

FILE NUMBER

PO-CH/NK/0675 PART A

FOR DISPOSAL ADVICE SEE INSIDE COVER

DISPOSAL DIRECTIONS

SIGNATURE

DATE

DESTROY AFTER YEARS

PRESERVE

FILE BEGINS

25/11/85

ENDS

17/06/88

FILE TITLE

STATISTICS AND PRESS NOTICES

1987 - 1988

PART 1/3

*No. What is  
the comparison  
with show of (a)  
output of (b)  
employment?*

1 Victoria Street, SW1H 0ET Press Office: 01-215 695 Ref: 14 NOVEMBER 1985  
Out of hours: 01-215 7877

CAPITAL EXPENDITURE IN THE THIRD QUARTER OF 1985: PROVISIONAL ESTIMATES

The provisional estimate of capital expenditure by the manufacturing, construction, distribution and financial industries\* in the third quarter of 1985 is £4405 million, at 1980 prices seasonally adjusted; nearly 2 per cent higher than in the preceding quarter, and also nearly 2 per cent higher than the quarterly average for 1984. It was however over 7 per cent lower than the quarterly average for the first half of 1985, which was boosted by an exceptionally large increase in the first quarter due mainly to finance leasing.

Expenditure in the last six months was over 9 per cent below that in the preceding six months.

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

INVESTMENT IN THE MANUFACTURING, CONSTRUCTION, DISTRIBUTION AND FINANCIAL INDUSTRIES

£ million at 1980 prices, seasonally adjusted

	Manufacturing industries** (including leased assets $\emptyset$ )	Construction, distribution and financial industries*** (excluding assets leased to manufacturers)	Total
1980	7314	8550	15864
1981	5698	8432	14130
1982	5516	9366	14882
1983	5557	9479	15036
1984	6372	10966	17338
1982 Q1	1365	2339	3704
Q2	1402	2282	3684
Q3	1416	2358	3774
Q4	1333	2387	3720
1983 Q1	1343	2354	3697
Q2	1361	2324	3685
Q3	1372	2313	3685
Q4	1481	2487	3968
1984 Q1	1541	2565	4106
Q2	1548	2758	4306
Q3	1610	2825	4435
Q4	1673	2815	4488
1985 Q1	1848	3315	5163
Q2	1602	2732	4334
Q3 (p)	1619	2786	4405

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

\*\* Divisions 2, 3 and 4

\*\*\* Divisions 5, 6 and 8

$\emptyset$  Assets leased from owners in the financial industries.

The effect of leasing on manufacturing investment is described in Note 2.



## MANUFACTURING INDUSTRIES (REVISED DEFINITION)

The provisional estimate of manufacturers' direct expenditure in the third quarter of 1985 is £1377 million, at 1980 prices seasonally adjusted. In addition, it is important to take account of the leasing of assets to manufacturers from the financial industries. This is taken to amount to £242 million in the second quarter, at 1980 prices seasonally adjusted, giving a total investment in the manufacturing industries of £1619 million; 1 per cent higher than the value recorded in the previous quarter, almost 2 per cent higher than the quarterly average for 1984, but on account of an exceptionally large increase in the first quarter, over 6 per cent lower than the quarterly average for the first half of 1985.

The volume of investment (including leased assets) in the latest six months was around 8½ per cent lower than that in the preceding six months. On the same six-monthly basis of comparison, expenditure (including leasing) on individual assets shows falls of nearly 2 per cent for new building work, almost 10 per cent for plant and machinery and of 8 per cent for vehicles.

## CONSTRUCTION, DISTRIBUTION AND FINANCIAL INDUSTRIES

The provisional estimate of investment by these industries (excluding leasing to manufacturers) in the third quarter of 1985 is £2786 million, at 1980 prices seasonally adjusted; about 2 per cent above the level in the preceding quarter, over 1½ per cent higher than the quarterly average for 1984, but nearly 8 per cent lower than the quarterly average for the first half of 1985.

Expenditure in the latest six months compared with the previous six months fell by about 12 per cent. On the same six-monthly basis, expenditure (excluding leasing to manufacturers) on individual assets rose by over 5 per cent for new building work, but fell by nearly 16½ per cent for plant and machinery, and 18 per cent on vehicles.

## TOTAL INVESTMENT $\emptyset$

Capital expenditure information for certain industries in Division 1 (Energy and Water Supply) and Division 7 (Transport and Communication) for the third quarter of 1985 is not yet available. Consequently, the analysis of investment in this section is confined to trends up to and including the second quarter of 1985.

In the second quarter of 1985, total capital expenditure in Divisions 1 to 8 was £6444 million, at 1980 prices seasonally adjusted; nearly 13½ per cent lower than in the previous quarter and 4 per cent lower than the quarterly average for 1984.

Expenditure in Division 1 in the second quarter of 1985 was £1309 million, at 1980 prices seasonally adjusted; nearly 5 per cent lower than in the previous quarter and around 10 per cent lower than the quarterly average for 1984.

Expenditure in Division 7 in the second quarter of 1985 was £799 million, at 1980 prices seasonally adjusted; nearly 12 per cent lower than in the previous quarter but about 9 per cent lower than the quarterly average for 1984.

$\emptyset$  Divisions 1 to 8 of SIC (1980).

NOTES

1. REVISIONS TO SERIES

Since the publication on 20 June 1985 of capital expenditure estimates for the first quarter, the series have been revised, as they are each year, to take account of the results of annual surveys with their more comprehensive coverage and of quarterly returns received too late for the original calculations. On this occasion, the main sources of the revisions were the results of the Census of Production for 1983, Censuses of Construction for 1983 and inquiries for 1983 into distributive and service trades. Amendments have also been made to figures for earlier years where improved information became available. Seasonal adjustment factors have been recalculated to incorporate these revisions.

2. EFFECT OF LEASING ON MANUFACTURING INVESTMENT

Assets have traditionally been classified to the industries of their ownership. Since capital goods acquired for leasing out are mainly bought by the service industries, leasing to manufacturers produces an apparent switch in investment to the service industries from the manufacturing industries. The following table illustrates the effect of leasing from the financial industries. In 1984 assets leased from owners in the financial industries represented an addition of 15 per cent of manufacturers' capital expenditure. Assets leased from owners in other industries outside manufacturing are not included in this analysis.

INVESTMENT BY MANUFACTURING INDUSTRIES (REVISED DEFINITION)  
£ million at 1980 prices

	Capital Expenditure	Estimated Volume of assets leased from financial industries	Total Expenditure
1975	6779	357	7136
1976	6470	369	6839
1977	6774	480	7254
1978	7220	684	7904
1979	7496	734	8230
1980	6479	835	7314
1981	4865	833	5698
1982	4704	894	5598
1983	4779	778	5557
1984	5538	834	6372

3. An industrial analysis of leased assets is not available.

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

- i. The latest quarter's estimates relate to Divisions 2 to 4 (Manufacturing Industries - revised definition), Division 5 (Construction), Division 6 (Distribution etc), and Division 8 (Finance and Business Services).
- ii. The previous quarter's figures cover those Divisions listed in (i) plus Division 1 (Energy and Water Supply) and Division 7 (Transport and Communication). In 1984 Divisions 1 to 8 accounted for 78 per cent of Gross Domestic Fixed Capital Formation (excluding dwellings and transfer costs of land and buildings).
- iii. The figures exclude expenditure in Division 0 (Agriculture, Forestry and Fishing) and Division 9 (Other Services): the latter division includes national and local Government.

5. The latest estimates of capital expenditure giving detailed figures for the third quarter of 1985 will be published in British business on 22 November 1985. More detailed estimates for the third quarter will be published in British business on 21 December 1985.


Press and broadcast calls to 01-215-5997  
Other calls to 0633-842951 or 0633-56111 extension 2215.

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

Period	Analysis by industry according to the standard industrial classification (1980)												Analysis by type of asset		
	Total	Production and construction industries	Manufacturing industries (Revised definition)	Distribution and financial services, transport, etc	Energy and water supply	Mineral extraction, metal, mineral and chemical manufacture	Metal goods engineering and vehicles industries	Other manufacturing industries	Construction	Distribution, etc	Transport and communication	Financial and business services, etc	New building work	Vehicles	Plant and machinery
	Divisions 1-8	1-5	2-4	6-8	1	2	3	4	5	6	7	8	-----	1-8	-----
1978	25,400	13,818	7,220	11,582	5,984	2,377	2,462	2,381	614	3,152	4,093	4,338	8,233	4,707	12,459
1979	26,403	13,694	7,496	12,709	5,528	2,220	2,759	2,517	670	3,594	3,958	5,158	8,006	4,871	13,526
1980	25,358	12,606	6,479	12,751	5,661	1,869	2,379	2,230	467	3,236	3,831	5,684	7,607	4,166	13,585
1981	23,545	11,292	4,865	12,253	6,016	1,346	1,807	1,713	411	2,969	3,177	6,107	7,556	3,368	12,620
1982	24,067	11,309	4,704	12,758	6,141	1,240	1,707	1,758	464	3,177	3,004	6,577	7,703	3,494	12,869
1983	24,383	11,173	4,779	13,210	5,945	1,269	1,749	1,762	449	3,281	3,170	6,759	7,765	3,389	13,229
1984	26,846	11,813	5,538	15,033	5,816	1,467	2,052	2,018	459	3,858	3,513	7,662	8,381	4,018	14,447
1981 Q1	5,813	2,795	1,299	3,018	1,396	365	492	442	100	742	829	1,448	1,834	830	3,149
Q2	6,000	2,885	1,212	3,115	1,577	326	453	434	96	743	857	1,514	1,944	896	3,160
Q3	5,900	2,857	1,179	3,044	1,565	318	430	430	113	766	698	1,579	1,952	779	3,170
Q4	5,832	2,755	1,175	3,076	1,479	337	431	407	101	718	792	1,566	1,826	863	3,142
1982 Q1	5,958	2,778	1,177	3,180	1,470	311	435	430	132	770	795	1,616	1,858	947	3,153
Q2	5,943	2,845	1,169	3,098	1,577	302	426	440	100	787	695	1,616	1,886	798	3,259
Q3	6,133	2,901	1,177	3,232	1,611	313	420	444	113	797	758	1,676	1,999	904	3,230
Q4	6,032	2,784	1,182	3,248	1,484	312	426	443	119	823	756	1,669	1,961	845	3,226
1983 Q1	6,035	2,741	1,138	3,294	1,507	319	409	410	96	795	777	1,722	1,959	803	3,274
Q2	6,018	2,836	1,162	3,181	1,545	307	423	432	129	805	730	1,647	1,913	828	3,277
Q3	5,953	2,746	1,193	3,207	1,445	323	430	441	108	808	766	1,633	1,875	808	3,270
Q4	6,377	2,850	1,285	3,528	1,448	320	487	478	116	873	898	1,757	2,019	950	3,408
1984 Q1	6,517	3,002	1,375	3,515	1,517	345	512	518	110	924	857	1,734	2,033	1,052	3,433
Q2	6,606	2,935	1,352	3,671	1,464	370	487	495	119	938	764	1,969	2,215	832	3,559
Q3	6,721	2,843	1,362	3,878	1,363	369	503	490	117	1,010	887	1,982	2,025	1,012	3,684
Q4	7,000	3,033	1,448	3,968	1,471	384	550	515	113	987	1,005	1,977	2,107	1,122	3,771
1985 Q1	7,445	2,973	1,442	4,473	1,375	413	536	494	155	978	907	2,588	1,992	1,295	4,159
Q2	6,444	2,806	1,376	3,638	1,309	415	469	492	120	1,035	799	1,803	2,109	916	3,418
Q3 p	N/A	N/A	1,376	N/A	N/A	408	479	489	118	1,049	N/A	1,861	N/A	N/A	N/A

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

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

4/5 19/11/85 FROM: P WYNN OWEN  
DATE: 15 November 1985

MR VERNON

cc Miss O'Mara

**CAPITAL EXPENDITURE IN Q3: PROVISIONAL ESTIMATES**

The Chancellor has seen the attached first page of the DTI Press Notice of 14 November. The 37 per cent figure for 1984 in the table caught his eye and has prompted him to ask what is the corresponding manufacturing share of (a) output and (b) employment?



P WYNN OWEN



*No which is  
very slow of  
output of (a)  
(b)*

1 Victoria Street, SW1H 0ET Press Office: 01-215 695 Ref: 14 NOVEMBER 1985  
Out of hours: 01-215 7877

CAPITAL EXPENDITURE IN THE THIRD QUARTER OF 1985: PROVISIONAL ESTIMATES

The provisional estimate of capital expenditure by the manufacturing, construction, distribution and financial industries\* in the third quarter of 1985 is £4405 million, at 1980 prices seasonally adjusted; nearly 2 per cent higher than in the preceding quarter, and also nearly 2 per cent higher than the quarterly average for 1984. It was however over 7 per cent lower than the quarterly average for the first half of 1985, which was boosted by an exceptionally large increase in the first quarter due mainly to finance leasing.

Expenditure in the last six months was over 9 per cent below that in the preceding six months.

