)	9.2	7.1	9.4	9.0	3.8	5.2	2.4	3.8	3.6
	(3)	9.9	7.1	9.7	9.8	3.7	6.0	2.6	4.2	3.9
	(4)	9.2	7.8	9.0	9.5	4.0	4.7	2.4	4.1	3.8
1987	January	11.0	6.1	11.0	10.0	4.1	6.6	3.5	4.0	3.7
	February	10.8	6.4	11.0	9.8	4.3	6.2	3.0	3.7	3.5
	March	9.9	6.5	10.4	9.1	4.5	5.2	2.5	3.5	3.4
	April	9.8	6.9	10.0	9.2	4.2	5.4	2.6	3.6	3.4
	May	8.8	7.2	9.1	8.8	3.7	4.9	2.1	3.6	3.6
	June	9.0	7.1	9.0	8.9	3.5	5.3	2.3	3.9	3.7
	July	9.3	6.9	9.0	9.3	3.4	5.7	2.2	4.0	3.8
	August	10.2	7.0	10.0	10.0	3.9	6.1	2.6	4.3	4.0
	September	10.1	7.5	10.0	10.0	3.9	6.0	3.1	4.2	4.0
	October	10.0	8.3	9.5	9.8	4.0	5.1	3.1	4.5	4.3
	November	8.9	7.4	9.0	9.2	4.1	4.6	1.9	4.0	3.3
	December	8.7	7.8	8.5	9.5	4.0	4.5	2.3	3.9	3.9
1988	January	8.9	7.1	8.5	9.6	4.0	4.7	2.3	4.2	4.1
	February 3rd	9.0	6.8	9.0	9.3	n/a	n/a	2.0	4.0	4.0

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

** Average of yields calculated for each Friday of month and quarterly for last Friday in each month. Assumes inflation averages 5 per cent per annum to redemption.

TABLE 9 CURRENT ACCOUNT

percentage change on previous year

	Export Volume less oil and erratics	Import Volume less oil and erratics	Terms* of Trade(AVI) 1980=100	Current balance £mn
1982	0.5	8.6	0.5	4035
1983	-1.1	9.5	-0.6	3338
1984	9.6	11.0	-1.9	1474
1985	6.8	4.2	1.8	2888
1986	2.4	5.7	-0.8	-944
1987	7.7	9.6	+1.0	-2692
1986 Q3	2.9	7.5	-2.4	-856
Q4	9.3	9.9	-4.9	-989
1987 Q1	11.2	5.4	-1.5	572
Q2	6.4	10.2	+0.9	-659
Q3	9.1	12.0	+1.6	-1146
Q4	4.6	10.7	+2.4	-1459
1987 Jan	7.3	6.4	-2.7	54
Feb	18.2	8.5	-2.0	366
Mar	7.9	1.0	+0.3	152
April	10.4	10.6	+1.2	48
May	5.6	14.5	-0.1	-532
June	4.6	5.6	+1.5	-174
July	7.7	11.2	+0.4	-291
Aug	8.8	13.7	+1.2	-873
Sep	10.9	11.0	+3.3	+17
Oct	4.7	11.8	+2.0	-282
Nov	3.5	8.2	+3.8	-595
Dec	5.8	12.1	+3.9	-582

* excluding oil and erratics.

tables
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SECRET

TABLE 10

Key Monetary Indicators

	1986-87			1987-88								
	Dec	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
MONETARY AGGREGATES 12 month % change (ua)													
MO	5.2	4.1	4.1	3.5	5.3	4.4	4.2	5.3	4.5	5.2	5.5	4.9	4.2
M3	18.0	17.6	18.9	20.4	20.4	18.9	19.1	20.9	22.1	19.5	22.3	21.4	22.8
M4	15.3	13.9	13.9	13.9	14.6	13.7	13.8	14.9	15.6	14.9	15.7	15.2	16.3
M5	14.6	13.3	13.3	13.5	14.1	13.4	13.5	14.4	14.9	14.3	15.1	14.6	15.7
STERLING LENDING 12 month % change (ua)													
Banks	21.8	22.5	21.7	20.7	21.4	21.7	21.5	22.2	21.6	23.5	22.8	22.5	22.7
Banks and building societies	19.6	20.4	19.8	19.1	19.5	19.4	19.3	19.5	18.8	20.0	19.3	19.0	18.8
OVER(-)/UNDER (+) FUNDING financial year to date: £mn	-1,577	-3,931	-3,969	395	3,216	5,144	2,345	1,883	2,188	1,988	3,771	1,153	2,415
MONEY MARKET ASSISTANCE/ Level outstanding £mn	12,970	14,948	14,873	9,742	6,126	3,340	5,132	7,078	6,114	5,421	5,403	7,073	7,221
INTEREST RATES													
3 months*	11.3	11.0	10.8	9.9	9.8	8.8	9.0	9.3	10.2	10.1	10.0	8.9	8.7
20 yearϕ	10.6	10.0	9.8	9.1	9.2	8.8	8.9	9.3	10.0	10.0	9.8	9.2	9.5
EFFECTIVE EXCHANGE RATE	68.5	68.9	69.0	71.9	72.3	73.3	72.7	72.8	72.3	73.1	73.6	75.4	75.7

* Inter bank

ϕ par yield

/ banking months until August thereafter end calendar months

Table 11

MONETARY AGGREGATES 1987-88

		APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC
MO	Averaged weekly									
	Monthly change (£ million)	+325	+42	-93	+423	+13	+14	-32	+47	+1,085
	Monthly % change	+2.2	+0.3	-0.6	+2.8	+0.1	+0.1	-0.2	+0.3	+7.0
	12 Monthly % change	+5.3	+4.4	+4.2	+5.3	+4.5	+5.2	+5.5	+4.9	+4.2
M3	Monthly change (£ million)	+3,176	+3,239	+1,876	+4,314	+2,214	+1,629	+5,604	+1,378	+2,656
	Monthly % change	+2.0	+2.0	+1.1	+2.6	+1.3	+0.9	+3.2	+0.8	+1.4
	12 Monthly % change	-20.4	+18.9	+19.1	+20.9	+22.1	+19.5	+22.3	+21.4	+22.8
M4	Monthly change (£ million)	+3,528	+3,430	+4,011	+5,399	+2,673	+2,951	+5,280	+1,698	+4,974
	Monthly % change	+1.3	+1.3	+1.4	+1.9	+0.9	+1.0	+1.8	+0.6	+1.7
	12 Monthly % change	+14.6	+13.7	+13.8	+14.9	+15.6	+14.9	+15.7	+15.2	+16.3
M5	Monthly change (£ million)	+3,537	+4,102	+4,115	+5,459	+2,532	+3,046	+5,434	+1,580	+5,275
	Monthly % change	+1.2	+1.4	+1.4	+1.8	+0.8	+1.0	+1.8	+0.5	+1.7
	12 Monthly % change	+14.1	+13.4	+13.5	+14.4	+14.9	+14.3	+15.1	+14.6	+15.7
NIBMI	Monthly change (£ million)	+467	+1,160	+1,463	+102	-76	+401	+187	+514	+409
	Monthly % change	+1.1	+2.8	+3.4	+0.2	-0.2	+0.9	+0.4	+1.1	+0.9
	12 Monthly % change	+11.7	+11.9	+13.4	+12.3	+12.2	+6.0	+11.8	+10.6	+10.5
M1	Monthly change (£ million)	+672	+2,950	+2,093	+1,088	+1,100	+1,570	+2,858	+522	-276
	Monthly % change	+0.8	+3.7	+2.5	+1.3	+1.3	+1.8	+3.2	+0.6	-0.3
	12 Monthly % change	+23.1	+23.5	+23.6	+22.6	+23.7	+20.3	+24.6	+21.7	+15.7
Net £ deposits from banks abroad										
Overseas non-bank £ deposits										
WIDER £ AGGREGATE										
	Monthly change (£ million)	+3,967	+4,084	+930	+4,694	+1,575	+2,542	+8,325	-1,204	+3,388
	Monthly % change	+2.1	+2.2	+0.5	+2.4	+0.8	+1.3	+4.1	+0.6	+1.6
	12 Monthly % change						+18.5	+22.2	+20.3	+21.4

NB Figures in brackets are seasonally adjusted.

TABLE 12

REAL PERCENTAGE GROWTH RATES OF MONETARY AGGREGATES

	RPI less Mortgage Element	Weekly Averaged M0	M3	M4	M5
FINANCIAL YEARS (12 month % changes to calendar March)					
1981-82	9.8	-6.5	4.2	3.7	3.0
1982-83	5.9	-0.6	5.4	7.9	8.0
1983-84	4.6	0.8	3.3	6.8	6.1
1984-85	5.2	0.3	6.0	8.2	8.2
1985-86	4.0	-0.5	12.2	10.1	9.1
1986-87	3.8	0.3	14.5	9.7	9.3
12 MONTH % CHANGES (ua except M0)					
DECEMBER	3.7	1.6	13.8	11.2	10.5
1987 JANUARY	3.7	1.4	13.4	9.8	9.3
FEBRUARY	3.7	0.4	14.7	9.8	9.3
MARCH	3.8	0.3	14.5	9.7	9.3
APRIL	3.6	1.2	16.2	10.6	10.1
MAY	3.8	0.6	14.5	9.5	9.2
JUNE	3.5	0.7	15.1	10.0	9.7
JULY	3.7	1.6	16.6	10.8	10.3
AUGUST	3.7	1.0	17.7	11.5	10.8
SEPTEMBER	3.5	1.4	15.5	11.0	10.4
OCTOBER	3.9	1.6	17.7	11.4	10.8
NOVEMBER	4.0	0.9	16.7	10.8	10.2
DECEMBER	4.0	0.3	18.1	11.8	11.3

TABLE 13

CONFIDENTIAL

M0 : THE WIDE MONETARY BASE

Monthly data	Level £ million (Change in brackets)						Percentage change on previous month		Percentage change on previous year			
	Notes and Coin (nsa)	Notes and Coin (sa)		Bankers' Deposits	M0 (nsa)	M0 (sa)		Notes(sa) and Coin	M0 (sa)	Notes and Coin (nsa)	Notes and Coin (sa)	M0 (nsa)	M0 (sa)
1987 July	15271	15166	(91)	235	15506	15401	(190)	0.6	1.2	4.7	4.7	5.3	5.4
August	15337	15258	(92)	182	15519	15440	(39)	0.6	0.3	4.3	4.6	4.5	4.7
September	15349	15376	(118)	185	15534	15561	(121)	0.8	0.8	5.3	5.0	5.2	4.9
October	15299	15456	(80)	203	15501	15659	(98)	0.5	0.6	5.1	5.2	5.5	5.6
November	15365	15525	(69)	183	15548	15707	(48)	0.4	0.3	4.8	4.8	4.9	4.9
December	16447	15661	(136)	186	16633	15846	(139)	0.9	0.9	4.7	4.8	4.2	4.3
January	15458	15620	(-41)	178	15636	15799	(-47)	-0.3	-0.3	4.7	4.5	4.8	4.6
1988 February (1 of 4) @	15363	15655	(35)	43	15406	15698	(-101)	0.2	-0.6	5.7	5.7	4.8	4.8
Latest 4 weeks @	15351	15640	(-34)	127	15478	15767	(-120)	-0.2	-0.8	4.7	4.7	4.6	4.5

Weekly data	Level £ million (Change in brackets)			Percentage change on previous week
	Notes(sa) and Coin	Bankers' Deposits	M0 (sa)	M0 (sa)
1988 January				
6th	15578 (-296)	248	15826 (-217)	-1.4
13th	15616 (38)	178	15794 (-32)	-0.2
20th	15647 (31)	146	15793 (-1)	0.0
27th	15640 (-7)	141	15781 (-12)	-0.1
February				
3rd	15655 (15)	43	15698 (-83)	-0.5

@ Weekly data for the current month so far include estimates for the unbacked note issue. The latest week also includes an estimate for coin.
The percentage changes for the current month so far use as a base the previous full month and the full month a year ago.
The latest four week changes use as a base the four week averaged level four weeks ago and a year ago.

TABLE 14

S E C R E T

BUILDING SOCIETY BALANCE SHEET FLOWS

Unadjusted € million

	Total Flow	A S S E T S			L I A B I L I T I E S			
		Net Mortgage Advances & Unsecured Lending	Liquid Assets	Fixed Assets	Retail principal	Interest credited	Wholesale funds	Other (eg reserves)
1985 *	1497	1226	244 (18.0)	27	621	497	205	174
1986 *	1536	1589	-76 (16.4)	23	553	505	523	-45
1985 Q3*	1679	1188	460 (17.0)	31	618	385	153	523
Q4*	2183	1405	756 (18.0)	22	805	663	594	121
1986 Q1*	953	1271	-341 (17.5)	23	740	458	167	-412
Q2*	1518	1645	-150 (16.6)	23	478	519	321	200
Q3*	1740	1884	-165 (15.7)	21	56	401	1099	184
Q4*	2160	1556	581 (16.4)	23	938	643	403	176
1987 Q1*	1324	1120	126 (16.1)	78	484	670	279	-109
Q2*	1573	1240	313 (16.2)	20	612	457	182	322
Q3*	1516	1272	200 (16.1)	44	410	515	364	227
Oct	2168	1388	730 (16.4)	50	825	320	510	513
Nov	2076	1388	638 (16.6)	50	1130	113	-346	1179
Forecast								
1987 Q4*	2091	1306	735 (16.9)	50	1028	619	340	104
1988 Q1*	1512	1285	177 (16.7)	50	735	611	150	16
Dec	2028	1141	837 (16.9)	50	1130	1423	857	-1382
Jan	1415	1162	203 (16.9)	50	919	1361	100	-965
1988 Feb	1644	1215	379 (16.4)	50	781	97	150	616
Mar	1479	1479	-50 (16.7)	50	505	376	200	398

* Monthly averages
\+ Estimated ; part data
Figures in ( ) are end period liquidity ratio, unadjusted

TABLE 15

THE COMPONENTS OF M3

	NOTES AND COINS	BANK DEPOSITS			M3
		RETAIL		WHOLESALE	
		NIB	IB		
% CHANGES					
Financial years (ua)					
1984-85[1]	5.2	6.5	7.7	19.1	11.5
1985-86[1]	3.7	4.5	16.8	26.1	16.7
1986-87[1]	2.2	16.9	17.5	25.8	19.1
Over 12 months (ua)					
1987 JANUARY	3.6	14.7	16.2	23.0	17.6
FEBRUARY	3.0	14.5	17.2	25.7	18.9
MARCH	-2.4	16.9	17.4	25.4	18.9
APRIL	6.2	14.5	17.1	27.9	20.4
MAY	3.3	16.4	19.0	23.1	18.9
JUNE	3.6	18.0	15.4	25.1	19.1
JULY	6.0	15.3	12.1	32.4	20.9
AUGUST	4.0	16.4	15.1	32.8	22.1
SEPTEMBER	5.7	6.1	14.2	31.9	19.5
OCTOBER	4.6	15.4	12.4	34.9	22.3
NOVEMBER	1.4	15.1	13.0	33.3	21.4
DECEMBER	5.9	12.7	10.1	38.4	22.8
Over 6 months (sa)					
1987 JULY	1.7	14.4	12.3	46.9	26.4
AUGUST	3.7	13.2	14.5	41.6	25.1
SEPTEMBER	8.7	16.0	12.7	32.3	21.8
OCTOBER	6.9	33.2	11.7	33.9	25.3
NOVEMBER	7.2	17.4	13.2	31.2	21.8
DECEMBER	11.6	2.0	7.9	40.8	21.9
CHANGES £ MILLION					
monthly average (sa)					
1984-85[1]	42	56	238	683	1017
1985-86[1]	17	90	161	556	1565
1986-87[1]	4	359	538	1255	2157
Over 1 month (sa)					
1987 JULY	297	-178	660	2935	3714
AUGUST	13	150	533	1626	2322
SEPTEMBER	1	310	434	1701	2446
OCTOBER	258	1237	170	4648	6313
NOVEMBER	-65	-924	600	442	53
DECEMBER	222	-298	-630	3301	2595

[1]March on March

TABLE 16 SECRET

THE COMPONENTS OF M4 AND M5

	M3	BUILDING SOCIETIES RETAIL[1]	BUILDING SOCIETIES WHOLESALE	BUILDING SOCIETIES HOLDINGS OF M3	M4	MONEY MARKET INSTRUMENTS	M5
% CHANGES							
Financial years (ua)							
1984-85[3]	11.5	15.1				13.8	13.8
1985-86[3]	16.7	15.3	52.6	94	-0.1	13.5	14.5
1986-87[3]	19.1	10.8	11.4	50	-15.6	13.5	12.9
Over 12 months (ua)							
1987 JANUARY	17.6	15.6		38.5	13.9	3.2	13.3
FEBRUARY	18.9	16.1		59.7	13.9	3.8	13.3
MARCH	18.9	17.2		52.2	13.9	5.3	13.5
APRIL	20.4	16.1		50.3	14.6	5.0	14.1
MAY	18.9	17.9		54.7	13.7	8.9	13.4
JUNE	19.1	16.4		63.7	13.8	8.4	13.5
JULY	20.9	13.4		64.2	14.9	5.1	14.4
AUGUST	22.1	15.6		63.2	15.6	2.8	14.9
SEPTEMBER	19.5	10.8		58.1	14.9	4.0	14.3
OCTOBER	22.3	13.5		58.3	15.7	4.9	15.1
NOVEMBER	21.4	13.8		66.0	15.2	3.9	14.6
DECEMBER	22.8	11.1		63.2	16.3	6.7	15.7
Over 6 months (sa)							
JULY	26.4	12.3		45.1	18.8	12.0	18.4
AUGUST	25.1	12.9		48.3	18.4	5.9	17.7
SEPTEMBER	21.8	10.8		25.3	17.2	9.7	16.8
OCTOBER	25.3	9.7		23.4	18.7	16.0	18.6
NOVEMBER	21.8	11.6		21.0	17.3	1.5	16.5
DECEMBER	21.9	11.2		31.3	16.9	1.5	16.1
CHANGES £ MILLION							
monthly average (sa)							
1984-85[3]	984	1034	42	-28	139	2221	2090
1985-86[3]	1565	1207	50	-362	-118	2480	2557
1986-87[3]	2157	938	17	-372	51	2791	2975
Over 1 month (sa)							
1987 JULY	3714	1006	268	-571	4417	-109	4308
AUGUST	2322	1434	23	12	3791	-174	3617
SEPTEMBER	2446	295	457	207	3405	108	3513
OCTOBER	6313	720	-1	-618	6414	89	6503
NOVEMBER	53	2080	-356	-796	981	-39	942
DECEMBER	2595	1221	324	-248	3892	240	4132

[1]Net in flow including Term sharesand SAYE.
[2]Treasury bills, bank bills, LA temporary debt, CID's and some national savings accounts.
[3]March on March.