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

INVESTMENT IN THE MANUFACTURING, CONSTRUCTION, DISTRIBUTION AND FINANCIAL INDUSTRIES

£ million at 1980 prices, seasonally adjusted

	Manufacturing industries** (including leased assets $\emptyset$ )	Construction, distribution and financial industries*** (excluding assets leased to manufacturers)	Total
1980	7314	8550	15864
1981	5698	8432	14130
1982	5516	9366	14882
1983	5557	9479	15036
1984	6372	10966	17338
1982 Q1	1365	2339	3704
Q2	1402	2282	3684
Q3	1416	2358	3774
Q4	1333	2387	3720
1983 Q1	1343	2354	3697
Q2	1361	2324	3685
Q3	1372	2313	3685
Q4	1481	2487	3968
1984 Q1	1541	2565	4106
Q2	1548	2758	4306
Q3	1610	2825	4435
Q4	1673	2815	4488
1985 Q1	1848	3315	5163
Q2	1602	2732	4334
Q3 (p)	1619	2786	4405

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

\*\* Divisions 2, 3 and 4

\*\*\* Divisions 5, 6 and 8

$\emptyset$  Assets leased from owners in the financial industries.

The effect of leasing on manufacturing investment is described in Note 2.



## MANUFACTURING INDUSTRIES (REVISED DEFINITION)

The provisional estimate of manufacturers' direct expenditure in the third quarter of 1985 is £1377 million, at 1980 prices seasonally adjusted. In addition, it is important to take account of the leasing of assets to manufacturers from the financial industries. This is taken to amount to £242 million in the second quarter, at 1980 prices seasonally adjusted, giving a total investment in the manufacturing industries of £1619 million; 1 per cent higher than the value recorded in the previous quarter, almost 2 per cent higher than the quarterly average for 1984, but on account of an exceptionally large increase in the first quarter, over 6 per cent lower than the quarterly average for the first half of 1985.

The volume of investment (including leased assets) in the latest six months was around  $8\frac{1}{2}$  per cent lower than that in the preceding six months. On the same six-monthly basis of comparison, expenditure (including leasing) on individual assets shows falls of nearly 2 per cent for new building work, almost 10 per cent for plant and machinery and of 8 per cent for vehicles.

## CONSTRUCTION, DISTRIBUTION AND FINANCIAL INDUSTRIES

The provisional estimate of investment by these industries (excluding leasing to manufacturers) in the third quarter of 1985 is £2786 million, at 1980 prices seasonally adjusted; about 2 per cent above the level in the preceding quarter, over  $1\frac{1}{2}$  per cent higher than the quarterly average for 1984, but nearly 8 per cent lower than the quarterly average for the first half of 1985.

Expenditure in the latest six months compared with the previous six months fell by about 12 per cent. On the same six-monthly basis, expenditure (excluding leasing to manufacturers) on individual assets rose by over 5 per cent for new building work, but fell by nearly  $16\frac{1}{2}$  per cent for plant and machinery, and 18 per cent on vehicles.

## TOTAL INVESTMENT Ø

Capital expenditure information for certain industries in Division 1 (Energy and Water Supply) and Division 7 (Transport and Communication) for the third quarter of 1985 is not yet available. Consequently, the analysis of investment in this section is confined to trends up to and including the second quarter of 1985.

In the second quarter of 1985, total capital expenditure in Divisions 1 to 8 was £6444 million, at 1980 prices seasonally adjusted; nearly 13½ per cent lower than in the previous quarter and 4 per cent lower than the quarterly average for 1984.

Expenditure in Division 1 in the second quarter of 1985 was £1309 million, at 1980 prices seasonally adjusted; nearly 5 per cent lower than in the previous quarter and around 10 per cent lower than the quarterly average for 1984.

Expenditure in Division 7 in the second quarter of 1985 was £799 million, at 1980 prices seasonally adjusted; nearly 12 per cent lower than in the previous quarter but about 9 per cent lower than the quarterly average for 1984.

Ø Divisions 1 to 8 of SIC (1980).

NOTES

1. REVISIONS TO SERIES

Since the publication on 20 June 1985 of capital expenditure estimates for the first quarter, the series have been revised, as they are each year, to take account of the results of annual surveys with their more comprehensive coverage and of quarterly returns received too late for the original calculations. On this occasion, the main sources of the revisions were the results of the Census of Production for 1983, Censuses of Construction for 1983 and inquiries for 1983 into distributive and service trades. Amendments have also been made to figures for earlier years where improved information became available. Seasonal adjustment factors have been recalculated to incorporate these revisions.

2. EFFECT OF LEASING ON MANUFACTURING INVESTMENT

Assets have traditionally been classified to the industries of their ownership. Since capital goods acquired for leasing out are mainly bought by the service industries, leasing to manufacturers produces an apparent switch in investment to the service industries from the manufacturing industries. The following table illustrates the effect of leasing from the financial industries. In 1984 assets leased from owners in the financial industries represented an addition of 15 per cent of manufacturers' capital expenditure. Assets leased from owners in other industries outside manufacturing are not included in this analysis.

INVESTMENT BY MANUFACTURING INDUSTRIES (REVISED DEFINITION)  
£ million at 1980 prices

	Capital Expenditure	Estimated Volume of assets leased from financial industries	Total Expenditure
1975	6779	357	7136
1976	6470	369	6839
1977	6774	480	7254
1978	7220	684	7904
1979	7496	734	8230
1980	6479	835	7314
1981	4865	833	5698
1982	4704	894	5598
1983	4779	778	5557
1984	5538	834	6372

3. An industrial analysis of leased assets is not available.

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

- i. The latest quarter's estimates relate to Divisions 2 to 4 (Manufacturing Industries - revised definition), Division 5 (Construction), Division 6 (Distribution etc), and Division 8 (Finance and Business Services).
- ii. The previous quarter's figures cover those Divisions listed in (i) plus Division 1 (Energy and Water Supply) and Division 7 (Transport and Communication). In 1984 Divisions 1 to 8 accounted for 78 per cent of Gross Domestic Fixed Capital Formation (excluding dwellings and transfer costs of land and buildings).
- iii. The figures exclude expenditure in Division 0 (Agriculture, Forestry and Fishing) and Division 9 (Other Services): the latter division includes national and local Government.

5. The latest estimates of capital expenditure giving detailed figures for the third quarter of 1985 will be published in British business on 22 November 1985. More detailed estimates for the third quarter will be published in British business on 21 December 1985.

Press and broadcast calls to 01-215-5997  
Other calls to 0633-842951 or 0633-56111 extension 2215.

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

Period	Analysis by industry according to the standard industrial classification (1980)												Analysis by type of asset		
	Total	Production and construction industries	Manufacturing industries (Revised definition)	Distribution and financial services, transport, etc	Energy and water supply	Mineral extraction, metal, mineral and chemical manufacture	Metal goods engineering and vehicles industries	Other manufacturing industries	Construction	Distribution, etc	Transport and communication	Financial and business services, etc	New building work	Vehicles	Plant and machinery
	Divisions 1-8	1-5	2-4	6-8	1	2	3	4	5	6	7	8	-----	1-8	-----
1978	25,400	13,818	7,220	11,582	5,984	2,377	2,462	2,381	614	3,152	4,093	4,338	8,233	4,707	12,459
1979	26,403	13,694	7,496	12,709	5,528	2,220	2,759	2,517	670	3,594	3,958	5,158	8,006	4,871	13,526
1980	25,358	12,606	6,479	12,751	5,661	1,869	2,379	2,230	467	3,236	3,831	5,684	7,607	4,166	13,585
1981	23,545	11,292	4,865	12,253	6,016	1,346	1,807	1,713	411	2,969	3,177	6,107	7,556	3,368	12,620
1982	24,067	11,309	4,704	12,758	6,141	1,240	1,707	1,758	464	3,177	3,004	6,577	7,703	3,494	12,869
1983	24,383	11,173	4,779	13,210	5,945	1,269	1,749	1,762	449	3,281	3,170	6,759	7,765	3,389	13,229
1984	26,846	11,813	5,538	15,033	5,816	1,467	2,052	2,018	459	3,858	3,513	7,662	8,381	4,018	14,447
1981 Q1	5,813	2,795	1,299	3,018	1,396	365	492	442	100	742	829	1,448	1,834	830	3,149
Q2	6,000	2,885	1,212	3,115	1,577	326	453	434	96	743	857	1,514	1,944	896	3,160
Q3	5,900	2,857	1,179	3,044	1,565	318	430	430	113	766	698	1,579	1,952	779	3,170
Q4	5,832	2,755	1,175	3,076	1,479	337	431	407	101	718	792	1,566	1,826	863	3,142
1982 Q1	5,958	2,778	1,177	3,180	1,470	311	435	430	132	770	795	1,616	1,858	947	3,153
Q2	5,943	2,845	1,169	3,098	1,577	302	426	440	100	787	695	1,616	1,886	798	3,259
Q3	6,133	2,901	1,177	3,232	1,611	313	420	444	113	797	758	1,676	1,999	904	3,230
Q4	6,032	2,784	1,182	3,248	1,484	312	426	443	119	823	756	1,669	1,961	845	3,226
1983 Q1	6,035	2,741	1,138	3,294	1,507	319	409	410	96	795	777	1,722	1,959	803	3,274
Q2	6,018	2,836	1,162	3,181	1,545	307	423	432	129	805	730	1,647	1,913	828	3,277
Q3	5,953	2,746	1,193	3,207	1,445	323	430	441	108	808	766	1,633	1,875	808	3,270
Q4	6,377	2,850	1,285	3,528	1,448	320	487	478	116	873	898	1,757	2,019	950	3,408
1984 Q1	6,517	3,002	1,375	3,515	1,517	345	512	518	110	924	857	1,734	2,033	1,052	3,433
Q2	6,606	2,935	1,352	3,671	1,464	370	487	495	119	938	764	1,969	2,215	832	3,559
Q3	6,721	2,843	1,362	3,878	1,363	369	503	490	117	1,010	887	1,982	2,025	1,012	3,684
Q4	7,000	3,033	1,448	3,968	1,471	384	550	515	113	987	1,005	1,977	2,107	1,122	3,771
1985 Q1	7,445	2,973	1,442	4,473	1,375	413	536	494	155	978	907	2,588	1,992	1,295	4,159
Q2	6,444	2,806	1,376	3,638	1,309	415	469	492	120	1,035	799	1,803	2,109	916	3,418
Q3 p	N/A	N/A	1,376	N/A	N/A	408	479	489	118	1,049	N/A	1,861	N/A	N/A	N/A

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

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



~~Nigel~~

Pl arrange thanks.

Ro 25/11

*Ppc A*

FROM: K VERNON  
 DATE: 18 NOVEMBER 1985

MR WYNN-OWEN

*C. As requested.*  
*Ro*  
*[Handwritten signature]*

cc Miss O'Mara  
 HE/03  
 HE/06

### CAPITAL EXPENDITURE IN Q3: PROVISIONAL ESTIMATES

The Chancellor requested the shares of manufacturing in output and employment corresponding to the 37 per cent of manufacturing investment in total "business investment" in 1984.

2. The following statistics on output shares and employment for the industries that constitute total "business investment" are taken respectively from the 1985 Blue Book and October's Employment Gazette.

	Share of value added in total GDP 1984	Employment '000's June 1984
Manufacturing	24.4	5424
Distribution	13.2	4249
Financial Services	13.2	1855
Construction	5.7	960

56.5

3. From these figures it would seem that manufactures' shares was 43 per cent of total output of 'business industries' and 43 per cent also of total business employment.

*K Vernon*

K VERNON



*mp*



FROM: N G FRAY  
DATE: 25 November 1985

MR VERNON

**CAPITAL EXPENDITURE IN Q3: PROVISIONAL ESTIMATES**

The Chancellor has seen and was grateful for your minute of 18 November.

*Nigel Fray*  
N G FRAY

from: N G FRAS  
DMSL:

MR VERNON

CAPITAL EXPENDITURE IN Q3: PROVISIONAL ESTIMATES.

The Chancellor has seen and was grateful for your minute of 18 November.

NG FRAS

FROM: B NAISBITT

DATE: 18 FEBRUARY 1986

1. MR DAVIES
2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
 Financial Secretary  
 Economic Secretary  
 Minister of State  
 Sir Peter Middleton  
 Sir Terence Burns  
 Mr Monck  
 Mr Scholar  
 Mr Sedgwick  
 Mr Gieve  
 Mr Culpin  
 Miss O'Mara  
 Mr Pickford  
 Mr Hacche  
 Mr Dyer (+1 for No 10)  
 Mr Cropper  
 Mr Ross Goobey  
 Mr Tyrie

*Thank.  
 This is a very  
 suspect start.  
 2. Per Kaplan X.*

**CAPITAL EXPENDITURE IN MANUFACTURING AND SERVICE INDUSTRIES**  
**- FOURTH QUARTER 1986**

Provisional estimates are published on Thursday 19 February.

2. Manufacturing investment (including leased assets) in the fourth quarter is estimated to be 4½ per cent lower than the previous quarter and 10 per cent lower than a year earlier. Within this figure, assets leased to manufacturers were over 50 per cent lower than a year earlier. In 1986, manufacturing investment is estimated to have been 4½ per cent lower than in 1985; compared with the 2½ per cent fall shown in the December DTI Investment Intentions Survey Press Notice.

3. For service industries (construction, distribution and financial services) the provisional fourth quarter figure shows growth of ½ per cent on the previous quarter but no growth on a year earlier. For 1986 as a whole there is a fall of 1 per cent on a year earlier, compared with an anticipated ½ per cent fall in the December DTI Investment Intentions Survey Press Notice.

4. Industrial investment (ie the total investment covered by the press notice published tomorrow) in the fourth quarter was  $1\frac{1}{2}$  per cent lower than in the previous quarter and fell by  $2\frac{1}{2}$  per cent between 1985 and 1986.