TABLE 17

RETAIL DEPOSITS

	BANKS	BUILDING[1] SOCIETIES	NATIONAL SAVINGS[2]	TOTAL
% CHANGES				
Financial years (ua)				
1984-85[3]	7.1	15.1	11.9	12.0
1985-86[3]	11.6	15.3	7.5	12.9
1986-87[3]	17.2	10.8	10.8	12.7
Over 12 months (ua)				
1987 JANUARY	15.6	11.0	9.1	12.3
FEBRUARY	16.1	10.6	10.1	12.4
MARCH	17.2	10.5	10.8	12.6
APRIL	16.1	10.3	11.0	12.2
MAY	17.9	10.2	10.8	12.6
JUNE	16.4	10.3	10.5	12.2
JULY	13.4	10.2	9.2	11.1
AUGUST	15.6	10.4	9.7	11.9
SEPTEMBER	10.8	11.4	9.3	10.7
OCTOBER	13.5	10.2	8.2	10.9
NOVEMBER	13.8	11.1	7.4	11.3
DECEMBER	11.1	11.6	7.2	10.5
Over 6 months (sa)				
1987 JULY	13.1	12.3	8.6	13.6
AUGUST	13.9	12.9	7.8	13
SEPTEMBER	14	10.8	6.8	11.3
OCTOBER	19.7	9.7	5.3	10.7
NOVEMBER	14.8	11.6	4.3	10.8
DECEMBER	5.5	11.2	3.9	8.3
CHANGES £ MILLION				
monthly average (sa)				
1984-85[3]	42	1034	683	1759
1985-86[3]	255	1207	1093	2555
1986-87[3]	871	938	266	2075
Over 1 month (sa)				
1987 JULY	482	1006	202	1690
AUGUST	683	1434	90	2207
SEPTEMBER	744	295	83	1122
OCTOBER	1407	720	-64	2063
NOVEMBER	-324	2080	63	1819
DECEMBER	-928	1221	256	549

NOTES

1 Total retail funds, including terms shares and SAYE.

2 Total inflows.

3 March on March.

TABLE 18

Breakdown of Bank Lending by instrument (banking months before 1986 October)

						unadjusted	
		Advances	**Commercial Bills**	**Investment[1]**	**Other[2]**	**Total**	**Total s/a**
1984-1986							
% change[3]							
1984-85		15.5	27.7	18.0	n/a	17.5	17.5
1985-86		17.9	-7.4	81.3		16.9	16.8
Monthly average[3]							
1984-85		1131	186	25	91	1433	1452
1985-86		1438	56	157	11	1661	1692
Contributions to annual bank lending growth[4]							
Monthly changes							
1987	January	905	562	104	-136	1435	1640
	February	2618	-426	69	345	2606	2705
	March	4642	-2026	339	420	3375	2471
	April	1726	-409	210	-398	1129	2201
	May	3622	-2125	295	497	2289	2503
	June	5144	751	-7	-1206	4682	3979
	July	2132	1679	-41	890	4660	4547
	August	2840	-1519	117	-288	1150	2649
	September	5456	13	-41	66	5494	4304
	October	2556	-499	152	823	3032	2991
	November	2321	845	237	-56	3347	3320
	December	3703	1524	299	-124	5372	4904

1. Investment by banks in private sector
2. Market loans, shipbuilding repos, CD's and time deposits of building societies, commercial paper, and transit items.
3. April on April
4. First four columns equal fifth column.

TABLE 19 S E C R E T

COUNTERPARTS TO BROAD MONEY

£ million

LATEST MONTH : DECEMBER 1987	M3	M4
PSBR	196	196
Debt sales (-): Other Public Sector	-264	-115
Central Government	-875	-646
Public external & fc finance (-)	2205	2205
Over(-)/under(+)funding	1262	1640
£ lending to private sector	5372	5941
Bank/bank & b society externals (-)	-2354	-2423
Bank/bank & b society £NNDLs (-)	-1624	-184
TOTAL	2656	4974

FINANCIAL YEAR 1987/88 TO DATE		
PSBR	-473	-473
Debt sales (-): Other Public Sector	1283	614
Central Government	-3792	-3846
Public external & fc finance (-)	5397	5397
Over(-)/under(+)funding	2415	1692
£ lending to private sector	31155	42342
Bank/bank & b society externals (-)	-4214	-5007
Bank/bank & b society £NNDLs (-)	-3270	-5083
TOTAL	26086	33944

FINANCIAL YEAR 1986/87		
PSBR	3343	3343
Debt sales to private sector (-)	-1235	-5840
Public external & fc finance (-)	-1700	-1700
Over(-)/under(+)funding	408	-4197
£ lending to private sector	30299	47406
Bank/bank & b society externals (-)	-676	-1553
Bank/bank & b society £NNDLs (-)	-4601	-8689
TOTAL	25430	32967

Table 20:- BORROWING BY PRIVATE SECTOR EXCLUDING BUILDING SOCIETIES (£ million)

	BANK/BUILDING SOC. STERLING BORROWING			OTHER STERLING BORROWING					ALL BORROWING		
	Banks	Building Societies	TOTAL	Sterling Commercial Paper	Equities	Bonds	Euro-Sterling (*)	TOTAL	Sterling	Foreign Currency	TOTAL
1984											
Q1	5141	3007	8148		163	44	25	232	8380	1102	9482
Q2	2781	4076	6857		429	75	0	504	7361	808	8169
Q3	3285	4087	7372		288	59	100	447	7819	1047	8866
Q4	4535	3402	7937		249	73	210	532	8469	1948	10417
1985											
Q1	7093	3189	10282		924	170	235	1329	11611	3225	14836
Q2	4158	3748	7906		1092	327	230	1649	9555	1382	10937
Q3	4148	3560	7708		873	274	130	1277	8985	-806	8179
Q4	4803	4232	9035		525	89	200	814	9849	939	10788
1986											
Q1	7431	3867	11298	0	471	209	350	1030	12328	2362	14690
Q2	5465	5083	10548	0	1369	344	325	2038	12586	1575	14161
Q3	5764	5592	11356	69	1431	290	231	2021	13377	3688	17065
Q4	10433	4667	15100	65	2338	-52	281	2632	17732	591	18323
1987											
Q1	7063	3619	10682	368	1553	-782	1231	2370	13052	7355	20407
Q2	8608	4240	12848	651	2259	352	655	3917	16765	4678	21443
Q3	10940	3889	14829	284	5950	732	570	7536	22365	-1198	21167
Q4	10982	3683	14665	-255	3730	343	105	3923	18588	-85	18503
Average per quarter											
1984	3936	3643	7579	0	282	63	84	429	8007	1226	9234
1985	5051	3682	8733	0	854	215	199	1267	10000	1185	11185
1986	7273	4802	12076	34	1402	198	297	1930	14006	2054	16060
1987	9398	3858	13256	262	3373	161	640	4437	17693	2688	20380
1987											
JANUARY	1391	1459	2850	150	500	-67	110	693	3543	1369	4912
FEBRUARY	2603	980	3583	104	870	20	315	1309	4892	2402	7294
MARCH	3069	1180	4249	114	183	-735	806	368	4617	3584	8201
APRIL	1272	1590	2862	192	828	110	355	1485	4347	1236	5583
MAY	2258	1295	3553	171	415	184	150	920	4473	2693	7166
JUNE	5078	1355	6433	288	1016	58	150	1512	7945	749	8694
JULY	4472	1302	5774	131	1840	182	210	2363	8137	-2215	5922
AUGUST	1055	1269	2324	9	2090	390	150	2639	4963	1019	5982
SEPTEMBER	5413	1318	6731	144	2020	160	210	2534	9265	-2	9263
OCTOBER	2596	1510	4106	31	2535	195	45	2806	6912	3461	10373
NOVEMBER	3352	1266	4618	-40	975	55	60	1050	5668	-1646	4022
DECEMBER	5034	907	5941	-246	225	173	0	152	6093	-1900	4193
1988											
JANUARY					43	41	450				

Table 21:- NET FINANCE OF U.K. INDUSTRIAL AND COMMERCIAL COMPANIES AND BUILDING SOCIETIES (£ million)

	BANK BORROWING				OTHER BORROWING						ALL BORROWING
	Sterling		Foreign		Sterling		Euro-Sterling(*)				
	ICC's	BSOC's	Currency	TOTAL	Commercial Paper	Equities	Bonds	ICC's	BSOC's	TOTAL	TOTAL
1984											
Q1	2905	-86	-895	1924		163	44	25	0	232	2156
Q2	559	-56	-193	310		429	75	0	0	504	814
Q3	1219	533	-74	1678		288	59	100	0	447	2125
Q4	2312	408	1433	4153		249	73	210	0	532	4685
1985											
Q1	3386	6	-352	3040		924	170	235	0	1329	4369
Q2	747	248	207	1202		1092	327	230	0	1649	2851
Q3	229	161	1371	1761		873	274	130	600	1877	3638
Q4	874	343	1377	2594		525	89	200	475	1289	3883
1986											
Q1	3807	346	108	4261	0	471	209	350	935	1965	6226
Q2	-356	442	108	194	0	1369	344	325	1075	3113	3307
Q3	28	1800	1128	2956	69	1431	290	231	1575	3596	6552
Q4	5275	390	-59	5606	65	2338	-52	281	0	2632	8238
1987											
Q1	1047	353	2102	3502	368	1553	-782	1231	290	2660	6162
Q2	662	-508	739	893	651	2259	352	655	50	3967	4860
Q3	3513	364	-90	3787	284	5950	732	570	100	7636	11423
Q4	5305	769	718	6792	-255	3735	423	105	0	4008	10800
Average per quarter											
1984	1749	200	68	2016	0	282	63	84	0	429	2445
1985	1309	190	651	2149	0	854	215	199	269	1536	3685
1986	2189	745	321	3254	34	1402	198	297	896	2827	6081
1987	2632	245	867	3744	262	3374	181	640	147	4604	8348
1987:- JANUARY					150	500	-67	110	0	693	
FEBRUARY					104	870	20	315	140	1449	
MARCH					114	183	-735	806	150	518	
APRIL					192	828	110	355	0	1485	
MAY					171	415	184	150	50	970	
JUNE					288	1016	58	150	0	1512	
JULY					131	1840	182	210	0	2363	
AUGUST					9	2090	390	150	0	2639	
SEPTEMBER					144	2020	160	210	100	2634	
OCTOBER					31	2535	195	45	0	2806	
NOVEMBER					-40	975	55	60	0	1050	
DECEMBER					-246	225	173	0	0	152	
1988:- JANUARY						43	41	450	50		

* Gross Issues announced by U.K. ICC's and Building Societies

NOTE/ Bank borrowing figures include monetary sector holdings of 'Other Borrowing' instruments, giving rise to some double counting in the 'All Borrowing' figures.

TABLE 22 SECRET

FUNDING AND MONEY MARKET ASSISTANCE - FINANCIAL YEAR 1987/88

	APR-DEC 1987	£ million	u/a
CGBR	2804		
Gilt sales to nbps and overseas (inc-)	-6470		
Other CG debt sales to nbps incl Treasury bills* (-)	-2035		
CG external and fc finance other than BGS(-)	9605		
Funding of the CGBR Over(-)/under(+)	**3904**		**3904**
		Other BGS sales (-)	1169
OPS net of on lending	-3277		
		Other CG debt sales (-)	-520
OPS debt sales to nbps(-)	1283		
		Notes and coins (-)	-1999
OPS currency finance(-)	505		
		Other incl exchequer (-)	-395
Funding of OPS Over(-)/under(+)	-1489		
		CG bank deposits (+)	166
Funding of PSBR Over(-)/under(+)	**2415**	**Total influences* (surplus+,shortage-)**	**2325**
		Change in bankers deposits (-)	197
		Change in level of assistance (+) #	**-2522**
		of which	
		Issue Department bills	-552
		Banking Department bills	1083
		Market advances	-1449
		Repos	-1604
		Level of assistance	
		End March 1986	**13317**
		End March 1987	**9742**
		End December 1987	**7221**

* Treasury bills usually included below the line in the Money Market Assistance Table

\# Surplus on influences leads to a fall in assistance and vice versa

TABLE 23 SECRET

MONETARY AGGREGATES : FORECAST GROWTH RATES

percent

Not seasonally adjusted		M0	M3	M4
1 MONTH % CHANGE TO:				
1987 OCT		-0.2	3.2	1.8
NOV		0.3	0.8	0.6
DEC		7.0	1.4	1.7
JAN	) *	-6.0	-1.5	-0.3
FEB	)FORECAST	n/a	1.7	1.1
MAR	)	n/a	3.3	2.3
12 MONTH % CHANGE TO:				
1987 OCT		5.5	22.3	15.7
NOV		4.9	21.4	15.2
DEC		4.2	22.8	16.3
JAN	) *	4.8	21.9	16.1
FEB	)FORECAST	n/a	21.6	16.3
MAR	)	n/a	20.3	16.0
Seasonally adjusted				
1 MONTH % CHANGE TO:				
1987 OCT		0.6	3.6	2.2
NOV		0.3	0.0	0.3
DEC		0.9	1.4	1.3
JAN	) *	-0.3	0.1	-0.2
FEB	)FORECAST	0.3	1.7	1.7
MAR	)	0.8	2.4	1.8
12 MONTH % CHANGE TO:				
1987 OCT		5.6	23.0	16.1
NOV		4.9	21.9	15.5
DEC		4.3	22.9	16.3
JAN	) *	4.6	21.6	15.8
FEB	)FORECAST	5.8	21.4	16.0
MAR	)	6.2	21.1	16.2

* Provisional January outturn for M0

SECRET

TABLE 24: MO FORECAST

SEASONALLY ADJUSTED

	LEVELS £ MILLION			% CHANGE ON PREVIOUS MONTH		% CHANGE ON YEAR EARLIER	
	Notes and coin	Bankers' Deposits	MO	Notes and coin	MO	Notes and coin	MO
ACTUAL							
September	15,376	184	15,560	+0.8	+0.8	+5.0	+4.9
October	15,457	202	15,659	+0.5	+0.6	+5.2	+5.6
November	15,525	183	15,708	+0.4	+0.3	+4.9	+4.9
December	15,661	186	15,847	+0.9	+0.9	+4.8	+4.3
1988 January	15,620	178	15,798	-0.3	-0.3	+4.5(5.3)	+4.6(5.4)
FORECAST							
February	15,700	150	15,850	+0.5	+0.3	6.0(6.5)	5.8(6.6)
March	15,790	190	15,980	+0.6	+0.8	6.6(6.9)	6.2(6.5)
April	15,850	190	16,040	+0.4	+0.4	6.3	6.1
May	15,910	190	16,100	+0.4	+0.4	6.2	6.0
June	15,970	190	16,160	+0.4	+0.4	5.9	6.2
July	16,020	190	16,210	+0.3	+0.3	5.6	5.3
August	16,070	190	16,260	+0.3	+0.3	5.3	5.3
September	16,120	190	16,310	+0.3	+0.3	4.8	4.8
October	16,170	190	16,360	+0.3	+0.3	4.6	4.5
November	16,220	190	16,410	+0.3	+0.3	4.5	4.5
December	16,290	190	16,480	+0.4	+0.4	4.0	4.0

* Last month's forecast in brackets.

TABLE 25: MONEY MARKET INFLUENCES

£ million

	Actual		Forecast	
	1987 DEC	1988 JAN	FEB	MAR
A. Money market influences				
(i) CGBR excl bank deposits (+)	-205	-6136	375	4750
(ii) Reserves etc (+)	1936	-256	-150	-225
(iii) Notes and coin (-)	-1146	970	425	-950
(iv) National Savings (-)	-185	-292	-175	-200
(v) CTDs (-)	-16	363	75	25
(vi) Gilts (-)	-931	-1360	-800	150
(vii) Other Exchequer items etc	-727	-15	0	0
A. TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	-1274	-6726	-250	3550
B. Money market operations				
(i) Commercial bills (purchase +):				
Issue Department - outright	1396	5243		
- repo terms	-534	-1512		
Banking Department	452	-129		
(ii) LA bills (purchase +)				
Issue Department	-79	60		
Banking Department	-5	80		
(iii) Treasury bills (purchase +)	1201	1396	0	-250
(iv) Market advances	-414	233		
(v) Treasury bill Repos	-668	0		
(vi) Export Credit/Shipbuilding Repos	0	979		
(vii) Gilt Repos	0	332		
B. TOTAL MONEY MARKET OPERATIONS	1349	6682	250	-3550
C. Change in bankers balances = A + B	75	-44		
D. TOTAL ASSISTANCE OUTSTANDING (excluding Treasury bills) = previous level + B - B(iii)	7221	12507	12750	9450
of which commercial bills	7133			

TABLE 26

SECRET

TIMING OF GOVERNMENT SHARE SALES

1988	
BGC(III)	19 April
BAA(II)	19 May
BP(II)	30 August
1989	
BP(III)	27 April

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pmp

MONTHLY NOTE ON THE BALANCE OF PAYMENTS - JANUARY 1988

* The visible trade deficit rose from £0.9 billion in October to £1.2 billion in November while the current account showed a deficit of £0.6 billion in November. The current account deficit for the first eleven months of 1987 was £2.1 billion (paragraph 1).

* The UK's invisibles surplus was £1.9 billion in the third quarter which together with revisions to the first half of 1987 brought the total in the first three quarters of 1987 to £5.3 billion (paragraph 9).

* UK cost competitiveness, which was probably broadly flat the third quarter of 1987, is likely to have deteriorated as sterling appreciated in the fourth quarter. (Paragraph 2)

* G5 countries' domestic demand and industrial production rose strongly in the third quarter. (Paragraph 3)

* UK domestic demand continued to rise more rapidly than the average of other major countries in the third quarter reflecting strong consumers' expenditure and an increase in the rate of stockbuilding levels. Retail sales rose further in October and November. (Paragraph 3)

* Export volumes (excluding oil and erratics) rose in November and remain on an upward trend: exports were 7 per cent higher in the first eleven months of 1987 than in 1986. (Paragraph 4)

* Import volumes (excluding oil and erratics) rose sharply in November and in the first eleven months of 1987 they were 8½ per cent higher than in 1986. (Paragraph 6)

* The terms of trade were broadly unchanged in November as an improvement on the non oil terms of trade offset the effect of a lower oil price. (Paragraph 7)

* The £2.1 billion current account deficit in the first 11 months of 1987 is consistent with the Autumn Statement forecast for a current account deficit of £2½ billion in 1987. Independent forecasts now point on average to a deficit £3.2 billion in 1988 compared with £3½ billion in the Autumn Statement though some of these forecasts do not take account of the recent appreciation of sterling. (Paragraph 13)

P DAVIS
EA2 DIVISION

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MONTHLY NOTE ON THE BALANCE OF PAYMENTS - JANUARY 1988

Current account

1. The November trade figures, published on 23 December showed a deficit on non-oil trade of £1.5 billion, partially offset by a surplus on oil trade of £0.3 billion. The value of non-oil exports rose by £0.1 billion whilst the value of non-oil imports rose by £0.3 billion leading to an increase of £0.3 billion in the non-oil deficit compared with October. The invisibles projection for the fourth quarter remained unchanged at a surplus of £0.6 billion a month broadly in line with the first estimate of the third quarter surplus published on 15 December.

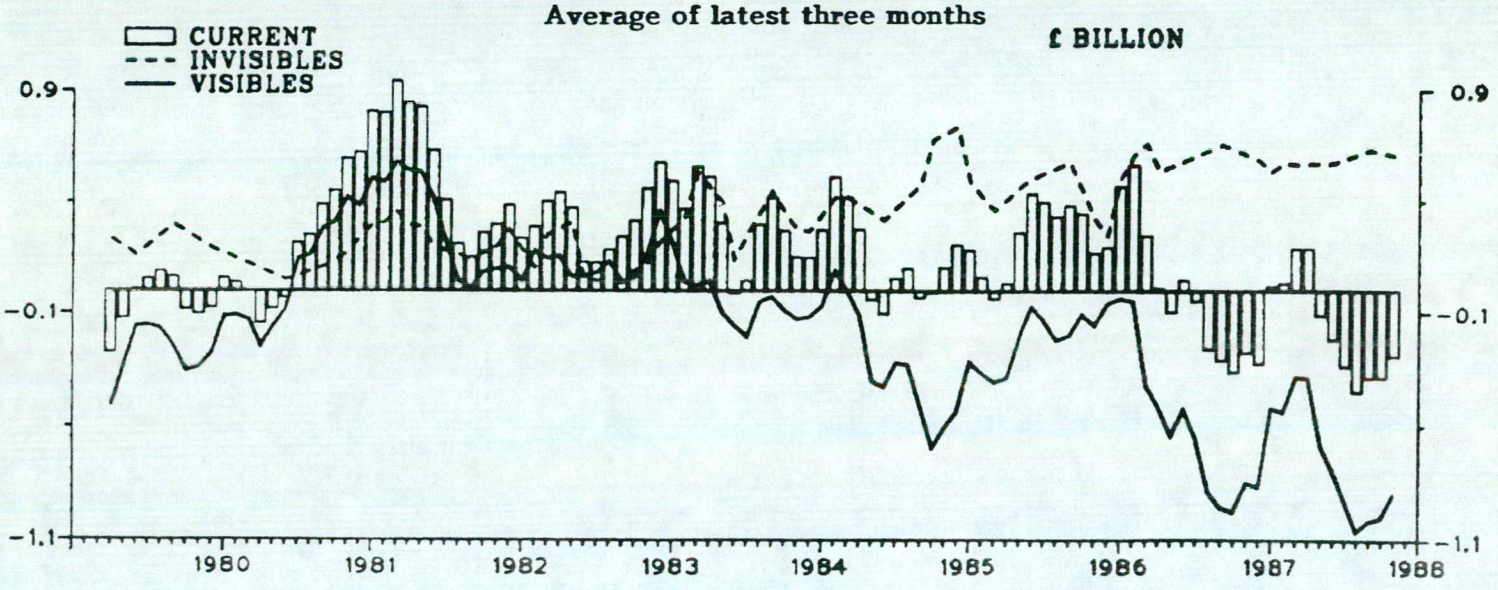
TABLE 1: CURRENT ACCOUNT

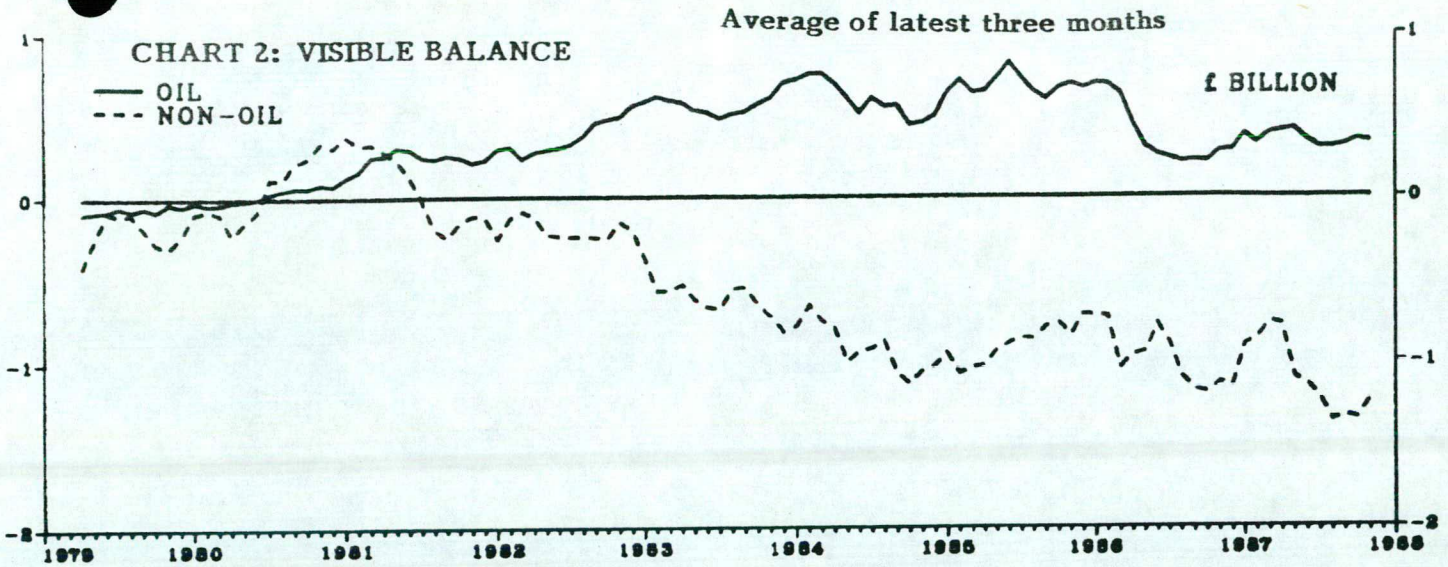
£ billion

		Current balance	Visible total	of which: oil	manufactures	Other goods	Invisibles balance
1985		2.9	-2.2	8.1	-3.0	-7.3	5.1
1986		-0.9	-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	-1.0	-2.7	0.8	-1.8	-1.7	1.7
1987	Q1	0.6	-1.1	1.2	-0.7	-1.6	1.7
	Q2	-0.7	-2.4	1.0	-1.9	-1.5	1.7
	Q3	-1.1	-3.0	0.9	-2.2	-1.8	1.9
September		-	-0.6	0.3	-0.3	-0.6	0.6
October		-0.3	-0.9	0.4	-0.7	-0.5	0.6*
November		-0.6	-1.2	0.3	-1.0	-0.6	0.6*

*CSO projection

CHART 1: CURRENT ACCOUNT





DETERMINANTS OF UK TRADE

Competitiveness

2. UK competitiveness (as measured by relative actual unit labour costs in the manufacturing sector) which appears to have been broadly flat in the third quarter as the exchange rate stabilised and UK unit labour costs continued to rise at a similar rate to those elsewhere, has probably deteriorated in the fourth quarter as the exchange rate has appreciated. The sterling index at the begining of January 1988 was some 4 per cent above the third quarter average. If this is reflected fully in relative costs, the gain in cost competitiveness since 1984-85 would be reduced to 6-7 per cent.

TABLE 2: RELATIVE UNIT LABOUR COSTS IN MANUFACTURING

(% changes on a year earlier in brackets)

		Relative unit labour costs in common currencies 1980=100		Relative unit labour costs in domestic currencies 1980=100		Sterling exchange rate index 1975=100	
1985		84.7	(1.9)	100.7	(2.5)	78.2	(-0.6)
1986		77.6	(-8.4)	103.3	(2.6)	72.8	(-7.0)
1987						72.6	(-0.3)
	Q3	75.5	(-16.1)	102.7	(0.7)	71.9	(-12.4)
	Q4	71.0	(-18.8)	102.2	(-1.2)	68.3	(-14.6)
1987	Q1	72.3	(-11.5)	102.5	(-1.4)	69.9	(-6.9)
	Q2	75.8	(-7.9)	103.4	(-0.7)	72.8	(-4.3)
	Q3	75.8*	(0.4)	103.2*	(0.5)	72.7	(+1.1)
	Q4					74.9	(+9.7)
October						73.6	(+8.6)
November						75.4	(+10.1)
December						75.8	(+10.7)

* projected

World trade and domestic demand

3. G5 industrial production, continued to grow strongly in the third quarter and was over 4½per cent higher in October than a year earlier reflecting in part a recovery in export volumes. Domestic demand growth picked up in the third quarter following a modest second quarter rise. UK domestic demand rose more rapidly than that of other major countries in the third quarter. UK consumers' expenditure continued to grow rapidly in the third quarter and in October and November retail sales rose further. Stockbuilding was also strong in the third quarter, although investment, on current estimates, fell back a little (though past experience suggests this may well be revised up).

TABLE 3: INDICATORS OF DEMAND

		Indices 1980=100						
		G5 Countries			UK			
		Export volumes*	Domestic demand	Industrial production	Export volumes**	Domestic demand	Manufacturing production	Retail Sales
1985		110	113.3	112.0	114.9	112.3	103.7	116.4
1986		111	118.0	113.1	117.7	116.5	104.5	122.6
1986	1	108	116.1	112.7	111.9	114.5	101.9	119.3
	2	113	117.8	112.8	115.1	115.2	104.0	121.3
	3	107	118.9	113.4	118.5	116.7	104.9	123.7
	4	116	119.2	113.4	125.3	119.6	107.3	126.5
1987	1	110	119.7	113.8	124.4	118.4	107.3	125.4
	2	115	120.8	115.1	122.5	119.9	109.4	128.3
	3	115	122.6	117.3	129.3	123.8	111.8	131.8
September				117.8	134.6		112.0	131.8
October				118·7	127.8		113.2	133.0
November					131.7			134.4
Latest 3 months on a year earlier		7½	3	4½	6½	6	6½	6

* Not seasonally adjusted

** Excluding oil and erratics

Exports

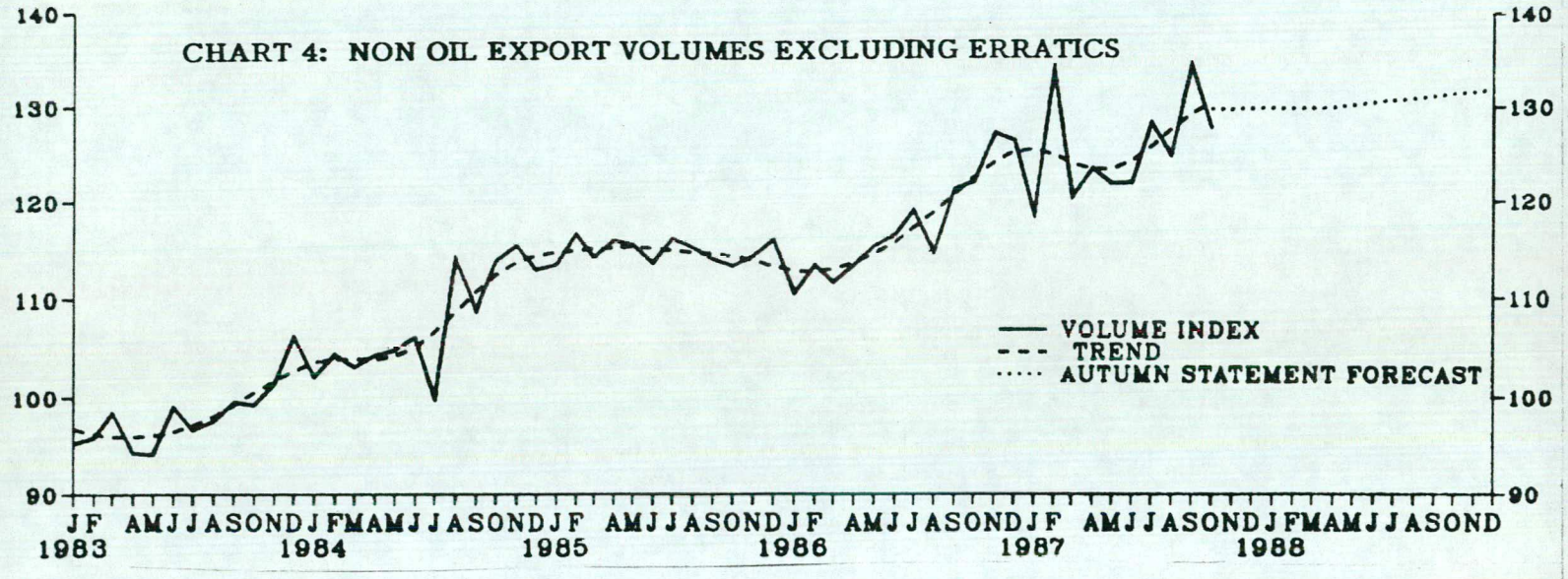
4. Export volumes (excluding oil and erratics) rose in November and the trend remains firmly upwards. In the three months to November exports of manufactures grew strongly to a level 10 per cent higher than a year earlier. There was continued strong growth in exports of chemicals, capital and other consumer goods, while exports of cars continued to grow steadily. The CBI monthly trends inquiry for December indicates that manufacturers' export order books are still above normal although they have fallen back from the high levels reached in the summer. Exports of non manufactures remain below the high levels recorded at the end of 1986 and in early 1987, though exports of food, drink and tobacco and of fuel have picked up in the last three months.

TABLE 4: EXPORT VOLUMES (1980 = 100)

		Goods*	Goods less 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	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	122.5	121.0	124.4	120.3	170.7
	3	130.7	129.3	130.1	133.1	124.3	164.2
September		134.6	134.6	136.3	136.1	123.0	158.3
October		132.4	127.8	130.9	144.2	109.3	170.1
November		136.1	131.7	132.5	125.5	123.1	180.1
Latest 3 months on							
- a year ago		4½	6½	10	-9	-5½	-4½
- previous 3 months		6	5	6½	5½	-5	5
November on October		3	3	1	-13	13	6

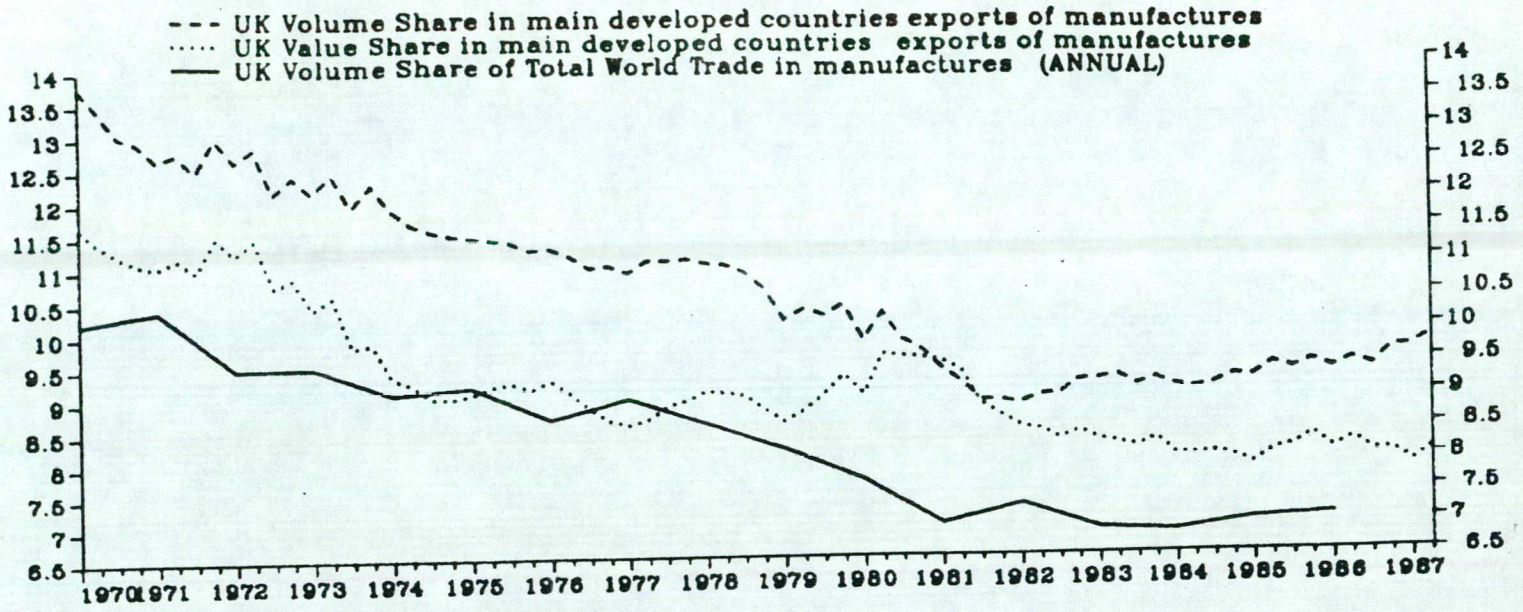
* Balance of payments basis

CHART 4: NON OIL EXPORT VOLUMES EXCLUDING ERRATICS



5. The value of exports to developed countries rose by 8 per cent in the three months to November (exports rose by 8½ per cent to the EC and by 5 per cent to the US) whilst exports to developing countries fell by ½ per cent despite exports to oil exporters showing a 6 per cent rise. On the basis of available information to the third quarter of 1987 it appears that UK manufacturers have probably slightly increased their volume share of developed countries' exports over the past year although the UK share of total world trade in manufactures, including the rapidly increasing manufactured exports of newly industrialised countries has probably been broadly stable.

CHART 5: SHARE OF EXPORTS IN WORLD TRADE IN MANUFACTURERS



Imports

6. The volume of imports (excluding oil and erratics) rose sharply in November reflecting higher imports of manufactures especially consumer goods although basic materials imports fell a little. The path of imports continues to be erratic, but the trend is still strongly upward and probably at a slightly faster rate than that of exports. In the three months to November on a year earlier, the largest rises have come from consumer goods (excluding cars) responding to the strong growth in retail sales. There have been increases in imports of semi-manufactures, intermediate and capital goods reflecting rising output, stocks and investment. Car imports however have been unchanged as car production has increased to meet rising domestic demand. Imports of goods (excluding oil) rose more rapidly than domestic demand in the year to the third quarter of 1987. Flow of funds data which became available recently, for the first half of 1987 confirmed that import penetration in in manufacturing rose by 3 per cent between the second and third quarters of 1987.