5. These investment figures taken together with figures for stockbuilding also published tomorrow, and with provisional Q4 figures for consumers' expenditure and trade figures already published, point to a large rise in the expenditure estimate of GDP in the fourth quarter.

#### Lines to take

##### 6. Positive

- (i) Most recent (December) DTI Investment Intentions survey expects growth of 2 per cent in manufacturing and 8 per cent in services investment in 1987. Total industrial investment expected to increase by 6 per cent. A similar increase is expected in 1988.
- (ii) January CBI Industrial Trends Survey showed a balance of +10 per cent of respondents expecting to increase investment in plant and machinery over next year. After seasonal adjustment by the CSO (unpublished) this is the highest figure since the January 1985 Survey.

##### 7. Defensive

- (i) Manufacturing investment figures reflect the earlier sluggish behaviour of manufacturing output. On the basis of their latest Survey, CBI expect manufacturing investment to grow by 4 per cent in the first three quarters of 1987, compared to the first three quarters of 1986.
- (ii) Quarterly path of figures in past two years has been distorted by 1984 Budget corporation tax reforms.
- (iii) Latest figures only preliminary and likely to be subject to substantial revision, possibly as soon as next month.

B. Naibitt



## Output, expenditure and income estimates of real GDP

4. As usual there is some disagreement between the three different measures of GDP over recent developments. While the average measure quoted above is of a 0.2 per cent increase between 1986 Q1 and 1986 Q2, GDP(O) rose by 0.5 per cent and GDPI by 0.2 per cent, while GDP(E) is estimated to have fallen by 0.2 per cent.

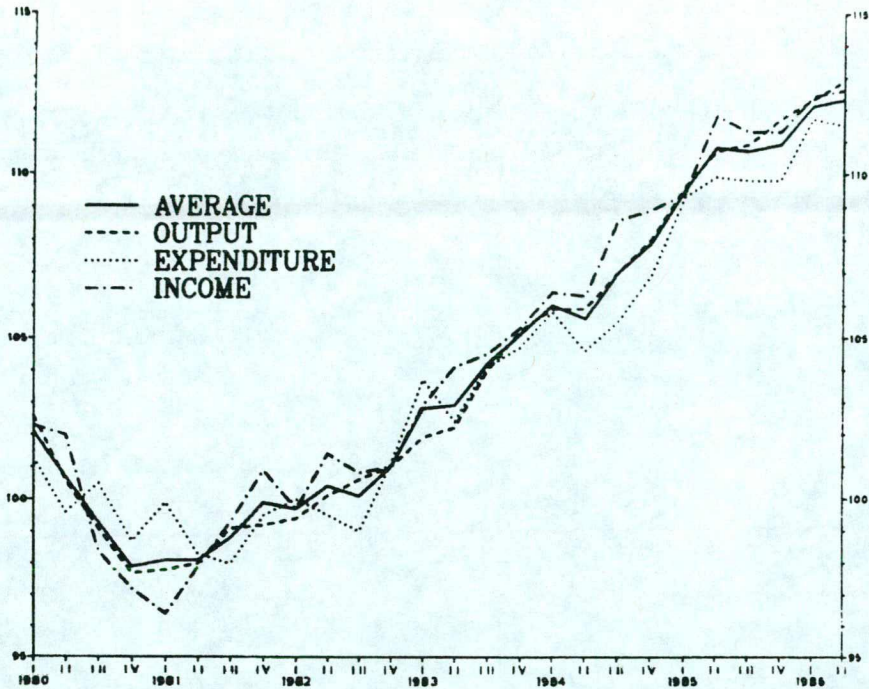
5. The output measure of GDP is now estimated to have risen by 0.5 per cent between 1986 Q1 and 1986 Q2, marginally up on the preliminary estimate of 0.4 per cent published last month. North Sea output fell in the second quarter: non-oil GDP(O) rose by around 0.7% between 1986 Q1 and 1986 Q2, following a rise of only 0.3% in the first quarter. GDP(O) has proved in the past to be the most accurate measure of quarter to quarter movements in GDP, and the growth of non-North Sea GDP(O), indicating a slight pick up in growth in the second quarter is almost certainly giving a better picture of developments than the average GDP measure.

6. The income measure increased by around  $\frac{1}{4}$  per cent between 1986 Q1 and 1986 Q2; it has been above the other measures of GDP since 1982, but has come back more in line with the other measures over the last year.

7. Following exceptional growth of 1.7 per cent in the preceding quarter, the expenditure measure fell by 0.2 per cent between 1986 Q1 and 1986 Q2. Consumers expenditure grew over  $1\frac{3}{4}$  per cent between 1986 Q1 and 1986 Q2, and by over 5 per cent in the year to 1986 Q2. There was a small positive net trade contribution to growth in the second quarter. However, stockbuilding made a large (-1%) negative contribution to growth in the second quarter. Fixed investment fell back after the high first quarter figure, which reflected forestalling of the reduction in capital allowances.

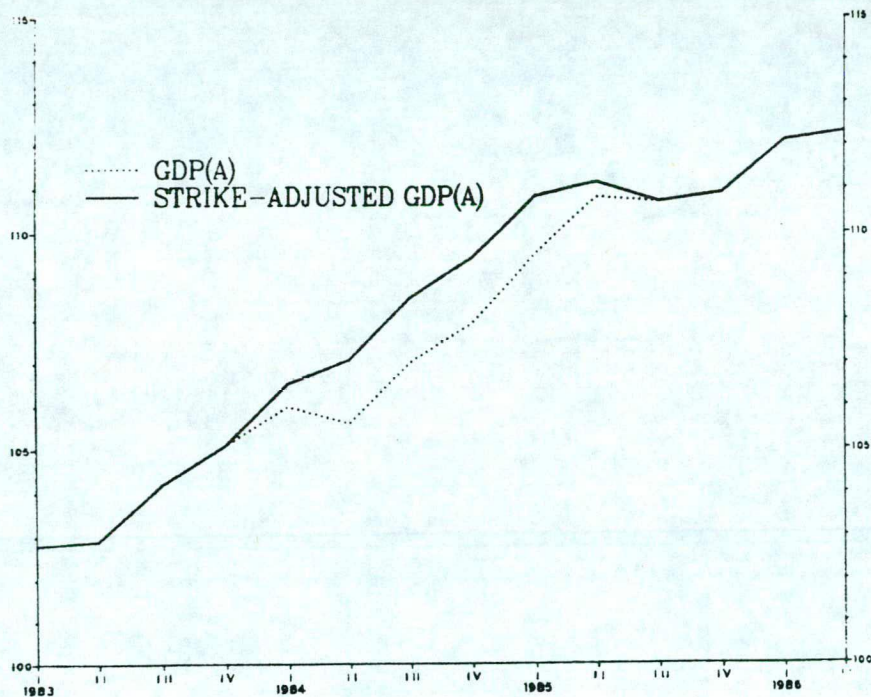
8. The chart below shows the path of the three measures and the average measure since 1980.

**REAL GDP INDICES**



9. Adjusted for the coal strike, GDP grew fairly steadily at around 3½ to 4 per cent per annum during the two years up to early 1985. Measured on this basis, GDP fell in the third quarter of 1985, but over the three quarters to mid 1986 is estimated to have been rising again at around 1 to 1½ per cent per annum.

**GDP AND STRIKE-ADJUSTED GDP**



## Money GDP and the GDP deflator

10. The figures published on Friday will include estimates of money GDP and the GDP deflator. In the year to 1986 Q2, nominal GDP at market prices is estimated to have increased by 5.6 per cent (5.3 per cent strike-adjusted). The market price GDP deflator actually fell between 1986 Q1 and 1986 Q2, and is estimated to have increased by just 3.8 per cent over the year to 1986 Q2. It is likely that the figure for growth in nominal GDP will attract press comment, given its divergence from the FSBR forecast for 1986/87 as a whole.

(percentage change on year earlier)	1986 Q2	1986/87 (FSBR Forecast)
Money GDP at market prices	5.6	$6\frac{3}{4}$
GDP deflator at market prices	3.8	$3\frac{3}{4}$

## Company Profits

11. Industrial and commercial companies' profits net of stock appreciation fell by £1.9 billion between 1986 Q1 and 1986 Q2 (a reduction of 13 per cent), reflecting the fall in North Sea oil prices and profits. Total company profits, measured on the same basis, are estimated to have fallen by around 20 per cent in the year to 1986 Q2. Separate figures for oil and non-oil profits will be available later in the month.

## Line to take

### Positive

12. Latest figures show GDP to have reached a new record level in 1986 Q2. Economy has now grown for a full 5 years since the trough of 1981 Q2: at an average  $2\frac{3}{4}$  per cent annual rate.



## Defensive

### Very weak Q2?

13. Quarterly path of GDP affected by special factors (effect of tax changes on fixed investment, and large swing in stockbuilding.) Measured on a non-oil basis, GDP(O), which is the most accurate measure of quarter to quarter movements in GDP, shows a satisfactory increase of over  $\frac{1}{2}$  per cent between 1986 Q1 and 1986 Q2.

### Treasury's forecast of 3% GDP growth too high?

14. The reaction of the world economy to the fall in oil prices means that UK growth will probably be less this year, and higher next year than thought earlier. A revised forecast will be published in November.

### Nominal GDP undershooting FSBR?

15. Divergence between nominal GDP growth of 5.6 per cent in year to 1986 Q2 and 1986 PSBR forecast of  $6\frac{3}{4}$  per cent for 1986/87 not significant. Expect year on year growth in real GDP to pick up in second half. FSBR noted (paragraph 2.04) that nominal GDP figure was not target, and that fluctuations will inevitably occur.

### Fall in company profits?

16. A fall in company profits was anticipated in the FSBR (paragraph 3.48 and Chart 3.11); fall reflects lower North Sea oil prices and profits.

*a counter for  
conclusion.  
m.*



P F L ALLUM



*pwp*

FROM: A C S ALLAN  
DATE: 19 SEPTEMBER 1986

MR ALLUM

cc: PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Odling-Smee  
Mr Sedgwick  
Mr Culpin  
Mr S Davies  
Miss O'Mara  
Mr Hacche  
Mr Cropper  
Mr Tyrie  
Mr Ross Goobey  
Mr R Clare (CSO)

**GDP FIGURES FOR THE SECOND QUARTER OF 1986**

The Chancellor was grateful for your minute of 18 September. He is content with the positive line to take, but feels that the defensive line to take in paragraph 15 should say that the divergence between the latest figures for nominal GDP growth and PSBR forecast is 'not a cause for concern', rather than 'not significant'. The path of money GDP has, in fact, fallen well below that envisaged in the MTF5 and that cannot be lightly shrugged aside.

*ACSA*

A C S ALLAN

Nigel

Please arrange for someone  
to do a "Ch gratepl" response.

Alex

CONFIDENTIAL  
 until 11.30 am Wednesday 19 November  
 then RESTRICTED

From: R D KERLEY  
 Date: 18 November 1986

1. MISS O' MARA
2. CHANCELLOR

cc Chief Secretary  
 Financial Secretary  
 Economic Secretary  
 Minister of State  
 Sir P Middleton  
 Sir T Burns  
 Mr Cassell  
 Mr Monck  
 Mr Burgner  
 Mr Scholar  
 Mr P N Sedgwick  
 Mr Culpin  
 Mr S Davies  
 Mr Shaw  
 Mr Pickford  
 Mr Allum  
 Mr Hacche  
 Mr Hudson  
 Mr Pickering  
 Mr Dyer (+1 for No 10)  
 Mr Cropper  
 Mr Ross Goobey  
 Mr Tyrie  
 Mr Stirling - CSO  
 Mr Clary - CSO  
 Mr Lang - CSO  
 HB/02

These figures are encouraging. You'll see GDP(A) will probably not be as good but we'd focus on GDP(O) for short term movements anyway  
 now  
 18/11

#### GDP (OUTPUT MEASURE) IN THIRD QUARTER 1986

The CSO will publish the preliminary estimate for GDP(O) on 19 November.

#### Third Quarter Figures

2. GDP(O) is estimated to have risen by about 1 per cent between the second and third quarters of 1986 and by 3 per cent in the year to 1986Q3.

3. GDP(O) excluding oil and gas extraction rose by  $\frac{1}{2}$  per cent between the second and third quarters of 1986 and by  $2\frac{3}{4}$  per cent in the year to 1986Q3.

4. The contributions of changes in the individual components of GDP(0) are tabled below:

<u>Industry</u>	Contributions to percentage change in GDP(0)	
	1986Q3 on 1986Q2	
1. Agriculture, forestry and fishing	0.0	
2. Construction	-0.1**	
3. Services	+0.5	
4. Industrial Production of which:	+0.6	
5.   oil and gas extraction		+0.4
6.   other energy and water supply		-0.2
7.   manufacturing		+0.3
GDP(0)*	+1.0*	

\* Sum of rows 1-4

\*\* Not for use

Figures may not add owing to rounding

5. The contributions to growth in Q2 came from the production industries, rising by  $1\frac{1}{2}$  per cent between the second and third quarters as a result of increased manufacturing output and oil and gas extraction, from service industries which increased by  $\frac{3}{4}$  per cent and from a rise in distribution of 2 per cent.

6. GDP has grown by over  $11\frac{1}{2}$  per cent since 1979H1 and by over  $16\frac{1}{2}$  per cent since the 1981Q1 trough.

7. The expenditure, income and output measures of GDP can move differently from each other between quarters. On the basis of the information available to us at the moment on the components of the expenditure measure of GDP, (essentially consumption, net trade, stockbuilding and investment) it appears that the expenditure measure of GDP may well exhibit significantly slower growth between Q2 and Q3 than the output measure, resulting in the average measure, when published next month, showing less buoyant growth than that exhibited by the output measure. The CSO would regard, however, the output measure of GDP as the best indicator of short run movements in growth.

Lines to take

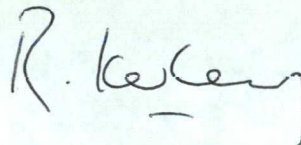
7. Positive

- (a) GDP(O) up about 1 per cent between second and third quarters of 1986, and by 3 per cent in the year to 1986Q3.
- (b) Pick up in manufacturing output. Up over 1 per cent in Q3 over Q2 and up over 2 per cent since beginning of year to reach highest level since 1980Q1.
- (c) GDP(O) up over  $16\frac{1}{2}$  per cent since trough in 1981Q1 and nearly 12 per cent since June 1983 election. Now in sixth successive year of growth at real average rate of nearly 3 per cent a year - longest period of growth since 1973 oil price rise.
- (d) Service sector output in 1986Q3 nearly 4 per cent above its level a year earlier.

8. Defensive

Growth in non-oil GDP(O) only  $\frac{1}{2}$  per cent between Q2 and Q3.

But up  $2\frac{3}{4}$  per cent since 1985Q3 and pause in manufacturing output growth now over with 1 per cent rise between Q2 and Q3 and 2 per cent rise this year. Service sector output up  $\frac{3}{4}$  per cent between Q2 and Q3 and up 4 per cent in year to 1986Q3.



R D KERLEY

LN/6



FROM: N G FRAY  
DATE: 19 November 1986

MR R KERLEY

*Handwritten initials*

**GDP (OUTPUT MEASURE) IN THE THIRD QUARTER 1986**

The Chancellor has seen and was grateful for your minute of 18 November.

*Nigel Fray*  
N G FRAY

Reference .....

To:

SECRETARY OF STATE

From:

(Circulation list attached)

PETER RICHARDSON  
S2C  
Room 242  
Sanctuary Buildings  
215 6265  
5 December 1986

*From how  
no for  
bank credit  
costs*

**CREDIT BUSINESS IN OCTOBER**

A Press Notice giving details of credit business in October 1986 is attached for information. This will be issued at 11.30 am on Monday, December 8. As usual, the contents should be treated as confidential until then.

*P H Richardson*

P H RICHARDSON

*pin 6  
1986?  
(see folder)*



# DTI Press Notice

CONFIDENTIAL  
UNTIL 11.30 HOURS  
ON DAY OF RELEASE

Department of Trade and Industry  
1 Victoria Street SW1H 0ET

Press Office: 01-215 4471/4475

No: 86/870

Out of hours: 01-215 7877

8 December 1986

## CREDIT BUSINESS IN OCTOBER

During October £2.8 billion of new credit was advanced by finance houses, other specialist credit grantors, retailers and on bank credit cards. Although slightly below the September total of £2.9 billion, advances in October were above the level of earlier months. Within the October total, £1.2 billion was advanced on bank credit cards. A high proportion of this is repaid within a month, reflecting the use of such cards as a method of payment rather than as a means of obtaining credit.

Total advances in the latest three months, August to October, were 10 per cent higher than in the previous three months. Lending by finance houses and other specialist credit grantors increased by 9 per cent between the two periods. Within this total, lending to consumers increased by 8 per cent and lending to businesses increased by 13 per cent. Advances on bank credit cards increased by 12 per cent between the two periods. Retailers advanced 5 per cent more in the latest three months than in the previous three months.

There was an increase of £246 million in amounts outstanding to finance houses, other specialist credit grantors and retailers in October. At the end of the month, the total amount outstanding was £23,434 million, 5 per cent more than the total three months earlier.

## Notes to Editors

1 All figures are quoted after seasonal adjustment.

2 For September onwards the amounts outstanding on bank credit cards are taken at the end of the month. For earlier months they are taken at mid-month. This has increased the change in amounts outstanding for September.

3 Table 1 covers the credit business of finance houses, other specialist credit grantors, retailers and on bank credit cards. Table 2 covers the business of finance houses and other specialist credit grantors only, but provides an analysis of new credit advanced to consumers and businesses. The credit advances shown in Table 1 for retailers and bank credit cards are mainly to consumers.

4 From January 1986 the statistics include new credit advances by finance houses and other specialist credit grantors on running account agreements on which information was not collected previously. Lending on bank credit cards is also included for the first time in the January 1986 statistics. Estimates have been calculated for both these types of advances for December 1985 to enable comparisons to be made. Lending by banks, other than on bank credit cards, and by companies where the group specialises in lending to other companies only are excluded from the statistics in this Press Notice.

5 Charges for credit and deposits or downpayments are excluded from the figures of new credit advanced which thus represent the amount of credit advanced during the period. Figures for retailers are estimated from the value of their self-financed credit sales, which include both charges and deposits. The figures for retailers' credit sales include sales on budget and other running-account agreements and exclude credit sales financed by banks, finance houses, and other specialist credit grantors.

6 Amounts outstanding are the amounts owed, excluding unearned charges, on credit agreements of all types at the end of the period, irrespective of the period in which credit was advanced. Unearned credit charges are those charges, mainly interest, included at the outset of a fixed-sum credit agreement on the assumption that the agreement lasts its full term.

7 Further definitions are given at the foot of the tables accompanying this Press Notice.

8 Full results of the inquiries which collect the monthly information on credit are published by HM Stationery Office in Business Monitor SDM6 - Credit Business of finance houses and other specialist credit grantors - and in Business Monitor SDM8 - Consumer credit business of retailers. Both may be obtained on subscription (£16.50 each title per annum) from HM Stationery Office PO Box 569, London SE1 9NH.

Individual copies are available, price £2.80 each from:  
The Library, Business Statistics Office, Government Building,  
Cardiff Road, Newport, GWENT.  
Telephone: Newport (0633) 222973.

9 Non press calls to 01-215 6400.

TABLE 1

TOTAL CREDIT BUSINESS OF FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS,  
 RETAILERS AND ON BANK CREDIT CARDS (SEASONALLY ADJUSTED)

£ Million

	NEW CREDIT ADVANCED				TOTAL AMOUNT OUTSTANDING (a)		
	TOTAL (c)	FINANCE HOUSES AND OTHER SPECIALIST CREDIT GRANTORS (b)		BANK CREDIT CARDS	RETAILERS (e)	CHANGE	AMOUNT AT END OF PERIOD
		FIXED SUM (d)	RUNNING ACCOUNT				
1982	9,087	5,639			3,448	1,536	9,989
1983	10,524	6,840			3,684	2,250	12,239
1984	11,507	7,662			3,845	2,159	14,398
1985	12,996	8,727			4,269	2,591	16,989
1984 4th Qtr	2,955	1,945			1,010	519	14,398
1985 1st Qtr	3,109	2,068			1,041	587	14,985
2nd Qtr	3,082	2,030			1,052	534	15,519
3rd Qtr	3,374	2,293			1,081	747	16,266
4th Qtr	3,431	2,336			1,095	723	16,989
1986 1st Qtr	7,385	2,699	655	2,877	1,154	994	21,841
2nd Qtr	7,658	2,618	788	3,062	1,190	289	22,130
3rd Qtr	8,304R	2,790R	840	3,409R	1,265	1,058R	23,188R
1985 OCT	1,144	792			352	212	16,478
NOV	1,095	739			356	162	16,640
DEC	1,192	805			387	349	16,989
1985 DEC *	2,429	816	238	988	387		20,847
1986 JAN	2,594	1,008	215	987	384	402	21,249
FEB	2,491	929	201	968	393	289	21,538
MAR	2,300	762	239	922	377	303	21,841
APR	2,743	994	253	1,089	407	75	21,916
MAY	2,372	799	254	938	381	129	22,045
JUN	2,543	825	281	1,035	402	85	22,130
JUL	2,719	876	314	1,112	417	215	22,345
AUG	2,678	962	242	1,058	416	286	22,631
SEP	2,907R	952R	284	1,239R	432	557R	23,188R
OCT	2,796	943	272	1,170	411	246	23,434
1986 MAY-JUL	7,634	3349		3,085	1,200	429	22,345
AUG-OCT	8,381	3655		3,467	1,259	1,089	23,434
Percentage increase over previous quarter	10	9		12	5	154	5

R = revised

- NOTES: \* Estimate for December 1985 on same basis as figures for January 1986.
- (a) Until December 1985 excluding amounts outstanding on Bank Credit Cards and block discounted agreements. Up to August 1986 figures for Bank Credit Cards are the amounts outstanding at mid-month. From September 1986 onwards they are at end-month.
- (b) See Table 2 for an analysis into agreements with consumers and agreements with businesses.
- (c) Until December 1985 includes only direct fixed-sum business of Finance Houses and other specialist Credit Grantors and advances by Retailers.
- (d) From December 1985 including new credit on block discounted agreements.
- (e) Self-financed credit advanced by clothing retailers, household goods retailers, mixed retail businesses (other than Co-operative Societies) and general mail-order houses only.

TABLE 2

TOTAL CREDIT BUSINESS OF FINANCE HOUSES AND OTHER  
SPECIALIST CREDIT GRANTORS (SEASONALLY ADJUSTED)

£ Million

	NEW CREDIT ADVANCED				TOTAL AMOUNTS OUTSTANDING		
	AGREEMENTS WITH CONSUMERS (b)		AGREEMENTS WITH BUSINESSES (c)		FIXED SUM AGREEMENTS (a)	RUNNING ACCOUNT AGREEMENTS	DEALER STOCK FUNDING LOANS (d)
	FIXED SUM CREDIT	RUNNING ACCOUNT CREDIT	FIXED SUM CREDIT (a)	RUNNING ACCOUNT CREDIT			
1982	3,780		1,859		7,456	803	480
1983	4,470		2,370		9,378	995	652
1984	5,092		2,570		11,183	1,233	789
1985	6,168		2,559		13,165	1,642	939
1984 4th Qtr	1,281		664		11,183	1,233	789
1985 1st Qtr	1,381		687		11,680	1,290	853
2nd Qtr	1,401		629		12,074	1,403	908
3rd Qtr	1,661		632		12,660	1,503	971
4th Qtr	1,725		611		13,165	1,642	939
1986 1st Qtr	1,879	651	820	4	13,887	1,738	1,069
2nd Qtr	1,758	783	860	5	13,903	1,839	1,008
3rd Qtr	1,903R	836	887	4	14,311R	1,967	1,041
1985 OCT	578		214		12,801	1,552	965
NOV	547		192		12,942	1,588	956
DEC	600		205		13,165	1,642	939
1985 DEC *	547	237	269	1	13,250	1,642	939
1986 JAN	711	213	297	2	13,485	1,699	1,075
FEB	654	200	275	1	13,692	1,721	1,066
MAR	514	238	248	1	13,887	1,738	1,069
APR	663	252	331	1	13,891	1,772	986
MAY	544	253	255	1	13,920	1,791	983
JUN	551	278	274	3	13,903	1,839	1,008
JUL	585	313	291	1	13,969	1,874	1,124
AUG	684	241	278	1	14,119	1,897	1,042
SEP	634R	282	318	2	14,311R	1,967	1,041
OCT	614	268	329	4	14,445	2,001	998
1986 MAY-JUL	2524		825		13,969	1,874	1,124
AUG-OCT	2723		932		14,445	2,001	998
Percentage increase over previous quarter	8		13		3	7	-11

R = revised

- NOTES: \* Estimate for December 1985 on same basis as figures for January 1986.
- (a) From December 1985 including block discounted agreements.
- (b) Until December 1985 figures are for consumer credit agreements regulated under the Consumer Credit Act 1974. These comprise non-exempt agreements involving the provision of credit not exceeding £15,000 (£5,000 before 20 May 1985) to individuals.
- (c) Until December 1985 figures are for credit agreements not regulated under the Consumer Credit Act 1974, entered into by companies which also enter into regulated credit agreements.
- (d) Figures in this column are excluded from amounts outstanding in Table 1.

CIRCULATION LIST

Mr Alan Clark  
Mr Geoffrey Pattie  
Mr Giles Shaw  
Lord Lucas  
Mr Michael Howard  
Mr John Butcher  
Sir Brian Hayes  
Mr Liesner  
Mr Treadgold  
Mr Whiting  
Mr Healey  
Mr Stibbard  
Mr Miner  
Mr Norton  
Miss Marson  
Mr Mattock  
Miss Lea  
Mr Mann  
Mr Parsons

Prime Minister's Office

✓Chancellor's Office

Sir Terence Burns - Treasury  
Mr P Sedgwick - "  
Mr P Allum - "  
Miss M O'Mara - "  
  
Mr M J Dicks - Bank of England  
Mr J Exeter - " " "  
  
Miss S Carter - CSO  
Mr E Lomas - "  
Mr C Bryant - "  
Mr D Sterling - "  
Mr J Alexander - "  
Mr R Beedell - "

BF 15/12



FROM: A C S ALLAN

DATE: 8 December 1986

MR ALLUM

cc Mr Sedgwick  
Miss O'Mara

**CREDIT BUSINESS IN OCTOBER**

The Chancellor has seen the press notice on credit business in October. He wonders whether there is an alternative source of figures for bank credit card business before 1986?