CHART 6: NON OIL IMPORT VOLUMES EXCLUDING ERRATICS

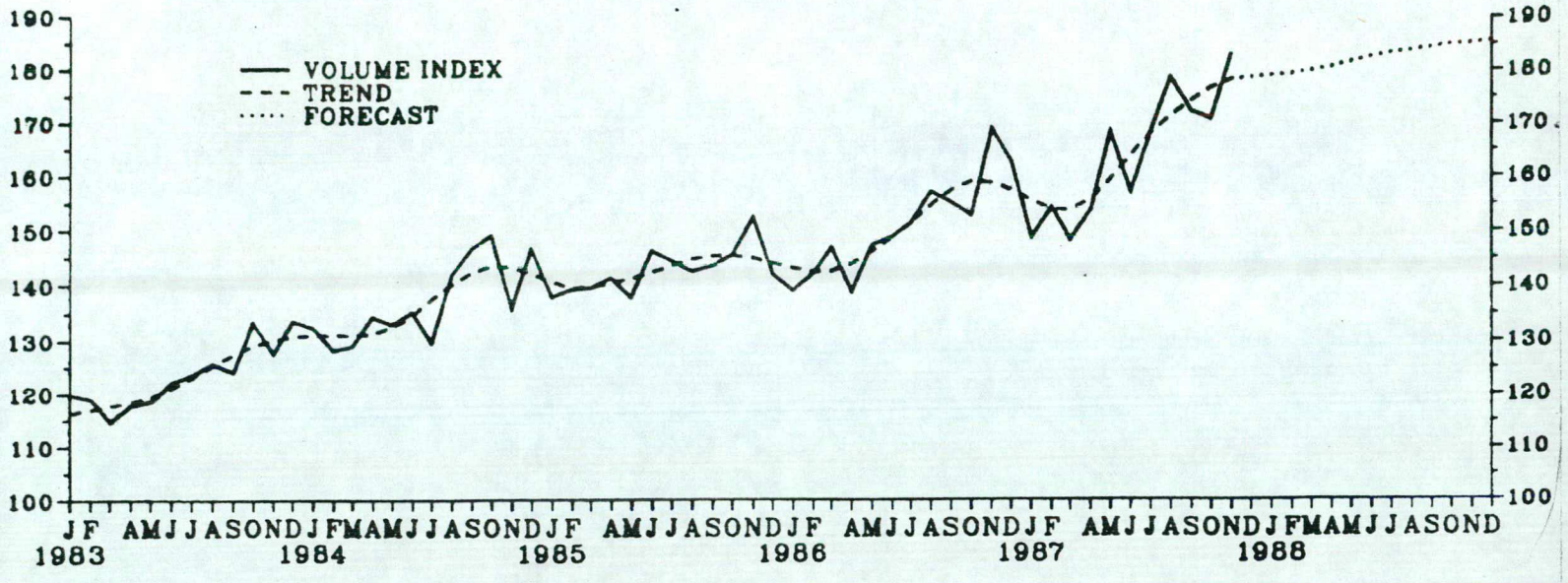


CHART 7: SHARE OF IMPORTS OF GOODS (EXCLUDING OIL) IN DOMESTIC DEMAND

(PER CENT, FOUR QUARTER MOVING AVERAGE).

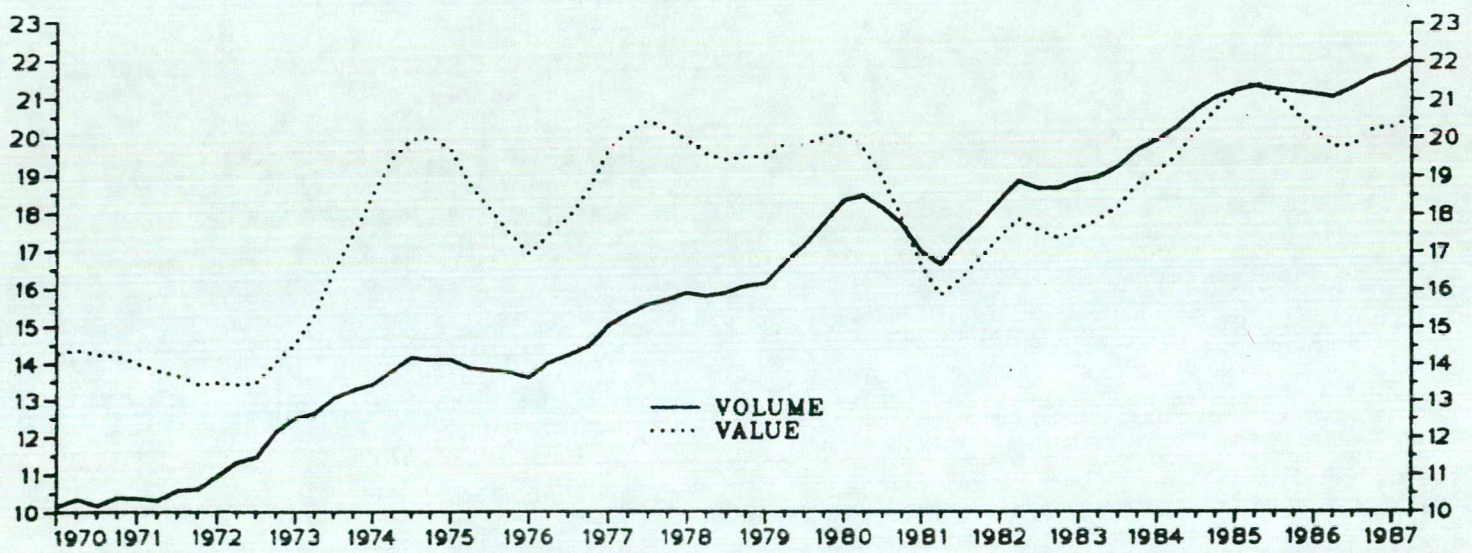


TABLE 5: IMPORT VOLUMES

1980=100

		Goods*	Goods less oil and erratics*	Food, drink and tobacco	Basic materials	Fuels	Manufactures less erratics
1985		126.0	142.8	114.4	102.2	86.2	154.4
1986		134.1	150.9	123.5	108.7	93.4	163.0
1986	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	140.9	159.8	119.5	122.2	89.8	172.8
	3	151.0	172.9	126.2	120.9	104.4	189.7
September		150.1	172.1	128.3	126.5	106.7	187.7
October		149.1	170.7	122.2	120.8	92.0	192.6
November		158.9	182.8	127.5	117.7	96.4	203.5
% change Latest 3 months on							
- a year ago		7	10	2½	4½	-7	13
- previous 3 months		3½	4½	4	2½	-2½	5½
November on October		6½	7	4½	-2½	5	5½

* Balance of payments basis

TABLE 6: IMPORT VOLUMES OF MANUFACTURES (EXCLUDING ERRATICS)

1980 = 100

		Semi manufactures	Finished manufactures	of which: Passenger cars	Other consumer goods	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	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
	3	174.2	200.0	146.6	184.2	223.6	215.1
September		172.6	197.6	125.1	184.6	217.3	219.4
October		174.8	204.5	134.4	189.1	229.6	220.9
November		179.0	219.7	147.0	210.3	247.5	229.2
% change Latest 3 months on							
- a year ago		12	14	0	18	16	12
- previous 3 months		3	7	-8	7	7	9½
November on October		2½	7½	9½	11	8	4

Trade prices

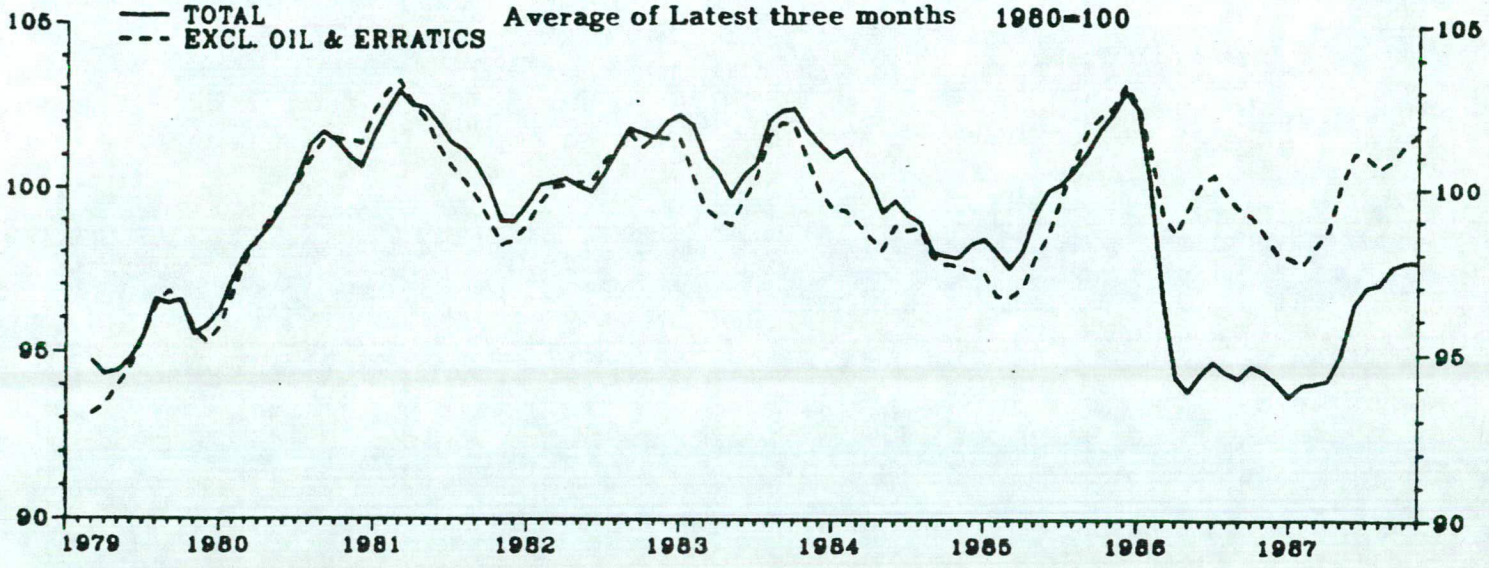
8. The total terms of trade remained flat in November partly as the non-oil terms of trade continued to improve gradually and offset lower oil prices. Manufactures export prices (excluding erratics) have changed little in the three months to November whilst domestic prices have risen by 1 per cent. Manufactures import prices (excluding erratics) fell slightly in the three months to November as the firming of the exchange rate held back price increases in sterling terms. Non manufacturing import prices also fell over this period as the rise in the exchange rate offset the effect of higher world commodity prices.

TABLE 7: TRADE PRICES (AVERAGE VALUES)

	Terms of trade		Manufactures (excluding erratics)		Non Manufactures (excluding fuel)		
	Total	Non oil (excluding erratics)	Exports	Imports	Exports	Imports	Exports of Fuel
1985	100.4	100.1	134.4	131.7	129.6	132.0	109.2
1986	94.9	99.4	136.3	135.0	128.4	127.2	76.3
1986 3	94.5	99.7	136.3	133.4	126.8	126.9	57.4
4	95.0	99.0	137.6	137.0	130.0	129.1	68.4
1987 1	95.0	98.5	139.5	140.3	128.6	127.7	78.5
2	96.5	101.1	140.5	138.7	131.7	127.3	78.6
3	97.6	100.9	140.8	138.7	132.2	128.1	82.4
September	99.6	102.6	141.5	137.2	131.2	126.5	81.7
October	96.9	101.2	141.5	138.5	129.6	128.4	80.0
November	96.8	101.5	140.6	137.6	132.2	125.3	76.4
% change Latest 3 months on							
- a year ago	3½	3	2½	½	1	-2	2.1
- previous 3 months	½	1	½	-1	-1½	-1½	-3

* BOP basis

CHART 8: TERMS OF TRADE



INVISIBLES

9. The invisibles estimates for the third quarter of 1987 were published on 15th December and showed a surplus of £1.9 billion. The invisibles surplus for the first half of 1987 was revised down by £0.6 billion, but the third quarter invisibles surplus recovered slightly with improved net earnings on services and interest profits and dividends more than offsetting increased net transfers to the EC. On present trends, however, the surplus for the year as a whole might be slightly lower than in 1986.

		1986				1987	£ billion
	1985	1986	Q3	Q4	Q1	Q2	Q3
Visible balance	-2.2	-8.5	-2.9	-2.7	-1.1	-2.4	-3.0
Invisibles	5.1	7.5	2.0	1.7	1.7	1.7	1.9
- Services	5.4	5.1	1.2	1.3	1.3	1.2	1.6
- IPD+	3.0	4.6	1.5	1.2	1.3	1.2	1.3
- Transfers	-3.3	-2.2	-0.7	-0.8	-0.9	-0.7	-1.0
Current Account	2.9	-0.9	-0.9	-1.0	0.6	-0.7	-1.1
Net transactions in external assets and liabilities*	-7.8	-11.0	-	-5.3	2.8	0.4	-2.3
Balancing item*	4.9	11.9	1.0	5.2	-2.9	0.6	3.6

+ Interest, profits and dividends
* Not seasonally adjusted.

10. The improved services surplus in the third quarter largely reflected higher net insurance earnings (partly due to an unusually low level of claims). Estimates

of UK tourist's spending abroad in the second quarter have been raised substantially and the higher level of expenditure was maintained in the third quarter. As a result the travel deficit in 1987 looks likely to exceed the 1986 level. The deficits on sea transport and civil aviation have continued to run ahead of last year's rate. The IPD surplus rose by £0.1 billion in the third quarter with earnings rising by £0.2 billion reflecting in part increased direct investment earnings as a result of BP's takeover of Standard Oil. Profits due abroad also increased as UK profits improved. Net portfolio income fell largely due to a fall in earnings in part because of the appreciation in sterling whilst payments continued to rise. Net interest payments abroad by UK banks however fell a little from the high second quarter level. The rise in the transfers deficit reflected a £0.2 billion fall in receipts from the EC (the second quarter included two unusually large receipts) while payments were little changed.

TRANSACTIONS IN EXTERNAL ASSETS AND LIABILITIES

11. There were net capital outflows of £2.3 billion in the third quarter compared with inflows of £0.4 billion in the second quarter. The capital outflows and current deficit in the third quarter imply a £3.6 billion positive balancing item (reflecting unrecorded inflows) in the third quarter.

12. There was a continued net outflow of direct investment rising to £5.5 billion in the third quarter and inflows of £2.4 billion. There was also a net foreign outflow from UK banks in the third quarter in foreign currencies, reversing the previous quarter's inflow. This was only partly offset by net portfolio inflows, due to continued sales of overseas assets by securities dealers and rising inflows as foreigners bought UK gilts and company securities. The UK's official revenues grew £0.3 billion in the third quarter.

PROSPECTS

13. The current account deficit of £0.6 billion in November brings the total for the first eleven months of 1987 to £2.1 billion which is consistent with the Autumn Statement forecast of £2½ billion for the year as a whole. Data revisions (especially to invisibles) however, are possible before the first 1987 current account estimate is published next March, hence error margins are still substantial. Independent forecasters on average are projecting a deficit of £3.2 billion in 1988 - similar to the Autumn Statement forecast deficit of £3½ billion. Most recent forecasts have included upward revisions to deficits in 1987 and 1988. The OECD now forecasts a deficit of £5.8 billion in 1988.

TABLE 8: CURRENT ACOUNT (£ billion)

	1987	1988	1989	1990
CBI (September)	-1.3	-2.6		
OECD (December)	-2.8	-5.8	-9.5	-
National Institute (November)	-1.6	-2.8	-5.0	-6.2
LBS (November)	-2.0	-2.6	-1.2	-0.6
Phillips and Drew (January)	-2.0	-4.2	-4.7	-3.5
Goldman Sachs (January)	-1.7	-3.6	-5.0	-5.5
Henley (December)	-1.3	-2.2	-2.3	-3.0
Oxford (November)	-1.4	-2.3	-2.7	-1.2
Liverpool (December)	-1.5	-3.1	-0.3	+1.3
Independent Average†	-1.7	-3.2	-3.8	-2.7
HMT Autumn Statement	-2½	-3½		

† Based on sample used in regular EB comparison - latest edition; December.

INTERNATIONAL COMPARISONS

14. The German and Japanese current surplus as both fell in the third quarter. In the US, trade volumes are responding to the decline in the dollar, although in the third quarter the US current account deficit widened a little. The October trade deficit in the US at $17½ billion was $2 billion larger than the third quarter average.

TABLE 9: G5 COUNTRIES' CURRENT BALANCES*

		US	Japan	Germany	France	$ billion UK
1983		-46.6	20.8	4.1	-4.2	5.0
1984		-107.0	35.0	8.4	0	2.1
1985		-116.4	49.2	13.8	0.9	4.6
1986		-141.4	85.6	37.8	3.4	-1.4
1986	1	-33.0	15.9	7.1	-0.4	1.2
	2	33.8	21.6	8.2	1.1	0.2
	3	-36.6	23.8	8.7	0.8	-1.3
	4	-38.0	24.3	13.8	1.9	-1.4
1987	1	-36.8	21.0	11.1	-1.8	0.9
	2	-41.2	21.1	11.4	0	-1.1
	3	-43.4	19.9	0.5	-	-1.9

* Seasonally adjusted

R02(A)

TABLE 02

Economic Briefing Divison
H.M.Treasury (01-270-5208)
Date: [redacted]/1/88

Economic Indicator
Group: GDP

EXPENDITURE ON THE GROSS DOMESTIC PRODUCT

Seasonally adjusted

Pounds million at 1980 prices

	(1) Consumers' Expenditure	(2) General government consumption	(3) Gross fixed investment	(4) Stock-building	(5) Final domestic demand	(6) Exports of goods and services	(7) Imports of goods and services	(8) Net trade	(9) GDP at factor cost-expenditure estimate	(10) Factor cost adjustment
1970	111 031	38 513	40 070	1 412	191 026	40 715	40 713	2	166 893	23 450
1971	114 485	39 656	40 832	368	195 341	43 607	42 853	754	171 133	24 342
1972	121 495	41 332	40 704	-98	203 433	43 999	47 006	-3 007	173 528	26 223
1973	127 763	43 119	43 354	5 025	219 261	49 149	52 544	-3 395	187 316	27 906
1974	125 906	43 926	42 278	2 278	214 388	52 755	53 223	-468	186 021	26 974
1975	125 211	46 377	41 540	-2 644	210 484	51 315	49 469	1 846	184 900	26 896
1976	125 601	46 951	42 217	1 235	216 004	55 919	51 539	4 380	191 871	28 013
1977	124 991	46 175	41 441	2 602	215 209	59 611	52 177	7 434	194 047	28 135
1978	131 928	47 238	42 726	2 208	224 100	60 735	54 203	6 532	199 691	30 941
1979	137 488	48 258	43 913	2 544	232 203	63 160	59 879	3 281	203 623	31 861
1980	137 470	49 027	41 561	-2 586	225 472	63 069	57 939	5 130	199 658	30 944
1981	137 686	49 161	37 575	-2 404	222 018	62 632	56 413	6 219	198 090	30 147
1982	138 796	49 635	39 539	-1 043	226 927	63 097	59 222	3 875	200 230	30 572
1983	144 432	50 583	41 605	698	237 318	64 382	62 653	1 729	207 484	31 563
1984	147 618	51 004	45 033	260	243 915	68 923	68 779	144	211 331	32 728
1985	153 320	51 003	46 417	605	251 345	72 819	70 713	2 106	219 628	33 823
1986	162 557	51 430	46 441	559	260 987	75 171	75 082	89	225 666	35 410
1987	170 714	38 555	35 721	701	245 691	59 188	59 444	-256	174 000	27 779
1983 1	35 555	12 597	10 357	351	58 860	15 946	15 108	838	51 876	7 822
1983 2	35 904	12 687	10 109	-24	58 676	15 792	15 395	397	51 248	7 825
1983 3	36 457	12 614	10 271	344	59 686	16 095	15 745	350	52 090	7 946
1983 4	36 516	12 685	10 868	27	60 096	16 549	16 405	144	52 270	7 970
1984 1	36 505	12 649	11 176	167	60 497	16 817	16 196	621	53 044	8 074
1984 2	37 027	12 737	11 161	-252	60 673	16 754	17 026	-272	52 190	8 211
1984 3	36 750	12 832	11 352	-32	60 902	17 271	17 364	-93	52 629	8 180
1984 4	37 336	12 786	11 344	377	61 843	18 081	18 193	-112	53 468	8 263
1985 1	37 793	12 775	12 238	-101	62 705	18 167	17 697	470	54 785	8 390
1985 2	37 863	12 751	11 297	579	62 490	18 419	17 489	930	55 074	8 346
1985 3	38 677	12 690	11 530	185	63 082	17 928	17 521	407	54 941	8 548
1985 4	38 987	12 787	11 352	-58	63 068	18 305	18 006	299	54 828	8 539
1986 1	39 736	12 841	11 534	419	64 530	18 046	17 651	395	56 294	8 631
1986 2	40 471	12 821	11 272	-30	64 534	18 595	18 174	421	56 145	8 810
1986 3	41 017	12 895	11 755	-187	65 480	18 729	19 254	-525	56 018	8 937
1986 4	41 333	12 873	11 880	357	66 443	19 801	20 003	-202	57 209	9 032
1987 1	41 517	12 773	11 756	-216	65 830	19 673	18 731	942	57 682	9 030
1987 2	42 326	12 796	11 985	18	67 125	19 404	19 763	-359	57 441	9 261
1987 3	43 404	12 986	11 980	899	69 269	20 111	20 950	-839	58 877	9 488
1987 4	43 467	-	-	-	43 467	-	-	-	-	-
% change latest quarter on previous quarter										
1987 3	+2.5	+1.5	-		+3.2	+3.6	+6.0	+133.7	+2.5	+2.5
1987 4	+0.1				-37.2					
on a year earlier										
1987 3	+5.8	+0.7	+1.9		+5.8	+7.4	+8.8	+59.8	+5.1	+6.2
1987 4	+5.2				-34.6					

Notes 1. Column 5 equals columns 1+2+3+4.
2. Column 8 equals columns 6-7.
3. Column 9 equals columns 1+2+3+4+6-7-10 or 5+8-10.