*ACSA*

A C S ALLAN

*Red*

*Red*

To:

PS/PRIME MINISTER  
PS/SECRETARY OF STATE  
PS/MINISTERS OF STATE  
PS/PARLIAMENTARY UNDER SECRETARY OF STATE  
PS/PERMANENT SECRETARY

cc Mr Liesner  
Mr Ward

From:

B MITCHELL  
Deputy Director  
BSO  
Newport  
GTN 2411 2252

9 December 1986

CAPITAL EXPENDITURE PRESS NOTICE

A press notice giving revised figures for the third quarter of 1986 is attached for information. The notice will be published at 11.30 am on Thursday 11 December. As usual, the contents should be treated as confidential until then.

There have been small upward revisions to the provisional estimates for most industries but these have been outweighed by a reduction of £130m in the figure for banking.

*B Mitchell*

B MITCHELL

# DTI Press Notice

Department of Trade and Industry  
 1 Victoria Street SW1H 0ET  
 Press Office:  
 Out of hours: 01-215 7877

**CONFIDENTIAL  
 UNTIL 11.30 HOURS  
 ON DAY OF RELEASE**

## CAPITAL EXPENDITURE IN THE THIRD QUARTER OF 1986: REVISED ESTIMATES

The revised estimate of capital expenditure by the manufacturing, construction, distribution and financial industries\* in the third quarter of 1986 is £4649 million, at 1980 prices seasonally adjusted; 1 per cent lower than in the preceding quarter, and almost 3 per cent lower than in the third quarter of 1985. The decrease in the third quarter, was wholly attributable to the reduction in finance leasing.

The volume of investment in the last twelve months was marginally lower than in the preceding twelve months.

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

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

£ million at 1980 prices, seasonally adjusted

	Manufacturing industries** (including leased assets $\emptyset$ )	Construction, distribution and financial industries*** (excluding assets leased to manufacturers)	Total
1981	5697	8642	14339
1982	5600	9309	14909
1983	5557	9756	15313
1984	6593	11145	17738
1985	6963 (36%)	12264 (64%)	19227
1983 Q1	1314	2414	3728
Q2	1368	2395	3763
Q3	1393	2389	3782
Q4	1482	2558	4040
1984 Q1	1537	2590	4127
Q2	1628	2836	4464
Q3	1711	2869	4580
Q4	1717	2850	4567
1985 Q1	1858	3370	5228
Q2	1666	2830	4496
Q3	1708	3062	4770
Q4	1731	3001	4732
1986 Q1	1819	3141	4960
Q2	1680	3016	4696
Q3 (r)	1634	3015	4649

14494  
 -1.37  
 14305

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

\*\* Divisions 2, 3 and 4

\*\*\* Divisions 5, 6 and 8

$\emptyset$  Assets leased from owners in the financial industries. The effect of leasing on manufacturing investment is described in Note 1.

r Revised



## MANUFACTURING INDUSTRIES (REVISED DEFINITION)

The revised estimate of manufacturers' direct expenditure in the third quarter of 1986 is £1474 million, at 1980 prices seasonally adjusted. In addition, it is important to take account of the leasing of assets to manufacturers from the financial industries. This is taken to amount to £159 million in the third quarter, at 1980 prices seasonally adjusted, giving a total investment in the manufacturing industries of £1634 million; over 2½ per cent lower than in the previous quarter and almost 4½ per cent lower than in the third quarter of 1985.

The volume of investment (including leased assets) in the last twelve months was over 1 per cent lower than in the preceding twelve months. On the same annual basis of comparison, expenditure (including leasing) on individual assets fell by almost 3½ per cent for vehicles and by 1 per cent for both new building work and plant and machinery.

On the same annual basis, the more notable changes by industry (excluding leasing - see Note 2) were rises in investment of 10½ per cent in textiles, leather and clothing, of over 9½ per cent in mechanical engineering, and of nearly 8 per cent in chemicals. There were decreases in investment of 13½ per cent in other manufacturing, of almost 9½ per cent in drink and tobacco, and of almost 8½ per cent in metal manufacture.

## CONSTRUCTION, DISTRIBUTION AND FINANCIAL INDUSTRIES

The revised estimate of investment by these industries (excluding leasing to manufacturers) in the third quarter of 1986 is £3015 million, at 1980 prices seasonally adjusted; virtually the same as in the preceding quarter, but 1½ per cent lower than in the third quarter of 1985.

The volume of investment (excluding leasing to manufacturers) in the last twelve months was ½ per cent higher than in the preceding twelve months. On the same annual basis of comparison, expenditure (excluding leasing to manufacturers) on individual assets rose by almost 6 per cent for new building work and by over 2½ per cent for plant and machinery, but fell by 13 per cent for vehicles.

On the same annual basis, the more notable changes by industry (including leasing - see Note 2) were rises in investment of almost 9½ per cent in business services and construction, of over 9 per cent in banking, insurance and other finance, and of almost 8 per cent in retail and catering. There were decreases in investment of almost 16½ per cent in finance leasing, and of 12 per cent in wholesaling.

## TOTAL INVESTMENT Ø

Capital expenditure estimates for Division 0 (Agriculture, Forestry and Fishing), certain industries in Division 1 (Energy and Water Supply), Division 7 (Transport and Communication) and Division 9 (Other Miscellaneous Services) for the third quarter of 1986 are not yet available. Consequently, the analysis of investment in this section is confined to trends up to and including the second quarter of 1986.

In the second quarter of 1986, total capital expenditure in Divisions 0 to 9 was £8571 million, at 1980 prices seasonally adjusted;  $7\frac{1}{2}$  per cent lower than in the previous quarter but over 1 per cent higher than expenditure in the same quarter a year ago. In the last twelve months expenditure was  $\frac{1}{2}$  per cent lower than expenditure in the preceding twelve months.

Expenditure in Division 0 in the second quarter of 1986 was £196 million, at 1980 prices seasonally adjusted; 4 per cent lower than in the previous quarter and over 6 per cent lower than in the same quarter a year ago. In the last twelve months, expenditure in Division 0 was over  $16\frac{1}{2}$  per cent below expenditure in the preceding twelve months.

Expenditure in Division 1 in the second quarter of 1986 was £1167 million, at 1980 prices seasonally adjusted; over  $21\frac{1}{2}$  per cent lower than in the previous quarter and nearly  $9\frac{1}{2}$  per cent lower than in the same quarter a year ago. In the last twelve months expenditure in Division 1 was  $2\frac{1}{2}$  per cent below expenditure in the preceding twelve months.

Expenditure in Division 7 in the second quarter of 1986 was £884 million, at 1980 prices seasonally adjusted; 4 per cent lower than in the previous quarter and  $3\frac{1}{2}$  per cent lower than in the same quarter a year ago. In the last twelve months expenditure in Division 7 was nearly 12 per cent below expenditure in the preceding twelve months.

Expenditure in Division 9 in the second quarter of 1986 was £1629 million, at 1980 prices seasonally adjusted; almost  $3\frac{1}{2}$  per cent lower than in the previous quarter but  $4\frac{1}{2}$  per cent higher than in the same quarter a year ago. In the last twelve months, expenditure in Division 9 was  $5\frac{1}{2}$  per cent higher than expenditure in the preceding twelve months.

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

1. EFFECT OF LEASING ON MANUFACTURING INVESTMENT

Assets have traditionally been classified to the industries of their ownership. Since capital goods acquired for leasing out are mainly bought by the service industries, leasing to manufacturers produces an apparent switch in investment to the service industries from the manufacturing industries. The following table illustrates the effect of leasing from the financial industries. In 1985 assets leased from owners in the financial industries represented an addition of 19 per cent of manufacturers' capital expenditure. Assets leased from owners in other industries outside manufacturing are not included in this analysis.

INVESTMENT BY MANUFACTURING INDUSTRIES (REVISED DEFINITION)

£ million at 1980 prices

	Capital Expenditure	Estimated Volume of assets leased from financial industries	Total Expenditure
1975	6779	357	7136
1976	6470	370	6840
1977	6773	479	7252
1978	7220	685	7905
1979	7496	734	8230
1980	6479	835	7314
1981	4865	832	5697
1982	4704	896	5600
1983	4779	778	5557
1984	5756	837	6593
1985	5851	1112	6963

2. An industrial analysis of leased assets is not available.

### 3. ASSET COVERAGE OF THE CAPITAL EXPENDITURE ESTIMATES

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

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

i. The latest quarter's estimates relate to Divisions 2 to 4 (Manufacturing Industries - revised definition), Division 5 (Construction), Division 6 (Distribution etc), and Division 8 (Finance and Business Services).

ii. The previous quarter's figures cover those Divisions listed in (i) plus Division 0 (Agriculture, Forestry and Fishing), Division 1 (Energy and Water Supply), Division 7 (Transport and Communication) and Division 9 (Other Miscellaneous Services). Figures for the third quarter of 1986 in respect of Divisions 0, 1, 7 and 9 will be published in the fourth quarter provisional press notice on 19 February 1987.

5. The press notice tables have been extended to incorporate estimates for Divisions 0 and 9 and to provide an analysis by user.

6. More detailed estimates of capital expenditure for the third quarter of 1986, together with current price data, will be published in British business on 19 December 1986.

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

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

Divisions	Analysis by ownership											Analysis by type of asset		
	Total	Agriculture forestry and fishing	Energy and water supply	Mineral extraction metal, mine and chemical industries	Metal goods engineering and vehicles industries	Other manufacturing industries	Construction	Distribution etc	Transport and communication	Financial and business services etc	Other services	New building work	Vehicles	Plant and machinery
Period	0-9	0	1	2	3	4	5	6	7	8	9	----- 0-9 -----		
1979	32,866	1,144	5,559	2,221	2,758	2,517	670	3,594	4,141	5,162	5,101	12,427	5,449	14,990
1980	31,440	1,019	5,679	1,869	2,380	2,230	467	3,236	3,907	5,685	4,968	11,884	4,582	14,974
1981	28,872	881	5,967	1,346	1,807	1,713	411	2,969	3,071	6,095	4,613	11,416	3,619	13,836
1982	30,151	1,049	6,086	1,240	1,707	1,758	464	3,177	2,823	6,565	5,283	12,353	3,692	14,105
1983	31,114	1,145	6,004	1,269	1,749	1,761	503	3,282	3,121	6,750	5,531	12,518	3,700	14,896
1984	34,318	1,075	5,738	1,481	2,112	2,163	520	3,782	3,621	7,680	6,146	13,846	4,338	16,134
1985	35,551	787	5,321	1,664	2,076	2,111	569	4,109	3,883	8,698	6,333	13,489	4,704	17,358
1982 Q1	7,288	260	1,491	312	426	427	128	769	637	1,613	1,225	2,996	866	3,427
Q2	7,440	268	1,502	298	436	439	98	787	678	1,612	1,322	2,996	875	3,569
Q3	7,755	256	1,592	313	428	446	114	795	783	1,687	1,343	3,168	1,017	3,570
Q4	7,668	265	1,502	318	418	446	123	826	725	1,653	1,393	3,193	935	3,540
1983 Q1	7,679	280	1,589	320	395	402	105	793	720	1,713	1,362	3,110	825	3,744
Q2	7,599	283	1,474	305	434	425	143	805	750	1,651	1,330	3,002	954	3,643
Q3	7,703	278	1,458	323	441	443	124	804	787	1,647	1,399	3,104	905	3,694
Q4	8,133	304	1,483	320	479	491	131	879	865	1,740	1,440	3,301	1,016	3,815
1984 Q1	8,283	292	1,459	344	499	537	119	906	826	1,722	1,577	3,411	1,060	3,811
Q2	8,538	281	1,476	376	518	533	134	920	835	1,982	1,484	3,533	973	4,033
Q3	8,726	258	1,410	372	541	538	136	981	951	2,012	1,527	3,444	1,121	4,161
Q4	8,771	244	1,393	388	554	556	131	974	1,009	1,964	1,558	3,458	1,183	4,130
1985 Q1	9,546	210	1,366	398	564	530	154	1,027	1,188	2,555	1,554	3,365	1,468	4,714
Q2	8,467	209	1,288	399	496	530	136	1,006	917	1,929	1,559	3,358	1,112	3,998
Q3	8,848	202	1,369	425	492	536	142	1,051	928	2,125	1,579	3,405	1,097	4,346
Q4	8,689	166	1,298	442	525	514	137	1,025	851	2,089	1,642	3,361	1,027	4,301
1986 Q1	9,259	204	1,490	407	550	528	153	998	920	2,324	1,685	3,710	1,016	4,533
Q2	8,571	196	1,167	408	520	533	134	1,066	884	2,035	1,629	3,247	1,078	4,246
Q3	N/A	N/A	N/A	401	514	560	134	1,045	N/A	1,997	N/A	N/A	N/A	N/A