R81(B)

TABLE 03

Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 5/1/88

Economic Indicator
Group: Sectoral Finance

INCOME FROM EMPLOYMENT AND COMPANY PROFITS

Seasonally adjusted — Pounds million

	(1) Total domestic income	(2) Income from employment	(3) Col(2) as a percentage of col(1)(a)	(4) Gross trading profits of companies(a)	(5) Col(4) as a percentage of Col(1)	(6) Total domestic income net of stock appreciation	(7) Gross trading profits of companies net of stock appreciation	(8) Col(7) as a percentage of Col(6)
1970	45 598	30 553	67.0	6 130	13.4	44 537	5 266	11.8
1971	50 735	33 489	66.0	7 151	14.1	49 680	6 303	12.7
1972	57 740	37 870	65.6	8 166	14.1	56 450	7 084	12.6
1973	68 520	43 877	64.0	10 285	15.0	65 714	8 024	12.2
1974	80 576	52 379	64.9	11 381	14.2	74 467	6 318	8.5
1975	100 008	68 494	68.5	11 722	11 7	94 487	7 218	7.6
1976	117 481	78 005	66.4	14 732	12.5	110 800	9 145	8.2
1977	134 070	86 568	64.6	20 044	15.0	128 975	15 926	12.3
1978	152 327	98 826	64.9	22 606	14.8	148 099	19 163	13.0
1979	180 955	115 842	64.0	29 751	16.4	172 118	22 343	13.0
1980	206 076	137 657	66.8	28 184	13.7	199 715	22 820	11.4
1981	224 988	149 525	66.5	29 381	13.0	219 073	24 376	11.1
1982	243 611	158 568	65.1	33 301	13.6	239 386	29 841	12.4
1983	265 910	169 554	63.8	40 551	15.2	260 912	36 420	13.9
1984	284 638	180 051	63.3	46 775	16.4	279 379	42 221	15.1
1985	308 448	194 391	63.0	53 444	17.3	305 116	50 861	16.7
1986	326 152	209 586	64.3	50 808	15.6	323 807	48 897	15.1
1979 2	44 585	28 154	63.1	7 681	17.2	42 317	5 719	13.5
1979 3	46 511	29 623	63.7	7 853	16.9	44 130	5 902	13.4
1979 4	48 221	31 161	64.6	7 868	16.3	45 887	5 899	12.9
1980 1	50 591	32 512	64.3	8 303	16.4	47 818	5 899	12.3
1980 2	51 283	34 106	66.5	7 439	14.5	49 927	6 299	12.6
1980 3	51 623	35 193	68.2	6 280	12.2	50 245	5 115	10.2
1980 4	52 579	35 846	68.2	6 162	11.7	51 725	5 507	10.6
1981 1	53 387	36 250	67.9	6 244	11.7	52 084	5 159	9.9
1981 2	55 365	36 927	66.7	7 073	12.8	53 710	5 669	10.6
1981 3	57 341	37 811	65.9	7 793	13.6	55 776	6 400	11.5
1981 4	58 895	38 537	65.4	8 271	14.0	57 503	7 148	12.4
1982 1	58 463	39 033	66.8	6 864	11.7	57 335	5 954	10.4
1982 2	60 748	39 525	65.1	8 514	14.0	59 967	7 804	13.0
1982 3	61 561	39 770	64.6	8 644	14.0	60 477	7 719	12.8
1982 4	62 839	40 240	64.0	9 279	14.8	61 607	8 364	13.6
1983 1	64 281	41 309	64.3	9 317	14.5	63 299	8 469	13.4
1983 2	65 810	42 046	63.9	9 838	15.0	64 365	8 715	13.5
1983 3	67 477	42 714	63.3	10 872	16.1	66 053	9 689	14.7
1983 4	68 342	43 485	63.6	10 524	15.4	67 195	9 547	14.2
1984 1	69 286	43 975	63.5	10 810	15.6	68 141	9 808	14.4
1984 2	70 222	44 452	63.3	11 424	16.3	68 729	10 074	14.7
1984 3	71 541	45 103	63.0	11 932	16.7	70 404	10 957	15.6
1984 4	73 589	46 521	63.2	12 609	17.1	72 105	11 382	15.8
1985 1	75 243	47 198	62.7	13 668	18.2	73 773	12 394	16.8
1985 2	76 690	48 124	62 8	13 537	17 7	76 066	13 128	17 3
1985 3	77 725	49 183	63.3	12 976	16.7	77 024	12 489	16.2
1985 4	78 790	49 886	63.3	13 263	16.8	78 253	12 850	16.4
1986 1	79 219	50 868	64.2	12 374	15.6	79 413	12 747	16.1
1986 2	80 505	52 030	64.6	12 098	15.0	79 989	11 713	14.6
1986 3	82 229	52 787	64.2	12 944	15.7	81 516	12 302	15.1
1986 4	84 199	53 901	64.0	13 392	15.9	82 889	12 135	14.6
1987 1	85 857	54 576	63.6	14 299	16.7	84 825	13 478	15.9
1987 2	88 815	56 014	63.1	15 598	17.6	87 530	14 350	16.4
1987 3	91 610	56 926	62.1	16 927	18.5	89 974	15 495	17.2
% change of latest 6 months on previous 6 months:								
1987 2	+5.0	+3.7	-1.2	+13.5	+8.1	+4.8	+13.9	+8.6
1987 3	+6.1	+4.1	-1.9	+17.5	+10.7	+5.8	+16.5	+10.1
a year earlier:								
1987 2	+9.4	+7.5	-1.7	+22.2	+11.6	+8.1	+13.8	+5.2
1987 3	+10.9	+7.8	-2.8	+29.9	+17.1	+9.9	+24.3	+13.1

Notes: (1). All quarterly figures in these columns are subject to estimating unreliability principally related to gross trading profits of companies. Comparisons between periods shorter than two quarters are not advisable.
(2). The difficulty in measuring stock appreciation makes quarterly figures in columns 6 ,7 & 8 more unreliable than columns indicated thus (a) and short term comparisons must be avoided.

TABLE 05

C11(A)

Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 25/1/88

Economic Indicator
Group:Output & Production

INDEX OF OUTPUT OF PRODUCTION AND CONSTRUCTION

Seasonally adjusted — Average 1980=100

	Production industries	Manufacturing industries	Construction industries	Energy industries	Oil & gas extraction industries
	Div 1-4	Div 2-4	Div 5	Div 1	Class 13
WEIGHTS	361	266	63	95	44
1970	90.2	103.4	111.1	51.0	-
1971	89.7	102.3	113.1	52.6	-
1972	91.3	104.5	115.2	52.2	-
1973	99.5	114.2	117.9	55.8	-
1974	97.5	112.8	105.7	52.2	-
1975	92.2	105.0	100.1	54.5	-
1976	95.3	106.9	98.8	60.9	16.2
1977	100.2	109.0	98.4	74.8	47.3
1978	103.2	109.7	105.1	85.0	68.9
1979	107.1	109.5	105.8	100.5	98.8
1980	100.0	100.0	100.0	100.0	100.1
1981	96.6	94.0	89.9	103.8	110.3
1982	98.4	94.2	91.7	110.0	125.5
1983	101.9	96.9	95.3	115.9	137.8
1984	103.3	100.8	98.5	110.2	147.3
1985	108.1	103.8	99.8	120.2	150.4
1986	109.7	104.2	102.1	125.2	153.1
1983 1	100.4	95.9	93.7	112.8	131.3
1983 2	100.5	95.4	92.1	114.9	132.7
1983 3	102.8	97.6	97.7	117.4	141.7
1983 4	104.0	98.9	97.8	118.3	145.3
1984 1	104.2	99.7	97.8	116.8	147.7
1984 2	102.7	100.4	98.3	109.1	146.3
1984 3	102.5	101.6	99.6	104.9	143.0
1984 4	103.7	101.6	98.2	109.8	152.0
1985 1	106.6	103.6	100.3	115.0	154.3
1985 2	109.4	104.7	99.5	122.6	152.3
1985 3	108.2	103.6	98.7	120.8	145.3
1985 4	108.2	103.2	100.8	122.2	149.7
1986 1	108.4	101.8	98.9	126.7	154.7
1986 2	109.3	103.4	101.7	125.6	152.3
1986 3	110.4	104.4	102.8	127.4	158.0
1986 4	110.8	107.1	105.1	121.1	147.3
1987 1	111.2	106.3	109.8	124.6	153.3
1987 2	112.0	108.7	107.0	121.1	148.0
1987 3	114.6	111.7	112.2	122.5	148.0
1985 J	106.4	103.3		115.0	157.0
1985 F	105.8	103.1		113.2	153.0
1985 M	107.6	104.3		116.7	153.0
1985 A	109.0	104.4		121.7	155.0
1985 M	109.4	104.5		123.1	152.0
1985 J	109.8	105.1		123.0	150.0
1985 J	107.3	103.1		119.0	142.0
1985 A	107.7	103.8		118.5	138.0
1985 S	109.5	103.9		125.0	156.0
1985 O	108.6	103.1		123.8	156.0
1985 N	109.0	102.7		126.6	155.0
1985 D	107.1	103.8		116.3	138.0
1986 J	107.8	102.0		123.8	151.0
1986 F	108.9	101.7		128.8	156.0
1986 M	108.6	101.8		127.6	157.0
1986 A	110.3	103.6		129.0	155.0
1986 M	108.6	103.0		124.2	152.0
1986 J	109.0	103.7		123.7	150.0
1986 J	110.3	104.6		126.2	158.0
1986 A	110.2	103.9		127.9	160.0
1986 S	110.8	104.6		128.0	156.0
1986 O	110.8	106.4		123.2	152.0
1986 N	111.1	107.2		122.0	149.0
1986 D	110.5	107.8		118.2	141.0
1987 J	109.7	104.5		124.1	152.0
1987 F	111.9	107.4		124.3	154.0
1987 M	111.9	107.1		125.3	154.0
1987 A	111.9	108.2		122.3	153.0
1987 M	112.7	109.0		123.1	154.0
1987 J	111.3	108.9		117.8	137.0
1987 J	114.0	110.8		122.8	149.0
1987 A	115.6	112.7		123.7	149.0
1987 S	114.1	111.6		120.9	146.0
1987 O	115.6	113.2		122.1	146.0
1987 N	115.2	112.6		122.6	149.0

R43(B)

TABLE 16

Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 25/1/88

Economic Indicator
Group. Labour

UNEMPLOYMENT AND VACANCIES

	Unemployment (UK)					Vacancies (UK)
	including school leavers		excluding school leavers			notified to job centres
	(nsa) (000's)	(nsa) % rate	(s.adj) (000's)	change since previous period (s.adj) (000's)	(s.adj) % rate	(s.adj) (000's)
1971	751	3.0	699		2.8	
1972	837	3.3	777	78	3.1	
1973	596	2.3	545	-232	2.1	
1974	599	2.3	549	5	2.1	
1975	941	3.6	861	311	3.3	
1976	1 302	5.0	1 179	318	4.5	
1977	1 403	5.4	1 251	72	4.8	
1978	1 383	5.2	1 226	-25	4.7	
1979	1 296	4.9	1 140	-86	4.3	
1980	1 665	6.2	1 452	311	5.4	134
1981	2 520	9.4	2 270	818	8.5	91
1982	2 917	11.0	2 626	356	9.9	114
1983	3 105	11.7	2 867	240	10.8	137
1984	3 160	11.7	2 999	132	11.1	150
1985	3 271	11.8	3 113	115	11.3	162
1986	3 289	11.9	3 180	67	11.5	188
1987	2 953	10.6	2 881	-	10.4	235
1985 J	3 341	12.1	3 079	9	11.1	155
1985 F	3 324	12.0	3 098	20	11.2	155
1985 M	3 268	11.8	3 096	-2	11.2	157
1985 A	3 273	11.8	3 118	22	11.3	162
1985 M	3 241	11.7	3 119	-	11.3	162
1985 J	3 179	11.5	3 109	-9	11.3	163
1985 J	3 235	11.7	3 113	4	11.3	162
1985 A	3 240	11.7	3 119	6	11.3	163
1985 S	3 346	12.1	3 121	3	11.3	166
1985 O	3 277	11.9	3 124	3	11.3	170
1985 N	3 259	11.8	3 123	-1	11.3	169
1985 D	3 273	11.8	3 143	20	11.4	164
1986 J	3 408	12.3	3 156	13	11.4	163
1986 F	3 337	12.0	3 164	9	11.4	167
1986 M	3 324	12.0	3 207	42	11.5	170
1986 A	3 325	12.0	3 197	-10	11.5	170
1986 M	3 271	11.8	3 201	4	11.5	172
1986 J	3 229	11.6	3 213	12	11.6	184
1986 J	3 280	11.8	3 212	-	11.6	193
1986 A	3 280	11.8	3 209	-3	11.6	201
1986 S	3 333	12.0	3 183	-26	11.5	206
1986 O	3 237	11.7	3 160	-24	11.4	210
1986 N	3 217	11.6	3 143	-16	11.3	213
1986 D	3 229	11.6	3 119	-24	11.2	211
1987 J	3 297	11.9	3 114	-5	11.2	212
1987 F	3 226	11.6	3 066	-49	11.0	207
1987 M	3 143	11.3	3 040	-26	10.9	214
1987 A	3 107	11.2	3 018	-22	10.9	214
1987 M	2 987	10.8	2 952	-66	10.6	231
1987 J	2 905	10.5	2 925	-27	10.5	234
1987 J	2 907	10.5	2 876	-49	10.4	235
1987 A	2 866	10.3	2 829	-47	10.2	237
1987 S	2 870	10.3	2 773	-56	10.0	247
1987 O	2 751	9.9	2 712	-61	9.8	261
1987 N	2 686	9.7	2 649	-63	9.5	268
1987 D	2 696	9.7	2 614	-35	9.4	257

Notes (1). The annual figures shown are averages of the monthly figures.
(2). Unemployment figures from April 1983 reflect the effect of provisions in the 1983 Budget for some men aged 60 and over who are no longer have to sign on at unemployment benefit offices.

Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 25/1/88

UNEMPLOYMENT: MALE AND FEMALE (UK)

Seasonally adjusted

	Male			Female		
	000's	Change since previous period 000's	% rate(2)	000's	Change since previous period 000's	% rate(2)
1971	-	-	-	-	-	-
1972	652	58	4.0	124	20	1.4
1973	453	-200	2.8	92	-33	1.0
1974	460	7	2.9	89	-3	0.9
1975	698	238	4.3	163	73	1.7
1976	914	216	5.6	265	102	2.7
1977	936	23	5.8	314	49	3.1
1978	895	-41	5.5	331	17	3.3
1979	813	-82	5.0	327	-3	3.1
1980	1 029	216	6.3	423	95	4.0
1981	1 653	624	10.1	617	194	5.9
1982	1 911	258	11.8	715	98	6.9
1983	2 055	144	12.8	811	96	7.7
1984	2 103	47	13.0	896	85	8.2
1985	2 159	56	13.1	954	59	8.5
1986	2 190	31	13.3	990	36	8.7
1987	2 005	-		876	-	
1983 J	2 023	11	12.6	769	10	7.3
1983 F	2 023	-	12.6	777	8	7.4
1983 M	2 038	15	12.7	786	10	7.5
1983 A	2 048	10	12.7	795	8	7.6
1983 M	2 058	10	12.8	804	9	7.7
1983 J	2 073	15	12.9	811	7	7.7
1983 J	2 070	-3	12.9	817	6	7.8
1983 A	2 066	-5	12.8	818	2	7.8
1983 S	2 066	1	12.8	828	9	7.9
1983 O	2 065	-1	12.8	835	8	8.0
1983 N	2 064	-1	12.8	845	9	8.0
1983 D	2 068	4	12.8	852	7	8.1
1984 J	2 070	2	12.8	861	10	7.9
1984 F	2 084	13	12.8	871	10	8.0
1984 M	2 088	5	12.9	879	8	8.1
1984 A	2 079	-9	12.8	878	-	8.1
1984 M	2 088	8	12.9	885	7	8.1
1984 J	2 089	1	12.9	890	5	8.2
1984 J	2 097	9	12.9	896	6	8.2
1984 A	2 105	8	13.0	904	7	8.3
1984 S	2 124	18	13.1	914	11	8.4
1984 O	2 132	9	13.1	918	4	8.4
1984 N	2 138	5	13.2	925	7	8.5
1984 D	2 140	2	13.2	930	5	8.6
1985 J	2 144	4	13.0	935	4	8.4
1985 F	2 159	15	13.1	939	4	8.4
1985 M	2 154	-5	13.1	942	3	8.4
1985 A	2 167	12	13.2	952	10	8.5
1985 M	2 164	-3	13.2	955	3	8.5
1985 J	2 155	-9	13.1	954	-1	8.5
1985 J	2 156	1	13.1	957	3	8.6
1985 A	2 158	2	13.1	961	4	8.6
1985 S	2 159	1	13.1	963	2	8.6
1985 O	2 161	2	13.1	964	1	8.6
1985 N	2 160	-1	13.1	963	-	8.6
1985 D	2 173	13	13.2	971	7	8.7
1986 J	2 180	8	13.3	976	5	8.6
1986 F	2 182	2	13.3	983	7	8.7
1986 M	2 218	36	13.5	989	7	8.7
1986 A	2 204	-14	13.4	993	4	8.7
1986 M	2 205	1	13.4	996	3	8.8
1986 J	2 209	5	13.5	1 003	7	8.8
1986 J	2 206	-3	13.4	1 006	3	8.9
1986 A	2 201	-5	13.4	1 008	2	8.9
1986 S	2 187	-14	13.3	996	-12	8.8
1986 O	2 172	-15	13.2	988	-9	8.7
1986 N	2 166	-6	13.2	977	-11	8.6
1986 D	2 153	-14	13.1	967	-11	8.5
1987 J	2 147	-6	13.1	967	1	8.5
1987 F	2 123	-24	12.9	943	-24	8.3
1987 M	2 108	-15	12.8	932	-11	8.2
1987 A	2 093	-15	12.7	925	-6	8.1
1987 M	2 054	-39	12.5	899	-27	7.9
1987 J	2 036	-17	12.4	889	-10	7.8
1987 J	2 005	-32	12.2	872	-17	7.7
1987 A	1 972	-33	12.0	857	-14	7.5
1987 S	1 940	-32	11.8	834	-24	7.3
1987 O	1 899	-41	11.6	814	-20	7.2
1987 N	1 854	-44		795	-19	
1987 D	1 826	-28		788	-7	