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

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

N/A - not available

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

Divisions Period	Analysis by ownership				Analysis by type of asset Divisions 1-8			Analysis by user			
	Total for Divisions	Production and construction industries	Manufacturing industries (revised definition)	Distribution and financial services transport etc.	New building work	Vehicles	Plant and machinery	Assets leased to manufac- -turers	Divisions 2-4 (Manufacturing) including assets leased to manufacturers	Divisions 5,6 and 8 excluding assets leased to manufacturers	Divisions 5,6,7 and 8 excluding assets leased to manufacturers
	1-8	1-5	2-4	6-8							
1979	26,621	13,725	7,496	12,896	8,068	5,021	13,532	734	8,230	8,691	12,832
1980	25,453	12,625	6,479	12,828	7,698	4,202	13,553	835	7,314	8,553	12,460
1981	23,377	11,242	4,865	12,135	7,572	3,263	12,542	832	5,697	8,642	11,714
1982	23,819	11,254	4,704	12,564	7,844	3,294	12,680	896	5,600	9,309	12,132
1983	24,438	11,286	4,779	13,153	7,904	3,299	13,236	778	5,557	9,756	12,878
1984	27,097	12,014	5,756	15,084	8,591	3,960	14,546	837	6,593	11,145	14,766
1985	28,430	11,741	5,851	16,690	8,335	4,322	15,773	1,112	6,963	12,264	16,147
1982 Q1	5,803	2,784	1,164	3,019	1,929	773	3,101	185	1,349	2,326	2,963
Q2	5,850	2,773	1,173	3,077	1,855	785	3,210	234	1,407	2,263	2,941
Q3	6,156	2,892	1,186	3,264	2,032	916	3,209	247	1,432	2,349	3,132
Q4	6,010	2,806	1,181	3,204	2,029	821	3,160	230	1,412	2,372	3,097
1983 Q1	6,037	2,811	1,117	3,226	2,025	718	3,295	196	1,314	2,414	3,134
Q2	5,987	2,781	1,165	3,205	1,902	848	3,237	203	1,368	2,395	3,145
Q3	6,027	2,789	1,207	3,237	1,913	818	3,295	186	1,393	2,389	3,176
Q4	6,388	2,904	1,290	3,484	2,064	915	3,409	192	1,482	2,558	3,423
1984 Q1	6,413	2,958	1,380	3,455	2,044	960	3,410	158	1,537	2,590	3,417
Q2	6,774	3,037	1,428	3,737	2,247	867	3,659	200	1,628	2,836	3,670
Q3	6,941	2,997	1,451	3,944	2,145	1,037	3,759	260	1,711	2,869	3,820
Q4	6,969	3,021	1,497	3,948	2,155	1,095	3,718	219	1,717	2,850	3,859
1985 Q1	7,782	3,012	1,492	4,771	2,097	1,369	4,316	366	1,858	3,370	4,558
Q2	6,700	2,849	1,426	3,851	2,092	1,002	3,606	240	1,666	2,830	3,747
Q3	7,067	2,964	1,453	4,104	2,105	1,017	3,946	255	1,708	3,062	3,990
Q4	6,880	2,916	1,481	3,965	2,041	934	3,906	250	1,731	3,001	3,852
1986 Q1	7,370	3,127	1,485	4,242	2,336	919	4,114	334	1,819	3,141	4,061
Q2	6,747	2,761	1,461	3,985	1,952	980	3,814	218	1,680	3,016	3,901
Q3	N/A	N/A	1,474	N/A	N/A	N/A	N/A	159	1,634	3,015	N/A

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

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

N/A - not available

FROM: T PIKE  
DATE: 10 DECEMBER 1986

- 1. MR GRICE JWG 10.12.86
- 2. PRINCIPAL PRIVATE SECRETARY

cc: Mr Sedgwick  
Miss O'Mara  
Mr Davies  
Mr Allum  
Mr Mills

CREDIT BUSINESS IN OCTOBER

In your minute to Mr Allum of 8 December 1986 you asked about figures for bank credit card business before 1986. The figures shown below are consistent with the 1986 figures in the DTI press notice. Figures are only available annually prior to 1986 and, for new credit advanced, only from 1975 onwards.

Ch  
Amazingly steady  
growth of about 30% pa.

T Pike

T PIKE

AA  
K. Atkins  
a small credit card  
tax

## BANK CREDIT CARD STATISTICS (ACCESS AND VISA)

	New Credit Advanced		Stock of Credit Outstanding at year end	
	£ million	Annual growth rate (%)	£ million	Annual growth rate (%)
1972	n/a		83	
1973	n/a		152	83.1
1974	n/a		167	9.9
1975	638	n/a	226	35.3
1976	861	35.0	328	45.1
1977	1123	30.4	404	23.2
1978	1541	37.2	648	60.4
1979	2093	35.8	934	44.1
1980	2883	37.7	1186	27.0
1981	3726	29.2	1571	32.5
1982	4898	31.5	2021	28.6
1983	6396	30.6	2593	28.3
1984	8043	25.8	3198	23.3
1985	10500	30.5	4044	26.5
1986 Q1	2877*			
Q2	3062*			
Q3	3409*			
Oct	1170*			
First 10 months	10518*	20.2**		

\* seasonally adjusted

\*\* annualised growth rate

Source: Abstract of Banking Statistics, May 1985 and 1986, published by the Statistical Unit of the Committee of London Clearing Bankers.



UNCLASSIFIED



FROM: A C S ALLAN  
DATE: 15 December 1986

*Bif for consumer credit marketing*  
*1986*

MR PIKE

cc: Mr Sedgwick  
Mr Grice  
Miss O'Mara  
Mr S Davies  
Mr Allum  
Mr Mills

*NB may need this again*

**CREDIT BUSINESS IN OCTOBER**

The Chancellor was most grateful for your note of 10 December and the attached statistics on bank credit cards.

*ACSA*

A C S ALLAN

*27 out to  
Byrne Knox*

FROM: S J DAVIES  
DATE: 18 DECEMBER 1986

CHANCELLOR OF THE EXCHEQUER

cc : Chief Secretary  
Financial Secretary  
Economic Secretary  
Sir Peter Middleton  
Sir Terence Burns  
Mr Cassell  
Mr Monck  
Mr Odling-Smee  
Mr Scholar  
Mr Sedgwick  
Mr Culpin  
Miss O'Mara  
Mr Allum  
Mr Hacche  
Mr Cropper  
Mr Tyrie  
Mr Ross Goobey  
  
Mr Clare - (CSO)

GDP FIGURES FOR THE THIRD QUARTER OF 1986

Provisional estimates of GDP in the third quarter of 1986 will be published by the CSO tomorrow (Friday) at 11.30 a.m. They show:

- a 0.3 per cent increase in the average estimate of GDP between 1986Q2 and 1986Q3;
- growth over the year to 1986Q3, based on the increase in the average estimate of GDP, of 2 per cent.

However, the picture is confused by large discrepancies between the output, income, and expenditure based measures of GDP.

2. The growth figures based on the average estimate of GDP are well below last month's preliminary estimate of Q3 growth based on the output measure: the output measure published a month ago showed a 1 per cent increase in GDP between the second and third quarters, and a 3 per cent increase in GDP over the year to 1986Q3. The figure for the output measure has, in fact, been revised up since last month, and now shows almost 3½ per cent growth over the last year. The income and expenditure measures are much less buoyant.

cm  
ch-gdp

*Charles. Have we  
the data of White  
the unincorporated or  
unincorporated companies  
with tax? (Mr X)*

**Output, Expenditure and Income Estimates of real GDP**

3. The output measure is the most reliable indicator of short-term movements in GDP, and historically has been much less subject to revision than the other estimates\*. Moreover other recent evidence on the economy, particularly the behaviour of vacancies and unemployment, seems consistent with the message coming from the output estimate rather than with the message coming from the other estimates of GDP. The message from the output estimate is that, after a period of weakness during 1985 and at the beginning of 1986, the economy has been growing quite strongly this year; with growth at around 1 per cent a quarter in the non-oil economy over the last two quarters.

4. The income and expenditure measures of GDP show real growth over the last year of 1 per cent and 1½ per cent respectively. The profile of the expenditure measure over the last year is particularly odd: it shows a 2 per cent rise between the fourth quarter of 1985 and the first quarter of 1986; in the other three of the last four quarters GDP is recorded as falling over the previous quarter. It seems that growth in some components of domestic expenditure is not being picked up very accurately while the consequential rise in net imports has been picked up. Expenditure on domestic output is therefore being seriously understated.

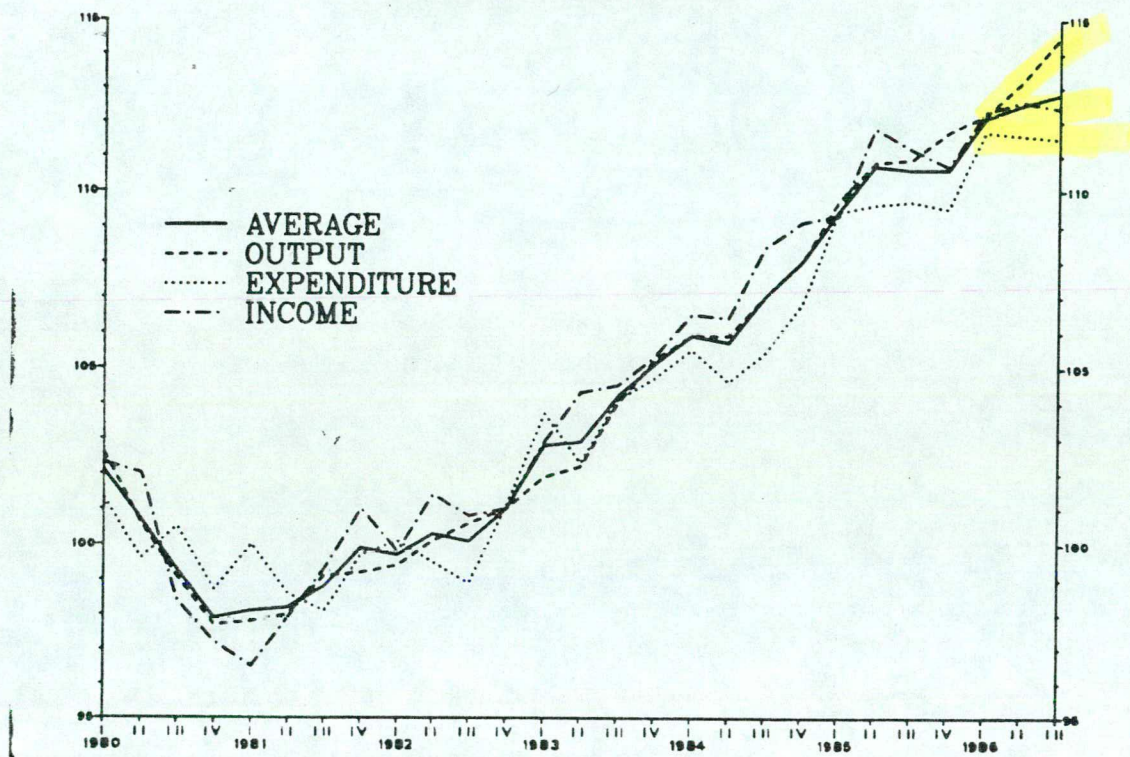
---

\* An article published in the July 1985 Economic Trends on "Revisions to estimates of GDP growth rates" showed that since the 1970s the size and variability of revisions to GDP growth have been much smaller on the output measure than on the expenditure and income measures. A study published in the National Institute Economic Review for February 1984 also found that initial growth estimates based on the output measure were far more reliable than growth estimates from the expenditure and income measures.

5. As published, movements in the expenditure components of GDP include a rise of almost 5 per cent in consumers' expenditure in the year to 1986Q3, a similar rise in exports, and around a 1½ per cent rise in fixed investment. Imports have risen by almost 10 per cent over the same period. The income components of GDP show a 12 per cent fall over the last year in industrial and commercial companies profits net of stock appreciation. We expect that when the breakdown between oil and non-oil companies is published in early January it will show that non-oil profits are still rising.

6. The chart below shows the paths of the output, income, expenditure, and average measures of real GDP since 1980.

### REAL GDP INDICES



#### Money GDP and the GDP deflator

7. The figures published on Friday will include estimates of money GDP and the GDP deflator. In the year to 1986Q3, nominal GDP at market prices is estimated to have increased by  $5\frac{3}{4}$  per cent. The market price GDP deflator rose by almost 1½ per cent between the second and third quarters, and was  $3\frac{1}{4}$  per cent higher in the third quarter than a year earlier.

8. The growth in money GDP recorded over the last year is broadly in line with the Autumn Statement forecast (which had growth of money GDP in 1986-87 at 5½ per cent, revised down from the FSBR figure of 6¾ per cent). However, the money GDP estimate is based on the average estimate for real GDP, and is subject to the same problems of interpretation as it is. If the output measure of GDP is telling more or less the truth about real activity, then the published figure for money GDP growth is understating the true growth of nominal income. Thus it is unclear how much of the undershooting of the FSBR money GDP path is illusory, and indeed it is not clear whether there is now really any significant undershooting at all of the FSBR money GDP path.

(percentage changes on a year earlier)	1986	1986	1986-87	
	<u>Q2</u>	<u>Q3</u>	<u>FSBR Forecast</u>	<u>AS Forecast</u>
Money GDP at market prices	5.5	5.7	6¾	5½
GDP deflator at market prices	3.6	3.3	3¾	3

### Lines to take

#### Positive

- (1) Latest figures show GDP to have reached a new record level in 1986Q3. Economy is now well into its sixth year of growth: it has grown at an average 2¾ per cent annual rate since 1981H1.
- (2) Output measure, most reliable measure of short term movements in GDP, shows almost 3½ per cent growth over last year, and has been growing by around 1 per cent a quarter this year.

**Defensive**

- (1) **GDP growth of only 2 per cent over last year disappointing - below latest Treasury forecast?** Output estimate is the more reliable measure, shows very encouraging picture.
- (2) **Nominal GDP undershooting FSBR?** This is not a cause for concern, particularly given the uncertainty over the published data.
- (3) **Fall in company profits?** A fall in company profits overall was generally expected following the fall in oil prices. It reflects sharply lower North Sea oil profits; non-oil company profits continue to improve.