Notes: (1) Annual figures are averages of the monthly figures.
(2) Per cent of working population.
(3) All figures exclude school leavers

TABLE 18

C44(A)
Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 25/1/88

Economic Indicator
Group: Production & output

PRODUCTIVITY

Seasonally adjusted — 1980=100

	Whole economy	Production industries	Manufacturing industries	
	Output per person employed	Output per person employed	Output per person employed	Output per person hour
1970	87.3	-	84.9	84.9
1971	89.7	-	86.8	86.8
1972	92.1	-	91.9	91.9
1973	95.5	-	99.8	99.8
1974	93.8	-	98.3	98.3
1975	92.4	-	95.7	95.7
1976	95.0	-	100.7	100.7
1977	97.6	-	102.7	102.7
1978	100.6	98.0	103.7	103.7
1979	102.2	102.4	104.1	104.1
1980	100.0	100.0	100.0	100.0
1981	101.9	105.7	103.5	103.5
1982	105.8	114.1	110.3	110.3
1983	110.0	124.7	119.8	119.8
1984	111.8	128.7	126.4	126.4
1985	114.1	135.8	130.6	130.6
1986	117.0	141.6	133.9	133.9
1983 1	108.9	121.0	116.9	116.6
1983 2	109.1	122.6	117.5	117.0
1983 3	110.7	126.5	121.2	120.1
1983 4	111.3	128.6	123.5	122.0
1984 1	111.7	129.5	124.9	123.1
1984 2	111.4	127.9	126.0	124.0
1984 3	111.7	128.0	127.3	125.3
1984 4	112.2	129.5	127.4	125.1
1985 1	113.2	133.3	130.1	127.6
1985 2	114.4	137.1	131.6	129.2
1985 3	114.0	136.1	130.5	128.0
1985 4	114.7	136.7	130.3	127.5
1986 1	114.9	138.1	129.3	126.8
1986 2	116.6	140.7	132.5	130.2
1986 3	117.8	143.2	134.9	132.6
1986 4	118.5	144.5	138.7	136.4
1987 1	119.0	145.8	138.4	135.9
1987 2	119.9	147.0	141.4	138.6
1987 3	121.9	150.8	145.5	142.6
1985 J			129.8	127.4
1985 F			129.4	126.9
1985 M			131.1	128.6
1985 A			131.4	129.6
1985 M			131.3	128.6
1985 J			132.2	129.4
1985 J			129.9	127.3
1985 A			130.9	128.5
1985 S			130.8	128.1
1985 O			129.9	127.2
1985 N			129.7	127.1
1985 D			131.2	128.3
1986 J			129.1	126.4
1986 F			129.3	126.8
1986 M			129.6	127.1
1986 A			132.1	129.7
1986 M			132.0	129.8
1986 J			133.3	131.2
1986 J			134.9	132.7
1986 A			134.3	132.1
1986 S			135.4	133.1
1986 O			137.8	135.5
1986 N			138.8	136.3
1986 D			139.6	137.3
1987 J			135.9	133.9
1987 F			139.7	137.1
1987 M			139.5	136.7
1987 A			141.0	138.1
1987 M			141.8	139.1
1987 J			141.5	138.5
1987 J			144.3	141.5
1987 A			146.7	143.8
1987 S			145.5	142.4
1987 O			147.4	143.7
1987 N			146.4	142.7
% change latest 3 months on previous 3 months				
1987 O			+2.8	+2.6
1987 N			+1.6	+1.2

TABLE 19

R52(B)

Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 25/1/88

Economic Indicator
Group: Prices and Costs

RETAIL PRICE & TAX AND PRICE INDICES

Not seasonally adjusted

	Retail prices					TPI
	All items					
		% increase over a year earlier	Housing	All items except seasonal food	Food	% increase over a year earlier
1970	73.1	6.3				
1971	80.0	9.4				
1972	85.7	7.1				
1973	93.5	9.2				
1974	108.5	16.0	105.8	108.8	106.1	
1975	134.8	24.1	125.5	135.1	133.3	29.3
1976	157.1	16.8	143.2	156.5	159.9	18.8
1977	182.0	15.9	161.8	181.5	190.3	14.8
1978	197.1	8.3	173.4	197.8	203.8	3.0
1979	223.5	13.4	208.9	224.1	228.3	12.0
1980	263.7	18.1	269.5	265.3	255.9	17.3
1981	295.0	11.9	318.2	296.9	277.5	14.8
1982	320.4	8.7	358.3	322.0	299.3	9.9
1983	335.1	4.6	367.1	337.1	308.8	4.0
1984	351.8	5.0	400.7	353.1	326.1	3.9
1985	373.2	6.1	452.3	375.4	336.3	5.2
1986	385.9	3.4	478.1	387.9	347.3	1.9
1985 J	359.8	5.0	416.4	361.8	330.6	3.8
1985 F	362.7	5.4	427.7	364.7	332.5	4.3
1985 M	366.1	6.1	431.2	367.8	335.4	5.0
1985 A	373.9	6.9	458.4	375.5	338.8	6.4
1985 M	375.6	7.0	461.3	377.3	339.3	6.5
1985 J	376.4	7.0	463.8	378.1	340.1	6.4
1985 J	375.7	6.9	465.8	378.5	335.3	6.3
1985 A	376.7	6.2	467.1	379.7	335.3	5.5
1985 S	376.5	5.9	457.0	379.5	335.8	5.2
1985 O	377.1	5.4	457.0	380.0	335.5	4.3
1985 N	378.4	5.5	459.7	381.1	337.4	4.3
1985 D	378.9	5.7	462.0	381.3	339.4	4.6
1986 J	379.7	5.5	463.7	381.9	341.1	4.4
1986 F	381.1	5.1	465.7	383.3	343.6	3.9
1986 M	381.6	4.2	467.5	383.4	345.2	3.0
1986 A	385.3	3.0	483.5	387.0	347.4	1.2
1986 M	386.0	2.8	482.7	387.3	349.8	0.9
1986 J	385.8	2.5	471.6	387.0	351.4	0.6
1986 J	384.7	2.4	472.8	386.8	347.4	0.4
1986 A	385.9	2.4	475.3	387.9	348.6	0.6
1986 S	387.8	3.0	477.3	390.0	348.3	1.2
1986 O	388.4	3.0	478.4	390.9	347.6	1.5
1986 N	391.7	3.5	497.4	394.3	347.5	2.2
1986 D	393.0	3.7	501.1	395.3	349.8	2.4
1987 J	100.0	3.9	100.0	100.0	100.0	2.6
1987 F	100.4	3.9	100.3	100.3	100.7	2.7
1987 M	100.6	4.0	100.7	100.6	100.7	2.8
1987 A	101.8	4.2	105.0	101.6	101.6	2.5
1987 M	101.9	4.1	103.6	101.7	102.2	2.4
1987 J	101.9	4.2	103.4	101.8	101.6	2.5
1987 J	101.8	4.4	103.8	101.9	100.4	2.8
1987 A	102.1	4.4	104.1	102.2	100.7	2.6
1987 S	102.4	4.2	104.4	102.6	100.4	2.5
1987 O	102.9	4.5	104.9	103.1	101.1	2.8
1987 N	103.4	4.1	105.6	103.6	101.6	2.4
1987 D	103.3	3.7	103.9	103.3	102.4	1.9
% change of latest month on previous month						
1987 N	+0.5	-8.3	+0.7	+0.5	+0.5	-15.7
1987 D	-0.1	-10.7	-1.6	-0.3	+0.8	-21.7

Note: Jan 1974=100 until Dec 1986, then Jan 1987=100. On the old index Jan 1987=394.5

TABLE 20

R53(A)

Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 25/1/88

Economic Indicator
Group: Prices and costs

MANUFACTURERS' PRICES AND COSTS

Not seasonally adjusted except last col

Producers prices 1980 = 100

	Output prices (home sales)		Input prices - Basic materials and fuels purchased		
	All manufactured products (revised definition)	Products of manufacturing industry other than food,drink and tobacco	All manufacturing industry (revised definition)	All manufacturing industry other than food,drink and tobacco	Wages and salaries per unit of output in manufacturing sea.adj. 1980=100
1974	42.6	42.3	49.1	48.4	40.3
1975	52.4	52.1	54.9	54.4	52.2
1976	60.9	59.9	68.4	67.2	57.8
1977	72.0	69.9	78.9	75.2	62.5
1978	79.1	77.4	81.6	76.8	70.9
1979	87.7	86.7	92.2	89.8	81.8
1980	100.0	100.0	100.0	100.0	100.0
1981	109.5	107.4	109.2	108.9	109.3
1982	118.0	114.9	117.2	116.3	114.0
1983	124.5	121.1	125.3	125.5	114.4
1984	132.1	127.9	135.5	136.5	117.8
1985	139.4	135.9	137.7	142.1	124.5
1986	145.7	141.8	126.6	126.8	130.8
1987	151.2	148.2	130.6	133.5	121.0
1983 1	121.8	118.5	124.6	126.1	113.2
1983 2	124.2	120.6	123.6	123.0	115.3
1983 3	125.1	121.9	124.8	125.3	114.0
1983 4	126.8	123.3	128.4	127.6	115.2
1984 1	129.0	125.3	133.6	132.8	115.9
1984 2	132.0	127.3	134.3	133.0	116.2
1984 3	132.8	128.6	134.1	136.2	118.1
1984 4	134.5	130.3	140.2	143.8	121.1
1985 1	136.6	133.3	146.3	152.3	121.3
1985 2	139.4	135.5	138.8	142.0	122.4
1985 3	140.2	136.9	133.1	137.8	125.7
1985 4	141.4	138.0	132.6	136.4	128.4
1986 1	143.4	140.0	132.4	134.2	131.7
1986 2	145.7	141.3	125.8	124.4	130.8
1986 3	146.3	142.4	120.8	119.8	130.3
1986 4	147.4	143.5	127.4	128.8	130.3
1987 1	149.3	145.8	129.8	131.9	132.7
1987 2	150.9	147.6	128.7	130.1	131.9
1987 3	151.6	149.0	131.0	135.2	131.1
1987 4	153.2	150.3	132.7	136.8	88.3
1986 D	147.9	143.8	130.4	132.8	131.1
1987 J	148.9	145.2	131.7	135.1	134.6
1987 F	149.3	145.9	129.6	131.7	131.6
1987 M	149.7	146.3	128.2	129.0	131.9
1987 A	150.5	147.1	128.4	129.4	132.7
1987 M	151.0	147.7	128.0	129.0	130.6
1987 J	151.1	148.0	129.7	131.8	132.5
1987 J	151.3	148.5	130.5	134.0	131.7
1987 A	151.5	149.0	131.3	136.4	129.2
1987 S	152.0	149.6	131.1	135.2	132.3
1987 O	152.8	150.0	131.0	134.8	131.8
1987 N	153.2	150.3	131.6	135.3	133.1
1987 D	153.5	150.6	135.6	140.2	-
% change of latest 3 months on previous 3 months:					
1987 N	+0.9	+1.0	+0.6	+0.8	+1.0
1987 D	+1.0	+0.9	+1.3	+1.2	-32.6
% change of latest month on a year earlier:					
1987 N	+3.9	+4.8	+3.2	+5.1	+2.4
1987 D	+3.8	+4.7	+4.0	+5.6	

TABLE 21

R61(B)
Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 25/1188

Economic Indicator
Group: Earnings

AVERAGE EARNINGS (GB)

Seasonally adjusted

	All employees in whole economy			All employees in manufacturing (revised definition)			All employees in sevice industries		
	Index Jan 1980=100	% change over year earlier	Underlying % change over previous 12 months(1)	Index Jan 1980=100	% change over year earlier	Underlying % change over previous 12 months(1)	Index Jan 1980=100	% change over year earlier	Underlying % change over previous 12 months(1)
1980	111.4			109.1					
1981	125.8	13.0		123.6	13.3		127.8	13.3	
1982	137.6	9.4		137.4	11.2		138.9	8.7	
1983	149.2	8.4		149.8	9.0		151.1	8.8	
1984	158.3	6.1		162.8	8.7		160.7	6.4	
1985	171.7	8.5		177.7	9.1		171.4	6.6	
1986	185.3	7.9		191.3	7.6		184.7	7.8	
1987	-	-		-	-				
1983 J	144.5	8.8	8.0	144.0	9.1	9.0	146.4		
1983 F	147.2	9.6	8.0	144.8	9.0	8.8	150.1		
1983 M	146.3	8.6	7.8	145.0	7.9	8.5	149.1		
1983 A	147.0	8.6	7.5	148.1	8.9	8.5	148.3		
1983 M	148.6	8.7	7.5	148.2	8.6	8.5	150.8		
1983 J	148.2	8.2	7.5	147.8	8.1	8.5	151.4		
1983 J	150.3	7.7	7.5	149.7	8.6	8.8	152.3		
1983 A	150.2	8.4	7.8	150.8	9.0	8.8	151.8		
1983 S	150.7	8.5	7.8	152.4	9.4	9.3	151.5		
1983 O	152.0	8.7	7.8	154.4	9.6	9.5	152.2		
1983 N	152.1	7.3	7.8	155.6	9.9	9.8	153.6		
1983 D	153.4	8.2	8.0	156.6	9.7	9.8	155.1		
1984 J	154.7	7.1	7.8	157.0	9.0	9.5	155.9		
1984 F	155.6	5.7	7.8	158.7	9.6	9.5	155.2		
1984 M	154.4	5.5	7.8	159.2	9.8	9.5	157.0		
1984 A	155.8	6.0	7.8	159.5	7.7	9.3	158.9		
1984 M	156.0	5.0	7.8	159.5	7.6	9.3	158.7		
1984 J	156.0	5.3	7.8	161.1	9.0	9.3	159.0		
1984 J	158.2	5.3	7.5	162.9	8.8	9.0	160.3		
1984 A	159.0	5.9	7.5	163.7	8.6	8.8	161.8		
1984 S	160.2	6.3	7.5	166.1	9.0	8.8	162.4		
1984 O	164.5	8.2	7.5	168.3	9.0	8.5	168.7		
1984 N	162.0	6.5	7.5	168.1	8.0	8.5	165.1		
1984 D	163.5	6.6	7.5	169.5	8.2	8.5	165.9		
1985 J	165.5	7.0	7.5	171.7	9.4	8.5	166.7	6.9	7.0
1985 F	166.5	7.0	7.5	172.0	8.4	8.5	166.9	7.5	7.0
1985 M	168.3	9.0	7.5	173.8	9.2	8.8	168.6	7.4	7.0
1985 A	170.6	9.5	7.5	177.6	11.3	8.8	170.0	7.0	7.0
1985 M	169.7	8.8	7.5	174.4	9.3	9.0	169.6	6.9	7.0
1985 J	170.2	9.1	7.5	176.2	9.4	9.0	170.1	7.0	6.8
1985 J	172.2	8.9	7.5	178.3	9.5	9.0	170.1	6.1	6.8
1985 A	173.1	8.9	7.5	178.1	8.8	9.0	173.1	7.0	6.8
1985 S	176.4	10.1	7.8	181.5	9.3	9.0	176.0	8.4	6.8
1985 O	174.3	6.0	7.5	180.9	7.5	8.8	172.4	2.2	6.8
1985 N	175.9	8.6	7.5	182.9	8.8	8.8	175.6	6.4	6.5
1985 D	178.1	8.9	7.5	184.7	9.0	8.8	177.4	6.9	6.5
1986 J	179.1	8.2	7.5	185.5	8.0	8.5	176.7	6.0	6.5
1986 F	180.0	8.1	7.5	186.0	8.1	8.3	177.0	6.1	6.8
1986 M	182.6	8.5	7.5	186.9	7.5	8.0	183.0	8.5	7.0
1986 A	185.3	8.6	7.5	191.1	7.6	7.8	185.7	9.2	7.3
1986 M	182.6	7.6	7.5	187.1	7.3	7.8	182.2	7.4	7.3
1986 J	183.9	8.1	7.5	189.8	7.7	7.8	184.8	8.6	7.3
1986 J	186.3	8.2	7.5	190.5	6.8	7.8	186.0	9.3	7.3
1986 A	187.0	8.0	7.5	191.9	7.7	7.8	187.3	8.3	7.3
1986 S	187.1	6.1	7.5	194.0	6.9	7.8	186.0	5.7	7.3
1986 O	188.7	8.3	7.5	195.2	7.9	7.8	187.4	8.7	7.3
1986 N	190.2	8.1	7.8	197.1	7.8	7.8	190.5	8.5	7.5
1986 D	191.3	7.4	7.8	200.0	8.3	8.0	189.2	6.7	7.5
1987 J	192.8	7.7	7.5	200.0	7.8	7.8	190.3	7.7	7.5
1987 F	193.4	7.4	7.5	201.0	8.1	8.0	189.7	7.2	7.3
1987 M	194.8	6.7	7.5	201.1	7.6	8.0	193.8	5.9	7.3
1987 A	197.4	6.5	7.8	204.4	7.0	8.0	196.4	5.8	7.8
1987 M	198.5	8.7	7.8	202.4	8.2	8.0	199.2	9.3	7.8
1987 J	198.1	7.7	7.8	204.8	7.9	8.3	198.7	7.5	7.5
1987 J	201.3	8.1	7.8	207.6	9.0	8.3	200.4	7.7	7.3
1987 A	201.3	7.6	7.8	207.2	8.0	8.5	200.9	7.3	7.3
1987 S	201.8	7.9	7.8	210.3	8.4	8.5	200.1	7.6	7.3
1987 O	203.8	8.0	8.0	212.4	8.8	8.3	201.7	7.6	8.0
1987 N	205.9	8.3	8.3	212.9	8.0	8.3	207.0	8.7	8.5

Notes: (1) Estimated to the nearest quarter of one percentage point
(2) Annual figures are straight averages of the montly data

TABLE 22

R62(B)

Economic Briefing Division
H.M.Treasury (01-270-5208)
Date:
25/1/88

Economic Indicator
Group: Earnings

REAL AVERAGE EARNINGS (WHOLE ECONOMY)(1)

		Real average earnings Jan 1980=100	% increase over year earlier
1980		103.6	-
1981		104.6	1.0
1982		105.4	0.7
1983		109.2	3.7
1984		110.4	1.1
1985		112.9	2.3
1986		117.8	4.3
1987		-	-
1983	J	108.8	3.7
1983	F	110.3	4.0
1983	M	109.4	3.8
1983	A	108.4	4.4
1983	M	109.2	4.8
1983	J	108.6	4.4
1983	J	109.6	3.4
1983	A	109.0	3.6
1983	S	108.9	3.2
1983	O	109.4	3.6
1983	N	109.1	2.4
1983	D	109.8	2.7
1984	J	110.8	1.8
1984	F	111.0	0.6
1984	M	109.7	0.3
1984	A	109.3	0.8
1984	M	109.0	-0.1
1984	J	108.7	0.1
1984	J	110.4	0.8
1984	A	109.9	0.8
1984	S	110.5	1.5
1984	O	112.8	3.1
1984	N	110.8	1.5
1984	D	111.9	1.9
1985	J	112.8	1.9
1985	F	112.6	1.5
1985	M	112.8	2.8
1985	A	111.9	2.4
1985	M	110.8	1.7
1985	J	110.9	2.0
1985	J	112.4	1.8
1985	A	112.7	2.5
1985	S	114.9	4.0
1985	O	113.4	0.5
1985	N	114.0	3.0
1985	D	115.3	3.1
1986	J	115.7	2.5
1986	F	115.9	2.9
1986	M	117.4	4.1
1986	A	118.0	5.4
1986	M	116.0	4.7
1986	J	116.9	5.4
1986	J	118.8	5.7
1986	A	118.9	5.5
1986	S	118.3	3.0
1986	O	119.2	5.1
1986	N	119.1	4.5
1986	D	119.4	3.6
1987	J	119.9	3.6
1987	F	119.8	3.4
1987	M	120.4	2.6
1987	A	120.6	2.2
1987	M	121.1	4.4
1987	J	120.9	3.4
1987	J	123.0	3.5
1987	A	122.6	3.1
1987	S	122.5	3.5
1987	O	123.2	3.3
1987	N	123.8	4.0

Notes: (1) Seasonally adjusted average earnings (whole economy GB) deflated by the all items RPI.

TABLE 24

R74(A)

Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 25/1/88

Economic Indicator
Group:Interest

NOMINAL INTEREST RATES

% per annum

	Government securities calculated redemption yields			3 month rate		
	Short-dated (5 years)	Medium-dated (10 years)	Long-dated (20 years)	UK inter-bank	US Treasury bills	London clearing banks' base rates
1970	7.92	8.63	9.21	-	6.44	-
1971	6.77	8.06	8.85	-	4.33	1.18
1972	7.55	8.38	8.90	-	4.15	5.72
1973	10.41	10.56	10.71	-	7.17	9.83
1974	12.51	14.21	14.77	-	7.97	12.34
1975	11.48	13.18	14.39	-	-	10.47
1976	12.06	13.61	14.43	-	-	11.11
1977	10.08	12.02	12.73	-	-	8.94
1978	11.32	12.12	12.47	-	-	9.09
1979	12.64	12.93	12.99	-	10.49	13.68
1980	13.84	13.91	13.79	16.45	11.98	16.32
1981	14.65	14.88	14.74	13.97	14.59	13.27
1982	12.79	13.09	12.88	12.37	11.32	11.93
1983	11.19	11.27	10.80	10.13	9.27	9.83
1984	11.29	11.27	10.69	9.71	9.86	9.68
1985	11.13	11.06	10.62	12.26	7.66	12.25
1986	10.01	10.06	9.87	10.95	6.15	10.90
1987	9.36	9.57	9.48	5.73	5.92	9.74
1983 1	11.29	11.68	11.36	11.15	8.75	10.82
1983 2	11.07	11.07	10.53	10.19	9.14	9.98
1983 3	11.55	11.50	10.90	9.82	9.71	9.50
1983 4	10.86	10.82	10.42	9.38	9.48	9.00
1984 1	10.59	10.77	10.31	9.25	9.72	8.91
1984 2	11.30	11.41	10.83	9.24	10.13	8.89
1984 3	12.17	11.85	11.14	11.08	10.81	10.90
1984 4	11.10	11.05	10.49	9.28	8.75	10.01
1985 1	11.70	11.60	10.97	13.07	8.44	13.11
1985 2	11.35	11.23	10.75	12.64	7.55	12.68
1985 3	10.78	10.73	10.40	11.71	7.32	11.72
1985 4	10.69	10.69	10.35	11.63	7.33	11.50
1986 1	10.86	10.57	10.20	12.42	7.07	12.30
1986 2	8.57	8.89	9.00	10.18	6.31	10.44
1986 3	9.50	9.69	9.58	10.02	5.65	10.00
1986 4	11.13	11.06	10.70	11.19	5.56	10.86
1987 1	9.73	9.77	9.69	10.65	5.69	10.81
1987 2	8.67	8.96	8.95	9.20	5.81	9.36
1987 3	9.77	9.88	9.71	3.06	6.53	9.60
1987 4	9.27	9.67	9.55	-	5.63	9.18
1986 J	11.63	11.28	10.80	12.74	7.36	8.78
1986 F	11.11	10.82	10.40	12.76	7.26	8.78
1986 M	9.83	9.62	9.39	11.76	6.59	7.74
1986 A	8.53	8.69	8.76	10.44	6.28	6.54
1986 M	8.50	8.84	9.00	10.30	6.52	6.08
1986 J	8.67	9.14	9.23	9.79	6.14	6.08
1986 J	9.18	9.42	9.37	9.99	6.06	6.08
1986 A	9.24	9.49	9.41	9.88	5.44	6.08
1986 S	10.09	10.17	9.97	10.20	5.44	6.08
1986 O	11.09	10.99	10.62	11.11	5.31	7.60
1986 N	11.21	11.18	10.80	11.14	5.53	
1986 D	11.09	11.02	10.69	11.32	5.85	
1987 J	10.36	10.25	10.09	11.02	5.67	
1987 F	9.89	9.96	9.83	10.90	5.61	
1987 M	8.94	9.11	9.16	10.04	5.80	
1987 A	8.94	9.15	9.12	9.80	5.81	
1987 M	8.44	8.80	8.82	8.84	5.78	
1987 J	8.63	8.93	8.90	8.96	5.83	
1987 J	9.04	9.29	9.23	9.18	6.24	
1987 A	10.11	10.13	9.92	-	6.47	
1987 S	10.17	10.21	9.98	-	6.88	
1987 O	9.96	10.14	9.88	-	5.19	
1987 N	8.78	9.23	9.20	-	5.79	
1987 D	9.07	9.63	9.57	-	5.91	

TABLE 25

C75(A)

Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 25/1/85

Economic Indicator
Group: Interest rates

EXCHANGE RATES (1)

	Sterling exchange rate index 1975=100	Rates per pound sterling (2)				
		US dollar	Deutsche mark	Japanese yen	French franc	Italian lire
1970	-	2.40	8.73	857.84	13.24	1502.4
1971	-	2.44	8.51	849.23	13.42	1510.3
1972	-	2.50	7.98	758.89	12.63	1460.7
1973	-	2.45	6.56	667.29	10.93	1425.6
1974	-	2.34	6.05	682.44	11.25	1521.9
1975	99.8	2.22	5.45	658.44	9.49	1447.5
1976	85.7	1.81	4.56	535.85	8.61	1497.7
1977	81.2	1.75	4.05	467.78	8.57	1540.1
1978	81.5	1.92	3.85	403.18	8.65	1628.3
1979	87.3	2.12	3.89	465.57	9.02	1762.2
1980	96.1	2.33	4.23	525.81	9.83	1992.2
1981	95.0	2.03	4.56	445.02	10.95	2289.1
1982	90.5	1.75	4.24	434.99	11.47	2363.0
1983	83.2	1.52	3.87	359.95	11.54	2300.4
1984	78.7	1.34	3.79	316.74	11.63	2338.9
1985	78.2	1.30	3.78	306.89	11.55	2461.1
1986	72.9	1.47	3.18	247.00	10.16	2186.5
1987	72.6	1.64	2.94	236.39	9.83	2121.9
1983 J	81.9	1.57	3.76	366.02	10.66	2161.9
1983 F	80.7	1.53	3.72	361.53	10.54	2141.6
1983 M	79.1	1.49	3.59	354.88	10.45	2128.5
1983 A	82.8	1.54	3.76	366.19	11.28	2238.6
1983 M	84.9	1.57	3.88	369.18	11.67	2308.0
1983 J	85.2	1.55	3.95	371.83	11.87	2339.8
1983 J	84.8	1.53	3.95	367.28	11.89	2340.0
1983 A	85.1	1.50	4.02	366.96	12.08	2385.7
1983 S	84.8	1.50	4.00	363.29	12.08	2400.0
1983 O	83.4	1.50	3.90	348.63	11.90	2368.4
1983 N	83.7	1.48	3.97	347.26	12.06	2401.2
1983 D	82.5	1.44	3.94	336.38	12.02	2391.0
1984 J	81.9	1.41	3.96	329.15	12.10	2403.0
1984 F	82.2	1.44	3.89	336.39	11.97	2401.9
1984 M	81.0	1.46	3.78	327.85	11.65	2350.0
1984 A	79.9	1.42	3.76	320.33	11.56	2326.6
1984 M	80.0	1.39	3.82	320.27	11.71	2356.7
1984 J	79.4	1.38	3.77	321.45	11.59	2332.9
1984 J	78.4	1.32	3.76	320.80	11.55	2311.0
1984 A	78.4	1.31	3.79	318.30	11.64	2338.1
1984 S	77.3	1.26	3.81	308.75	11.69	2351.6
1984 O	75.6	1.22	3.74	301.08	11.48	2316.6
1984 N	75.7	1.24	3.71	302.17	11.40	2308.7
1984 D	74.0	1.19	3.69	294.31	11.29	2269.8
1985 J	71.5	1.13	3.58	286.82	10.95	2199.1
1985 F	71.3	1.09	3.61	284.73	11.02	2229.0
1985 M	73.4	1.12	3.70	289.75	11.31	2336.0
1985 A	78.0	1.24	3.83	312.30	11.69	2445.8
1985 M	78.8	1.25	3.88	314.56	11.84	2475.5
1985 J	79.9	1.28	3.92	318.69	11.96	2501.9
1985 J	83.3	1.38	4.01	332.61	12.21	2620.2
1985 A	81.7	1.38	3.87	328.43	11.81	2590.8
1985 S	81.4	1.37	3.87	322.83	11.81	2596.6
1985 O	80.4	1.42	3.76	305.17	11.46	2537.2
1985 N	80.0	1.44	3.73	293.64	11.38	2522.9
1985 D	79.1	1.45	3.63	293.17	11.11	2478.3
1986 J	76.6	1.42	3.47	284.66	10.66	2368.2
1986 F	74.2	1.43	3.34	263.84	10.23	2268.7
1986 M	74.6	1.47	3.33	262.06	10.23	2262.5
1986 A	76.2	1.50	3.40	262.17	10.79	2331.8
1986 M	76.1	1.52	3.39	253.84	10.79	2322.0
1986 J	75.9	1.51	3.37	252.78	10.74	2311.9
1986 J	74.0	1.51	3.25	239.39	10.46	2229.4
1986 A	71.4	1.49	3.07	229.18	9.99	2110.6
1986 S	70.4	1.47	3.00	227.65	9.83	2073.4
1986 O	67.8	1.43	2.86	223.15	9.36	1979.7
1986 N	68.5	1.43	2.88	232.00	9.43	1995.9
1986 D	68.5	1.44	2.86	233.22	9.39	1984.1
1987 J	68.8	1.51	2.80	232.94	9.33	1981.8
1987 F	69.0	1.53	2.79	234.25	9.28	1980.8
1987 M	71.9	1.59	2.92	241.07	9.72	2078.0
1987 A	72.3	1.63	2.95	232.87	9.83	2106.1
1987 M	73.3	1.67	2.98	234.13	9.96	2151.8
1987 J	72.6	1.63	2.96	235.31	9.89	2142.9
1987 J	72.8	1.61	2.97	241.83	9.90	2152.5
1987 A	72.3	1.60	2.97	235.70	9.90	2149.3
1987 S	73.1	1.65	2.98	235.57	9.96	2155.4
1987 O	73.6	1.66	2.99	238.05	10.00	2164.0
1987 N	75.4	1.78	2.99	240.34	10.13	2199.7
1987 D	75.8	1.83	2.99	234.67	10.12	2200.9

Notes: (1) The annual figures quoted are 12 month averages.
(2) Average of daily telegraphic transfer closing rates in London.

TABLE 30

C55(A)

Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 25/1/88

Economic Indicator
Group : Prices & costs

COMPETITIVENESS

1980=100 except col 5

	IMF index of relative unit labour costs (1,2)				
	Actual	Normalised	Relative export prices (1)	Wages & salaries per unit of output in manufacturing(3)	Sterling index (4) 1975=100
1975	70.0	78.3	77.9	52.2	99.8
1976	63.6	70.3	75.5	57.8	85.7
1977	62.8	67.8	79.7	62.5	81.2
1978	67.9	72.3	84.6	70.9	81.5
1979	80.7	83.3	90.4	81.8	87.3
1980	100.0	100.0	100.0	100.0	96.1
1981	101.4	105.7	98.1	109.3	95.0
1982	95.1	102.0	92.7	114.0	90.5
1983	86.7	95.9	89.2	114.4	83.2
1984	84.2	93.5	87.6	117.8	78.7
1985	85.4	95.0	89.7	124.5	78.2
1986	80.4	90.0	87.5	130.8	72.9
1987	39.1	45.4	44.1	121.0	72.6
1983 1	83.2	91.8	85.2	113.2	80.6
1983 2	89.1	97.5	90.3	115.3	84.3
1983 3	87.7	97.5	91.8	114.0	84.9
1983 4	86.8	96.8	89.6	115.2	83.2
1984 1	86.7	96.1	89.0	115.9	81.7
1984 2	84.3	94.0	88.5	116.2	79.8
1984 3	83.8	93.5	87.7	118.1	78.0
1984 4	81.8	90.5	85.2	121.1	75.1
1985 1	77.6	87.3	82.9	121.3	72.1
1985 2	85.3	95.3	90.5	122.4	78.9
1985 3	90.3	99.8	93.6	125.7	82.1
1985 4	88.5	97.4	91.7	128.4	79.8
1986 1	83.8	91.5	88.4	131.7	75.1
1986 2	84.9	94.0	91.1	130.8	76.1
1986 3	78.8	88.8	87.1	130.3	71.9
1986 4	74.2	85.6	83.2	130.3	68.3
1987 1	76.2	88.4	86.2	132.7	69.9
1987 2	80.0	93.3	90.2	131.9	72.7
1987 3	-	-	-	131.1	72.7
1987 4	-	-	-	88.3	74.9
% change of latest quarter on previous quarter					
1987 2	+5.0	+5.5	+4.6	-0.6	+4.1
1987 3				-0.7	-
1987 4				-32.6	+3.0
on a year earlier					
1987 2	-5.8	-0.7	-1.0	+0.9	-4.4
1987 3				+0.6	+1.1
1987 4				-32.2	+9.8

Notes: (1).Downward movements indicate greater competitiveness.
(2).These indices are in terms of US dollars.
(3).Seasonally adjusted.
(4).Based on an average of daily telegraphic transfer rates in London.

FINANCIAL TIMES

Lawson reassures market on base rates

By David Buchan in Brussels and Simon Holberton in London

MR NIGEL LAWSON, the Chancellor, yesterday played down the prospect of an imminent rise in base rates as financial markets steadied after Monday's sharp falls in share prices.

However, Mr Lawson kept his options open by reminding UK financial markets that when he thought it necessary to raise base rates he would act.

"I do not see any great pressure today – the markets are calm," he said yesterday in Brussels after a meeting of European Community finance ministers. "But as always, if we have to raise interest rates, we will do so."

Share prices in London ended higher on the day although dealers said turnover remained low and that there was little evidence of strong demand for shares from City institutions.

The FT-SE 100 Share Index closed 12.7 points up at 1,7070.2 with the FT Ordinary Share Index 6.9 points higher at 1,355.9.

Gilt-edged securities recovered most of the losses suffered on Monday and ended nearly one point up. Yields on long-dated gilts closed at about 9.61 per cent compared with 9.73 per cent previously.

However, there were some signs of weakness in sterling. By the end of trading yesterday the pound was at its lowest level for four months on a trade-weighted basis.

Foreign exchange dealers said the pound drifted lower against the dollar and the D-Mark after the market reacted to Mr Lawson's comments in Brussels. They noted that the fall in sterling was not due to any unusual selling of the currency.

The pound closed at DM2.97 compared with Monday's close of DM2.9752, but dealers said it had traded as low as 2.965.

Against the dollar, it closed at $1.7464 compared with $1.754 on Monday. The Bank of England's sterling trade-weighted index closed 0.2 points lower at 73.9.

Currencies, Page 33; Stock markets, Pages 35-37

THE TIMES

Lawson delays base rate rise

Pound's performance will be the key factor

By David Smith, Economics Correspondent

The Chancellor, Mr Nigel Lawson, yesterday moved to damp down City speculation that a rise in base rates is imminent. He told a regular meeting of European Economic Community finance ministers in Brussels there was no immediate need for any increase.

"At present there are no great pressures," he said. "Foreign exchange markets are calm and stable today."

He signalled clearly that sterling's performance would be the key factor in future interest rate moves, as pressure eased for an immediate rise in base rates. He also cited sterling's stable performance against the currencies of the European Monetary System. "I draw your attention to the fact that we aim at keeping our exchange rate in line with the EMS."

Mr Lawson's remarks helped to calm the money markets, although expectations remain that base rates will have to move higher in the next few weeks.

Sentiment was helped by hopes of lower US interest rates as the Federal Open Market Committee met in Washington. US Trust cut its broker loan rate from 7.75 per cent to 7.5 per cent.

The three-month interbank rate, having moved above 9½ per cent during Monday's trading slipped to close at $9^{3}/_{8}$-$9^{5}/_{16}$ per cent. The one-month rate, which some clearing banks regard as more important in setting base rates, fell to $8^{7}/_{8}$-$8^{13}/_{16}$ per cent.

But nerves remained on edge. The discount houses parted with longer-dated paper at above-official intervention rates in the morning and midday rounds. The Bank did not operate during the afternoon, having already taken £662 million out of the market.

The pound slipped by three-quarters of a cent to $1.7465 and edged down to DM2.9695. The sterling index fell 0.2 points to 73.9.

The next important focus for the foreign exchanges will

Stock market 22

come with the US December trade figures, due out on Friday.

The Chancellor's emphasis on sterling as the main determinant of base rate changes underlines Treasury reluctance to recognize domestic reasons.

The Bank of England appears to be more concerned about a wider range of indicators, including pay, bank lending and the strong growth of domestic demand.

However, Mr Lawson's remarks suggest that base rate rises will be sanctioned only when foreign exchanges respond to these worries and to the deterioration in the balance of payments.

Economists at James Capel, the broker, said base rates were raised last week and in August when sterling had fallen to the DM2.965 level, indicating that the authorities are targeting a pound-mark exchange rate in a very narrow 2.96-3.00 range.

Mr Stephen Hannah, economist at County NatWest, said in the firm's *Financial Bulletin*, worries about a sustained return to double-figure base rates were "grotesquely overdone".