S J DAVIES

UNCLASSIFIED

*ps*



FROM: CATHY RYDING  
DATE: 22 December 1986

MR S J DAVIES

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Monck  
Mr Odling-Smee  
Mr Scholar  
Mr Sedgwick  
Mr Culpin  
Miss O'Mara  
Mr Allum  
Mr Hacche  
Mr Cropper  
Mr Tyrie  
Mr Ross Goobey  
Mr Clare - CSO

**GDP FIGURES FOR THE THIRD QUARTER OF 1986**

The Chancellor was grateful for your minute of 18 December.

2. On the last sentence of your paragraph 4, the Chancellor wonders whether we have any idea of what the under-recorded or unrecorded expenditure might be.

*CR*

CATHY RYDING

Papers please

FROM: S J DAVIES  
DATE: 31 DECEMBER 1986

CHANCELLOR OF THE EXCHEQUER

- cc : Chief Secretary
- Financial Secretary
- Economic Secretary
- Sir Peter Middleton
- Sir Terence Burns
- Mr Cassell
- Mr Monck
- Mr Odling-Smee
- Mr Scholar
- Mr Sedgwick
- Mr Culpin
- Miss O'Mara
- Mr Allum
- Mr Hacche
- Mr Cropper
- Mr Tyrie
- Mr Ross Goobey
  
- Mr Clare - CSO

*Thanks.  
S J Davies  
31/12/86*

THIRD

GDP FIGURES FOR THE QUARTER OF 1986: UNRECORDED EXPENDITURE

A propos of the large gap between the output and expenditure estimates of GDP growth in the third quarter, you asked whether we have any idea what the under-recorded expenditure might be.

2. On the basis of the historical record of revisions to National Account statistics we would expect the estimates of most categories of expenditure (other than government consumption) to be revised up eventually. The estimates for fixed investment and stockbuilding have, in the past, tended to be revised up somewhat more than the estimates of consumer spending: the first published estimates of movements in investment are based on very limited information.

3. There is some qualitative evidence from the behaviour of capital goods imports in 1986. Although at a relatively depressed level in the first half of 1986 they have picked up very strongly in recent months - a recovery which would be hard to explain if the CSO's lacklustre figures for business investment in the third quarter were correct. This increases the likelihood that a substantial upward revision will eventually be made to the investment figures; but we may well have to wait until data from the relevant censuses becomes available in 1988 before major revisions are made.



S J DAVIES



MR 11/23

GDP FIGURES FOR  
THE THIRD QUARTER  
OF 1986

IFIED

*Prayed*



FROM: CATHY RYDING  
DATE: 5 January 1987

MR DAVIES

cc: Chief Secretary  
Financial Secretary  
Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Monck  
Mr Odling-Smee  
Mr Scholar  
Mr Sedgwick  
Mr Culpin  
Miss O'Mara  
Mr Allum  
Mr Hacche  
Mr Cropper  
Mr Tyrie  
Mr Ross Goobey  
  
Mr Clare - CSO

**GDP FIGURES FOR THE THIRD QUARTER OF 1986: UNRECORDED EXPENDITURE**

The Chancellor was grateful for your minute of 31 December.

*CR*

CATHY RYDING

Reference .....

*pur*

To:

SECRETARY OF STATE

(Circulation list attached)

From:

PETER RICHARDSON  
S2C  
Room 242  
Sanctuary Buildings  
215 6265  
9 January 1987

*✓*

**CREDIT BUSINESS IN NOVEMBER**

A Press Notice giving details of credit business in November 1986 is attached for information. This will be issued at 11.30 am on Monday, January 12. As usual, the contents should be treated as confidential until then.

*P H Richardson*

P H RICHARDSON

# DTI Press

CONFIDENTIAL  
UNTIL 14.30 HOURS  
ON DAY OF RELEASE

Department of Trade and Industry

1 Victoria Street SW1H 0ET

Press Office: 01-215 4471/4475

No: 87/11

Out of hours: 01-215 7877

12 January 1987

## CREDIT BUSINESS IN NOVEMBER 1986

During November £2.6 billion of new credit was advanced by finance houses, other specialist credit grantors, retailers and on bank credit cards. Although lower than the high figures of recent months, the November level was still above the average level for the first half of 1986. Within the November total, £1.1 billion was advanced on bank credit cards. A high proportion of this is repaid within a month, reflecting the use of such cards as a method of payment rather than as a means of obtaining credit.

Total advances in the latest three months, September to November, were 5 per cent higher than in the previous three months. Lending by finance houses and other specialist credit grantors showed no change between the two periods. Within this total, lending to consumers decreased by 2 per cent and lending to businesses increased by 8 per cent. Advances on bank credit cards increased by 10 per cent between the two periods. Retailers advanced 2 per cent more in the latest three months than in the previous three months.

There was an increase of £26 million in amounts outstanding to finance houses, other specialist credit grantors and retailers in November. At the end of the month, the total amount outstanding was £23,477 million, 4 per cent more than the total three months earlier.

## Notes to Editors

1 All figures are quoted after seasonal adjustment.

2 For September onwards the amounts outstanding on bank credit cards are taken at the end of the month. For earlier months they are taken at mid-month. This has increased the change in amounts outstanding for September.

3 Table 1 covers the credit business of finance houses, other specialist credit grantors, retailers and on bank credit cards. Table 2 covers the business of finance houses and other specialist credit grantors only, but provides an analysis of new credit advanced to consumers and businesses. The credit advances shown in Table 1 for retailers and bank credit cards are mainly to consumers.

4 From January 1986 the statistics include new credit advances by finance houses and other specialist credit grantors on running account agreements on which information was not collected previously. Lending on bank credit cards is also included for the first time in the January 1986 statistics. Estimates have been calculated for both these types of advances for December 1985 to enable comparisons to be made. Lending by banks, other than on bank credit cards, and by companies where the group specialises in lending to other companies only are excluded from the statistics in this Press Notice.

5 Charges for credit and deposits or downpayments are excluded from the figures of new credit advanced which thus represent the amount of credit advanced during the period. Figures for retailers are estimated from the value of their self-financed credit sales, which include both charges and deposits. The figures for retailers' credit sales include sales on budget and other running-account agreements and exclude credit sales financed by banks, finance houses, and other specialist credit grantors.

6 Amounts outstanding are the amounts owed, excluding unearned charges, on credit agreements of all types at the end of the period, irrespective of the period in which credit was advanced. Unearned credit charges are those charges, mainly interest, included at the outset of a fixed-sum credit agreement on the assumption that the agreement lasts its full term.

7 Further definitions are given at the foot of the tables accompanying this Press Notice.

8 Full results of the inquiries which collect the monthly information on credit are published by HM Stationery Office in Business Monitor SDM6 - Credit Business of finance houses and other specialist credit grantors - and in Business Monitor SDM8 - Consumer credit business of retailers. Both may be obtained on subscription (£16.50 each title per annum) from HM Stationery Office PO Box 569, London SE1 9NH.

Individual copies are available, price £2.80 each from:  
The Library, Business Statistics Office, Government Building,  
Cardiff Road, Newport, GWENT.  
Telephone: Newport (0633) 222973.

9 Non press calls to 01-215 6400.

TABLE 1

TOTAL CREDIT BUSINESS OF FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS,  
 RETAILERS AND ON BANK CREDIT CARDS (SEASONALLY ADJUSTED)

£ Million

	NEW CREDIT ADVANCED				TOTAL AMOUNT OUTSTANDING (a)		
	TOTAL (c)	FINANCE HOUSES AND OTHER SPECIALIST CREDIT GRANTORS (b)		BANK CREDIT CARDS	RETAILERS (e)	CHANGE	AMOUNT AT END OF PERIOD
		FIXED SUM (d)	RUNNING ACCOUNT				
1982	9,087	5,639			3,448	1,536	9,989
1983	10,524	6,840			3,684	2,250	12,239
1984	11,507	7,662			3,845	2,159	14,398
1985	12,996	8,727			4,269	2,591	16,989
1984 4th Qtr	2,955	1,945			1,010	519	14,398
1985 1st Qtr	3,109	2,068			1,041	587	14,985
2nd Qtr	3,082	2,030			1,052	534	15,519
3rd Qtr	3,374	2,293			1,081	747	16,266
4th Qtr	3,431	2,336			1,095	723	16,989
1986 1st Qtr	7,385	2,699	655	2,877	1,154	994	21,841
2nd Qtr	7,658	2,618	788	3,062	1,190	289	22,130
3rd Qtr	8,304	2,790	840	3,409	1,265	1,058	23,188
1985 NOV	1,095	739			356	162	16,640
DEC	1,192	805			387	349	16,989
1985 DEC *	2,429	816	238	988	387		20,847
1986 JAN	2,594	1,008	215	987	384	402	21,249
FEB	2,491	929	201	968	393	289	21,538
MAR	2,300	762	239	922	377	303	21,841
APR	2,743	994	253	1,089	407	75	21,916
MAY	2,372	799	254	938	381	129	22,045
JUN	2,543	825	281	1,035	402	85	22,130
JUL	2,719	876	314	1,112	417	215	22,345
AUG	2,678	962	242	1,058	416	286	22,631
SEP	2,907	952	284	1,239	432	557	23,188
OCT	2,806R	946R	279R	1,170	411	263R	23,451R
NOV	2,585	805	242	1,124	414	26	23,477
1986 JUN-AUG	7,940	3500		3,205	1,235	586	22,631
SEP-NOV	8,298	3508		3,533	1,257	846	23,477
Percentage increase over previous quarter	5	—		10	2	44	4

R = revised

- NOTES: \* Estimate for December 1985 on same basis as figures for January 1986.
- (a) Until December 1985 excluding amounts outstanding on Bank Credit Cards and block discounted agreements. Up to August 1986 figures for Bank Credit Cards are the amounts outstanding at mid-month. From September 1986 onwards they are at end-month.
- (b) See Table 2 for an analysis into agreements with consumers and agreements with businesses.
- (c) Until December 1985 includes only direct fixed-sum business of Finance Houses and other specialist Credit Grantors and advances by Retailers.
- (d) From December 1985 including new credit on block discounted agreements.
- (e) Self-financed credit advanced by clothing retailers, household goods retailers, mixed retail businesses (other than Co-operative Societies) and general mail-order houses only.

TABLE 2

**TOTAL CREDIT BUSINESS OF FINANCE HOUSES AND OTHER  
SPECIALIST CREDIT GRANTORS (SEASONALLY ADJUSTED)**

£ Million

	NEW CREDIT ADVANCED				TOTAL AMOUNTS OUTSTANDING		
	AGREEMENTS WITH CONSUMERS (b)		AGREEMENTS WITH BUSINESSES (c)		FIXED SUM AGREEMENTS (a)	RUNNING ACCOUNT AGREEMENTS	DEALER STOCK FUNDING LOANS (d)
	FIXED SUM CREDIT	RUNNING ACCOUNT CREDIT	FIXED SUM CREDIT (a)	RUNNING ACCOUNT CREDIT			
1982	3,780		1,859		7,456	803	480
1983	4,470		2,370		9,378	995	652
1984	5,092		2,570		11,183	1,233	789
1985	6,168		2,559		13,165	1,642	939
1984 4th Qtr	1,281		664		11,183	1,233	789
1985 1st Qtr	1,381		687		11,680	1,290	853
2nd Qtr	1,401		629		12,074	1,403	908
3rd Qtr	1,661		632		12,660	1,503	971
4th Qtr	1,725		611		13,165	1,642	939
1986 1st Qtr	1,879	651	820	4	13,887	1,738	1,069
2nd Qtr	1,758	783	860	5	13,903	1,839	1,008
3rd Qtr	1,903	836	887	4	14,311	1,967	1,041
1985 NOV	547		192		12,942	1,588	956
DEC	600		205		13,165	1,642	939
1985 DEC *	547	237	269	1	13,250	1,642	939
1986 JAN	711	213	297	2	13,485	1,699	1,075
FEB	654	200	275	1	13,692	1,721	1,066
MAR	514	238	248	1	13,887	1,738	1,069
APR	663	252	331	1	13,891	1,772	986
MAY	544	253	255	1	13,920	1,791	983
JUN	551	278	274	3	13,903	1,839	1,008
JUL	585	313	291	1	13,969	1,874	1,124
AUG	684	241	278	1	14,119	1,897	1,042
SEP	634	282	318	2	14,311	1,967	1,041
OCT	615R	275R	331R	4	14,508R	2,038R	998
NOV	545	240	260	2	14,609	2,058	1,032
1986 JUN-AUG	2652		848		14,119	1,897	1,042
SEP-NOV	2591		917		14,609	2,058	1,032
Percentage increase over previous quarter	-2		8		3	8	-1

R = revised

- NOTES: \* Estimate for December 1985 on same basis as figures for January 1986.
- (a) From December 1985 including block discounted agreements.
- (b) Until December 1985 figures are for consumer credit agreements regulated under the Consumer Credit Act 1974. These comprise non-exempt agreements involving the provision of credit not exceeding £15,000 (£5,000 before 20 May 1985) to individuals.
- (c) Until December 1985 figures are for credit agreements not regulated under the Consumer Credit Act 1974, entered into by companies which also enter into regulated credit agreements.
- (d) Figures in this column are excluded from amounts outstanding in Table 1.