Currency pressures could force rates up in the short term, the bulletin said, but slower growth in the economy should keep rates in the 9 per cent to 9.5 per cent range.

The EEC finance ministers meeting discussed proposals by M Edouard Balladur, the French finance minister, for further EMS reforms, including a European central bank, tighter economic co-operation between EMS members and, eventually, a common EEC currency. These plans would require full sterling membership of the EMS.

Mr Lawson said Britain would join the EMS "when the time is right".

Herr Gerhard Stoltenberg, the West German finance minister, said he hoped agreement would be reached on removing capital controls among eight of the 12 EEC countries by June.

THE GUARDIAN

Lawson rejects 30p rates rise

From John Palmer in Brussels

THE Chancellor of the Exchequer, Mr Nigel Lawson, yesterday discouraged speculation that the government was keen to see a further increase in interest rates. And, speaking after a meeting of EEC finance ministers here yesterday, he also publically confirmed it was official UK policy to keep sterling's exchange rate close to those of currencies pegged inside the European Monetary System.

Asked whether the government was concerned that the upsurge in industrial militancy in recent days might force a further increase in interest rates, the Chancellor said: "I do not see any reason why it should. I do not see any such pressure at present. The foreign exchange markets are calm today but we are ready to act if and when it should be necessary."

In the City, money market interest rates, which had moved up on Monday in anticipation of a possible rise in bank base lending rates, slipped back after Mr Lawson's comments. On the stock market share prices recovered some of the previous day's fall.

Much of yesterday's meeting of EEC finance ministers was taken up with a discussion of proposals from the French finance minister, Mr Eduard Balladur, for a strengthening of the European Monetary System and progressive moves to the establishment of a European Central Bank. Mr Balladur told the Chancellor bluntly that a stronger EMS now required that Britain put sterling into the EMS fixed exchange rate mechanism.

Commenting on this after the meeting, Mr Lawson said he "reiterated" the British government's well-known view that the UK would put sterling into the exchange rate mechanism when the conditions were right. However, he added: "I also said that as a matter of fact that sterling had been held close to the currencies participating in the fixed exchange rate mechanism of the European Monetary System." Asked whether this was more than a question of historic fact, the Chancellor said: "We are pursuing a policy of exchange rate stability."

In spite of the close shadowing of the EMS exchange rates by sterling in recent months, the other EEC governments do not disguise their belief that Mrs Thatcher should agree to the UK's formal participation.

FINANCIAL TIMES

EC proposals on capital welcomed

By David Buchan in Brussels

THE European Commission's far-reaching proposals for free movement of capital throughout the Community was yesterday welcomed in an interim report by senior treasury officials of the 12 member states.

The report drawn up by the EC's Monetary Committee for a meeting of Community finance ministers yesterday, accepted the need for special transitional arrangements for the four poorer EC member states and said there was majority support for some safeguard clause for an individual state to re-introduce controls on short-term capital movements "in exceptional circumstances".

The committee also prounced itself satisfied that resolution of issues such as tax harmonisation - on which the UK is at odds with the Commission and most other member states - were "in no way a pre-condition to full liberalisation of capital".

Predictably, Mr Nigel Lawson, the UK Chancellor of the Exchequer, publicly echoed this view after the meeting.

FINANCIAL TIMES

Crowded agenda brings hitch for Franco-German council

BY DAVID MARSH

THE first meeting of the joint Franco-German economic council set up by Paris and Bonn last month is likely to take place in March.

However, the two governments have found it difficult to agree on the date - proof, according to officials in Bonn, of the problems of fitting another set of international policy meetings into the already crowded agendas of ministers and central bank governors.

The joint economic council, intended to provide a forum for France and West Germany to improve co-ordination of economic policy, was established as part of last month's ceremony in Paris celebrating the 25th anniversary of the Elysee Treaty between the countries. This also set up a joint Defence Council to harmonise military policies.

West German officials have reacted sceptically to creation of the economic council. It is seen above all as part of a political bid by the French government to pressurise the West Germans into more expansionary financial and monetary policies which would ease periodic strains encountered by the French franc.

Above all, both the Finance Ministry and the Bundesbank are trying to resist French attempts to use the council as a forum to press for further changes in the intervention rules in the European Monetary System.

Development of the EMS is seen in Paris as a an essential step towards eventually setting up a fully-fledged European central bank. The idea is viewed in Bonn as well as at the Bundesbank in Frankfurt as a long-term goal rather than as a practicable proposition for the medium term.

The first meeting of the economic council has been provisionally set for March 25 or 26 in Bonn, although no firm date has been arranged. An earlier date for the meeting on March 19 had to be changed because Mr Martin Bangemann, the West German Economics Minister, could not attend.

The council is planned to meet four times a year, bringing together the finance and economy ministers and the central bank governors from the two countries. Although this is a retreat from an earlier French suggestion that it should convene six times annually, the timetable throws up considerable practical difficulties because of crammed ministerial schedules.

Furthermore, each meeting will have to be preceded by a preparatory session of already over-worked top officials. "It is only possible at weekends," said one.

The problems over fixing dates are particularly because both Mr Gerhard Stoltenberg, the West German Finance Minister, and Mr Bangemann are intended to take part in the meetings. Mr Edouard Balladur, the French Finance Minister, also holds the economy portfolio.

West German officials point out that a bilateral Franco-German economic policy co-ordinating committee has already been meeting at six-monthly intervals for several years. This committee, linking state secretaries at the Bonn economics and finance ministries, the director of the French Treasury and the deputy governors of the Bundesbank and Banque de France, was set up by former Chancellor Helmut Schmidt and President Valery Giscard d'Estaing.

The two governments now face the ironic decision of having to wind up this group as its work would duplicate that of the higher level Economic Council.

French tactics in setting up the economic council have ruffled feelings in both Bonn and Frankfurt. This was because the French Government informed Bonn very late of its intention that the council should be set up under a statutorily binding treaty requiring ratification

FINANCIAL TIMES

Sterling's turn to suffer

4+ Lex

When Mr Lawson said in Brussels yesterday that there was no immediate pressure for a rise in UK interest rates, it was explicitly with reference to the level of sterling. It was less reassuring, then, that yesterday's close of 73.9 for trade-weighted sterling was the lowest since immediately after the October crash. As there was no sign yesterday of intervention, it may be assumed that the official attitude is still relaxed. But whereas the UK investment community may still draw a clear distinction between the nature of industrial unrest now and a decade ago, there is always the risk that the distinction may be too subtle for investors overseas.

In the short run, the outcome for interest rates still looks touch and go. The market's current belief is that sterling could lose a couple of pfennigs from last night's close of D-Mark 2.97 before the authorities are forced to act. In the meantime, there are the US trade figures to be awaited on Friday. These might set off the widely expected reversal in the dollar, which at yesterday's $1.7465 is at a three-month high against sterling – though it is less clear how much a weaker dollar would help sterling against the D-Mark.

Even supposing the expected base rate rise does come, though, it is open to question how much equities should be concerned. A rise followed by a post-Budget cut would be a time-honoured pattern; and in any case, if the economy is overheating and the currency weak, what have equities to lose?

THE INDEPENDENT

Lawson admits to shadowing EMS

NIGEL LAWSON, the Chancellor, yesterday admitted publicly for the first time that the UK is shadowing the European Monetary System in its exchange rate policy. The admission came while Mr Lawson was in Brussels for a meeting of European Community finance ministers.

Although it is well known that the Government has for some time been targetting the pound against the Deutschemark, any link with the EMS has always been denied. But asked yesterday whether the pound's stability against the EMS was deliberate government policy, the Chancellor told journalists: "I can say nothing about that. But I draw your attention to the fact that we aim at keeping our exchange rate in line with the EMS."

His comments may not please Mrs Thatcher who remains opposed to full EMS membership and is concerned about the recent cost of intervention to hold the pound steady.

On UK interest rates, the Chancellor said: "At present there are no great pressures. Foreign exchange markets are calm and stable today." He added: "But whenever I believe it is necessary I will put the rate up."

By Peter Wilson-Smith
Financial Editor

His comments were seen as reducing the likelihood of another interest rate rise and the pound weakened on the exchanges, closing 0.2 down at 73.9 on the sterling index. Against the mark, it slipped below DM2.97, closing 57 points lower on the day at DM2.9678.

In the money markets, the cost of wholesale deposits eased a shade with rates ending the day about 1/8 per cent lower, leaving three-month interbank at 9 3/8 per cent. However, there is still concern in the markets about the industrial unrest and the possibility of a further rise in base rates from the present 9 per cent is not being ruled out.

EC finance ministers were yesterday discussing proposals for strengthening the EMS put forward by Edouard Balladur, French finance minister. There were also further discussions on freeing up capital movements within the EC.

Daily Telegraph

Markets wary despite brighter rate hopes

PRESSURE for another quick rise in interest rates eased yesterday. In later trading money market rates softened following comments by the Chancellor, Nigel Lawson, speaking in Brussels, that the immediate need for a second rise had waned.

But the markets remain cautious over the economic outlook and the trade figures from the United States on Friday.

Sterling traded quietly, falling against both the dollar and the Deutschemark. It slipped to $1·7465 from $1·7540 and was lower against the mark at 2·9695.

By the close the effective index of a basket of currencies was down 0·1 at 73·9.

Wall Street's firm opening helped the dollar, although it fell back in later trading, closing off its best levels against the Japanese yen at 129·05.

PPS 12/2

Economist Commodity Price Indices

1980=100

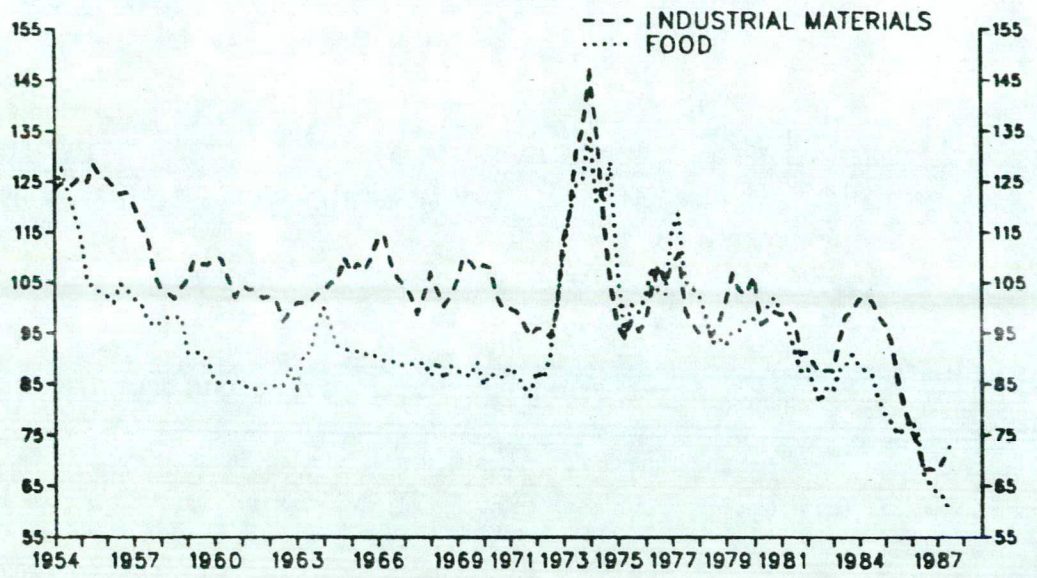
	All items indices				SDR indices		
Annual	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982	87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983	102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984	105.7	83.4	144.9	97.8	116.1	105.1	89.5
1985	95.8	74.8	135.2	86.5	103.4	94.2	84.3
1986	86.9	77.7	124.0	74.5	97.3	85.0	70.5
1987	88.8	88.4	125.2	73.7	84.4	98.8	82.1
Quarterly							
1986 Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
Q2	91.0	81.1	125.0	79.5	104.9	86.9	71.8
Q3	81.4	75.2	117.4	70.3	88.8	80.1	68.3
Q4	82.4	76.4	123.9	70.1	87.4	86.5	68.4
1987 Q1	81.6	79.2	119.2	68.9	82.4	91.0	69.0
Q2	86.8	86.4	122.2	73.3	85.5	98.0	75.2
Q3	91.4	89.6	128.9	73.9	82.6	107.1	87.5
Q4	95.3	98.2	130.4	78.2	87.0	99.0	96.8
Monthly							
February	81.7	79.6	120.5		82.6	91.7	68.5
March	82.9	81.0	118.2		82.1	92.4	71.8
April	84.2	83.8	119.0		83.2	94.8	72.6
May	87.3	87.6	122.0		87.1	97.2	74.8
June	88.9	87.8	125.2		86.2	101.7	78.3
July	90.7	88.4	127.8		84.0	105.1	84.7
August	92.2	89.8	130.9		81.2	109.7	90.2
September	91.4	90.6	128.2		82.7	106.6	87.6
October	94.8	94.2	132.2		86.7	101.9	94.3
November	93.6	97.0	127.6		86.5	97.1	93.8
December	97.4	103.4	131.4		87.9	97.9	102.2
January	99.4	105.2	135.8		90.2	98.6	104.4
Weekly							
November 24	96.4	100.0	131.1		89.2	98.0	97.7
December 1	96.5	101.2	129.2		89.4	98.9	96.9
8	96.0	100.4	129.8		88.1	98.3	97.7
15	96.2	102.5	130.1		87.0	97.0	100.5
22	98.3	104.8	133.1		87.6	98.0	105.1
29	99.8	108.0	134.9		87.3	97.1	110.6
January 5	98.9	106.2	134.9		88.5	98.6	105.4
12	99.0	105.2	134.3		89.0	98.0	105.4
19	100.3	104.9	137.1		91.6	99.3	104.8
26	99.4	104.4	136.8		91.7	98.5	102.2
February 2	97.8	102.2	134.1		90.0	101.4	98.5
9 (prov)	99.1	103.1	137.2		90.5	101.6	101.6

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals.

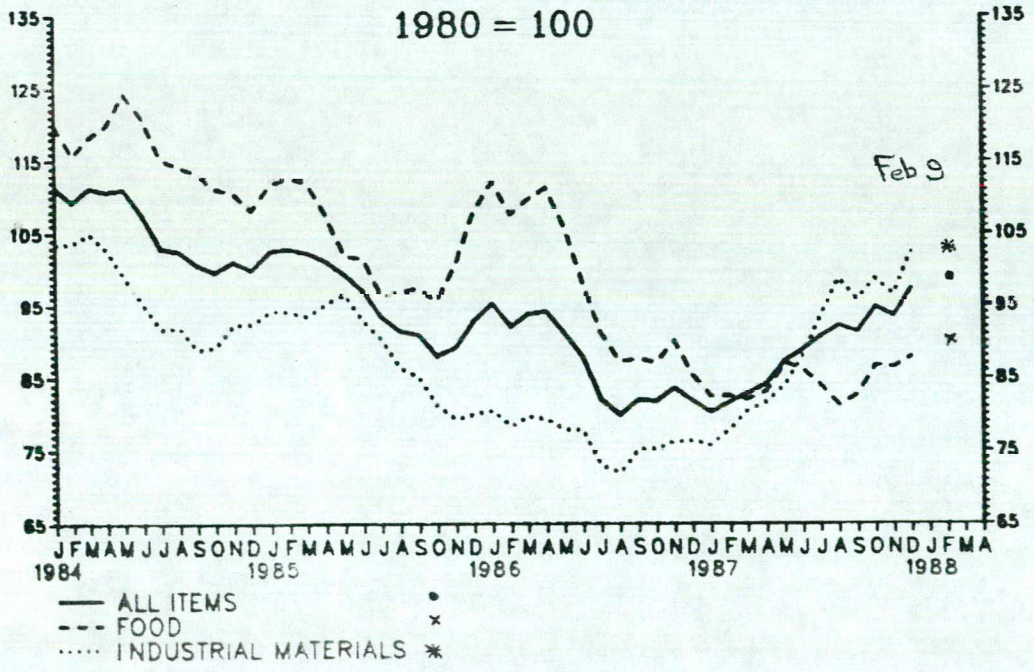
REAL COMMODITY PRICES •

UN INDEX, 1980=100



• IN RELATION TO PRICES OF MANUFACTURES

CHART B : ECONOMIST SDR COMMODITY PRICE INDICES



670/33

CONFIDENTIAL

FROM: R I G ALLEN
DATE: 10 FEBRUARY 1988

PRINCIPAL PRIVATE SECRETARY

cc Sir P Middleton
Mr Scholar
Mr Peretz
Mr Bush

PRESS COMMENTS ON MONETARY POLICY

There were some unfortunate press reports today - eg "Lawson delays base rate rise" and "Lawson admits to shadowing EMS" - following the Chancellor's informal press conference in Brussels, though they may have contributed to the firmer tone of the markets. The stories seem to have emanated from a garbled Reuters report which, on EMS, elided the historic fact that sterling has been held close to ERM currencies and that we are pursuing a policy of exchange rate stability. John Palmer in the Guardian appears to be the only reporter to have quoted the Chancellor accurately.

2. We have complained to Reuters about their inaccurate reporting. I am not inclined to press them to issue a corrected story: too late now and a strong risk of backfiring. It was unfortunate that journalists did not bother to check the facts with us last night but, if we get calls today, I would propose:

- to say the Reuters' story was inaccurate;

- to refer to what the Chancellor actually said (as in the John Palmer story);

- to say that there has of course been no change of policy on exchange rates; and

- on interest rates, to note that the Chancellor was commenting on the markets as of yesterday: but he said he would put them up if necessary in the future.

3. The other looming problem is on the BEQB. I gather that Michael Scholar has been in touch with Eddie George (who will take tomorrow's 3.00 p.m. press conference), stressing the need to dampen down speculation that:

- the Bank is worried that the economy is overheating;

- the Bank is urging a reluctant Treasury to tighten fiscal policy.

- the Bank wanted, and the Treasury dragged its feet on last week's interest rate rise - and perhaps future rises too;

- there are differences of view between Treasury and Bank in interpreting monetary indicators (eg David Smith's Times piece talks about "Treasury reluctance to recognise domestic reasons [in guiding interest rate decisions] ... the Bank appears to be more concerned about a wider range of indicators").

4. We shall of course maintain a similar line in handling press enquiries tomorrow. But it is going to be an uphill battle. The press will doubtless seize on the reference to the "deteriorating trend in the trade balance" on the first page of the BEQB's Assessment and, perhaps even more damagingly, the "overheating" passage on page 8, which says:

> "... the latest economic and monetary indicators depict a still buoyant economy amply provided with credit, giving little signs so far that the pressures from domestic demand will abate soon. It was with these considerations in mind that interest rates were raised by half per cent on 1 February."

12/7

R I G ALLEN

UNCLASSIFIED

FROM: A C S ALLAN
DATE: 11 February 1988

MR R I G ALLEN

cc Sir P Middleton
Mr Scholar
Mr Peretz
Mr Bush

PRESS COMMENTS ON MONETARY POLICY

The Chancellor was grateful for your minute of 10 February. He was generally content with the line you proposed, but felt that the final indent, on interest rates should have been:

> "never comment on future movements in interest rates. Chancellor has made it perfectly clear he is ready to move interest rates either up or down whenever that is necessary".

ACSA

A C S ALLAN