CIRCULATION LIST

Mr Alan Clark  
Mr Geoffrey Pattie  
Mr Giles Shaw  
Lord Lucas  
Mr Michael Howard  
Mr John Butcher  
Sir Brian Hayes  
Mr Liesner  
Mr Treadgold  
Mr Whiting  
Mr Healey  
Mr Stibbard  
Mr Miner  
Mr Norton  
Miss Marson  
Mr Mattock  
Miss Lea  
Mr Mann  
Mr Parsons

Prime Minister's Office

Chancellor's Office

Sir Terence Burns - Treasury  
Mr P Sedgwick - "  
Mr P Allum - "  
Miss M O'Mara - "  
Mr P Hall - "  
Mr G Pike - "

Mr M J Dicks - Bank of England  
Mr J Exeter - " " "

Miss S Carter - CSO  
Mr E Lomas - "  
Mr C Bryant - "  
Mr D Sterling - "  
Mr J Alexander - "

FROM: MISS M O'MARA  
DATE: 28 JANUARY 1987

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir T Burns  
Mr Sedgwick  
Mr Culpin  
Mr S J Davies  
Mr Hacche  
Mr Hudson  
Mr Pickering  
HE/03

### GROWTH COMPARISONS: FIRST ORDER

As you know, the income and expenditure measures of GDP seem to have been under-estimating growth in recent months so that GDP(A) does not appear to have been giving as reliable a guide as GDP(O).

2. While we normally use GDP(O) to measure growth over the short term, we usually switch to GDP(A) when looking at longer periods. However, at the moment the two measures are giving rather different messages even over the longer term:

	1981H1 to 1986Q3	% change (at annual rate)	1983Q2 to 1986Q3
GDP(A)	15	(2½)	9½ (2¼)
GDP(O)	17	(3)	12 (3½)

3. Since we have been referring for some time to "growth now well into its sixth year at an annual rate of 3 per cent", we were reluctant to revise the figure down in the light of the latest GDP(A) data, given the problems with the measure. We are therefore still speaking of "growth approaching 3 per cent a year" which, if pressed, we would justify on the behaviour of GDP(O) since 1981. This seems to us to be in line with your own wish to give greater prominence to GDP(O) in briefing at present.



CONFIDENTIAL

4. As you can see from the table, GDP(O) has grown at over  $3\frac{1}{2}$  per cent a year since the 1983 election, while GDP(A) has risen at only  $2\frac{3}{4}$  per cent a year. Until now, we have spoken of average annual growth of "around 3 per cent" since then. We would prefer not to revise the figure up at this stage, especially as GDP(O) has averaged an annual  $3\frac{1}{2}$  per cent ever since Q1. EA1 agree. There seems to us some advantage in continuity and in using a broad compromise, as in the case of growth since 1981.

5. Incidentally, the CSO's preliminary estimate of Q4 GDP(O) (published on 18 February) is likely to show output broadly flat quarter on quarter, although this reflects a temporary sharp reduction in North Sea output (a leaking pipeline). Non-oil output is rising at around  $\frac{1}{2}$  to  $\frac{3}{4}$  per cent over the quarter.

*MOM*

MISS M O'MARA

*Prup*



FROM: A C S ALLAN  
DATE: 29 January 1987

MISS O'MARA

cc: Mr Hacche  
Mr Pickering

**GROWTH COMPARISONS: FIRST ORDER**

The Chancellor was grateful for your minute of 28 January.

*ACSA*

A C S ALLAN

Reference

*PHR*

To:

SECRETARY OF STATE

(Circulation list attached)

From:

PETER RICHARDSON  
S2C  
Room 242  
Sanctuary Buildings  
215 6265

6 February 1987

*✓*

**CREDIT BUSINESS IN DECEMBER**

A Press Notice giving details of credit business in December 1986 is attached for information. This will be issued at 11.30 am on Monday, February 9. As usual, the contents should be treated as confidential until then.

*P H Richardson*

P H RICHARDSON

# DTI Press Notice

CONFIDENTIAL  
UNTIL 11.30 HOURS  
ON DAY OF RELEASE

Department of Trade and Industry

1 Victoria Street SW1H 0ET

Press Office: 01-215 4471/4475

No: 87/75

Out of hours: 01-215 7877

9 February 1987

## CREDIT BUSINESS IN DECEMBER 1986

During December £2.8 billion of new credit was advanced by finance houses, other specialist credit grantors, retailers and on bank credit cards. Although below the peak reached in September, this maintains the high level of advances in recent months.

Total advances in the latest three months, October to December, showed no change compared to the previous three months. Lending by finance houses and other specialist credit grantors decreased by 2 per cent between the two periods. Within this total, lending to consumers decreased by 4 per cent and lending to businesses increased by 6 per cent. Advances on bank credit cards increased by 3 per cent between the two periods. Retailers advanced 3 per cent less in the latest three months than in the previous three months.

There was an increase of £0.4 billion in amounts outstanding to finance houses, other specialist credit grantors and retailers between end-November and end-December. The total amount outstanding at end-December was £23.7 billion, 2 per cent more than the total three months earlier.

## Notes to Editors

- 1 All figures are quoted after seasonal adjustment. New seasonal factors have been estimated this month using the latest available information. Estimates have also been made of amounts outstanding on bank credit cards at the end of the month for the months prior to September 1986 thus ensuring that the series of total amount outstanding is taken at the end of the month throughout.
- 2 Table 1 covers the credit business of finance houses, other specialist credit grantors, retailers and on bank credit cards. Table 2 covers the business of finance houses and other specialist credit grantors only, but provides an analysis of new credit advanced to consumers and businesses. The credit advances shown in Table 1 for retailers and bank credit cards are mainly to consumers. A high proportion of credit advanced in certain types of agreement, notably on bank credit cards and by mail order houses, is repaid within a month, reflecting the use of such agreements as a method of payment rather than as a means of obtaining credit.
- 3 From January 1986 the statistics include new credit advances by finance houses and other specialist credit grantors on running account agreements on which information was not collected previously. Lending on bank credit cards is also included for the first time in the January 1986 statistics. Estimates have been calculated for both these types of advances for December 1985 to enable comparisons to be made. Lending by banks, other than on bank credit cards, and by companies where the group specialises in lending to other companies only are excluded from the statistics in this Press Notice.
- 4 Charges for credit and deposits or downpayments are excluded from the figures of new credit advanced which thus represent the amount of credit advanced during the period. Figures for retailers are estimated from the value of their self-financed credit sales, which include both charges and deposits. The figures for retailers' credit sales include sales on budget and other running-account agreements and exclude credit sales financed by banks, finance houses, and other specialist credit grantors.
- 5 Amounts outstanding are the amounts owed, excluding unearned charges, on credit agreements of all types at the end of the period, irrespective of the period in which credit was advanced. Unearned credit charges are those charges, mainly interest, included at the outset of a fixed-sum credit agreement on the assumption that the agreement lasts its full term.
- 6 Further definitions are given at the foot of the tables accompanying this Press Notice.
- 7 Full results of the inquiries which collect the monthly information on credit are published by HM Stationery Office in Business Monitor SDM6 - Credit Business of finance houses and other specialist credit grantors - and in Business Monitor SDM8 - Credit business of retailers. Both may be obtained on subscription (£17.50 each title per annum) from HM Stationery Office PO Box 569, London SE1 9NH. Individual copies are available, price £3.20 each from:  
The Library, Business Statistics Office, Government Building, Cardiff Road, Newport, GWENT. Telephone: Newport (0633) 222973.
- 8 Non-press calls to 01-215 6400.

TABLE 1

TOTAL CREDIT BUSINESS OF FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS,  
 RETAILERS AND ON BANK CREDIT CARDS (SEASONALLY ADJUSTED)

£ Million

	NEW CREDIT ADVANCED				TOTAL AMOUNT OUTSTANDING (a)		
	TOTAL (c)	FINANCE HOUSES AND OTHER SPECIALIST CREDIT GRANTORS (b)		BANK CREDIT CARDS	RETAILERS (e)	CHANGE	AMOUNT AT END OF PERIOD
		FIXED SUM (d)	RUNNING ACCOUNT				
1983	10,524	6,840			3,684	2,250	12,239
1984	11,507	7,662			3,845	2,159	14,398
1985	12,996	8,727			4,269	2,591	16,989
1986	31,538	10,708	3,080	12,916	4,834	2,918	23,738
1985 1st Qtr	3,109	2,068			1,041	587	14,985
2nd Qtr	3,082	2,030			1,052	534	15,519
3rd Qtr	3,374	2,293			1,081	747	16,266
4th Qtr	3,436	2,336			1,100	723	16,989
1986 1st Qtr	7,375	2,655	648	2,926	1,146	980	21,800
2nd Qtr	7,739	2,640	793	3,115	1,191	418	22,218
3rd Qtr	8,223	2,722	839	3,395	1,267	968	23,186
4th Qtr	8,201	2,691	800	3,480	1,230	552	23,738
1985 DEC	1,191	805			386	349	16,989
1985 DEC *	2,282	816	229	951	386		20,820
1986 JAN	2,540	947	214	996	383	353	21,173
FEB	2,463	906	196	976	385	302	21,475
MAR	2,372	802	238	954	378	325	21,800
APR	2,717	969	251	1,093	404	120	21,920
MAY	2,409	819	263	942	385	117	22,037
JUN	2,613	852	279	1,080	402	181	22,218
JUL	2,685	885	278	1,107	415	219	22,437
AUG	2,668	890	289	1,068	421	302	22,739
SEP	2,870	947	272	1,220	431	447	23,186
OCT	2,759	925	269	1,152	413	176	23,362
NOV	2,635	843	243	1,129	420	-11	23,351
DEC	2,807	923	288	1,199	397	387	23,738
1986 JUL-SEP	8,223	3561		3,395	1,267	968	23,186
OCT-DEC	8,201	3491		3,480	1,230	552	23,738
Percentage increase over previous quarter	—	-2		3	-3	-43	2

- NOTES:
- \* Estimate for December 1985 on same basis as figures for January 1986.
  - (a) Until December 1985 excluding amounts outstanding on Bank Credit Cards and block discounted agreements.
  - (b) See Table 2 for an analysis into agreements with consumers and agreements with businesses.
  - (c) Until December 1985 includes only direct fixed-sum business of Finance Houses and other specialist Credit Grantors and advances by Retailers.
  - (d) From December 1985 including new credit on block discounted agreements.
  - (e) Self-financed credit advanced by clothing retailers, household goods retailers, mixed retail businesses (other than Co-operative Societies) and general mail-order houses only.

TABLE 2

TOTAL CREDIT BUSINESS OF FINANCE HOUSES AND OTHER  
SPECIALIST CREDIT GRANTORS (SEASONALLY ADJUSTED)

£ Million

	NEW CREDIT ADVANCED				TOTAL AMOUNTS OUTSTANDING		
	AGREEMENTS WITH CONSUMERS (b)		AGREEMENTS WITH BUSINESSES (c)		FIXED SUM AGREEMENTS (a)	RUNNING ACCOUNT AGREEMENTS	DEALER STOCK FUNDING LOANS (d)
	FIXED SUM CREDIT	RUNNING ACCOUNT CREDIT	FIXED SUM CREDIT (a)	RUNNING ACCOUNT CREDIT			
1983	4,470		2,370		9,378	995	652
1984	5,092		2,570		11,183	1,233	789
1985	6,168		2,559		13,165	1,642	939
1986	7,241	3,060	3,467	20	14,728	2,098	1,019
1985 1st Qtr	1,381		687		11,680	1,290	853
2nd Qtr	1,401		629		12,074	1,403	908
3rd Qtr	1,661		632		12,660	1,503	971
4th Qtr	1,725		611		13,165	1,642	939
1986 1st Qtr	1,833	644	822	4	13,858	1,755	1,027
2nd Qtr	1,781	788	859	5	13,959	1,856	989
3rd Qtr	1,852	835	870	4	14,363	1,957	1,006
4th Qtr	1,775	793	916	7	14,728	2,098	1,019
1985 DEC	600		205		13,165	1,642	939
1985 DEC *	556	228	260	1	13,250	1,642	939
1986 JAN	665	212	282	2	13,480	1,701	1,032
FEB	629	195	277	1	13,673	1,727	1,026
MAR	539	237	263	1	13,858	1,755	1,027
APR	650	250	319	1	13,892	1,787	987
MAY	558	262	261	1	13,942	1,810	982
JUN	573	276	279	3	13,959	1,856	989
JUL	612	277	273	1	14,032	1,894	1,026
AUG	606	288	284	1	14,190	1,922	989
SEP	634	270	313	2	14,363	1,957	1,006
OCT	607	265	318	4	14,478	2,013	1,080
NOV	570	241	273	2	14,637	1,944	1,024
DEC	598	287	325	1	14,728	2,098	1,019
1986 JUL-SEP	2687		874		14,363	1,957	1,006
OCT-DEC	2568		923		14,728	2,098	1,019
Percentage increase over previous quarter	-4		6		3	7	1

NOTES: \* Estimate for December 1985 on same basis as figures for January 1986.

(a) From December 1985 including block discounted agreements.

(b) Until December 1985 figures are for consumer credit agreements regulated under the Consumer Credit Act 1974. These comprise non-exempt agreements involving the provision of credit not exceeding £15,000 (£5,000 before 20 May 1985) to individuals.

(c) Until December 1985 figures are for credit agreements not regulated under the Consumer Credit Act 1974, entered into by companies which also enter into regulated credit agreements.

(d) Figures in this column are excluded from amounts outstanding in Table 1.

CIRCULATION LIST

Mr Alan Clark  
Mr Geoffrey Pattie  
Mr Giles Shaw  
Lord Lucas  
Mr Michael Howard  
Mr John Butcher  
Sir Brian Hayes  
Mr Liesner  
Mr Treadgold  
Mr Whiting  
Mr Healey  
Mr Stibbard  
Mr Miner  
Mr Norton  
Miss Marson  
Mr Mattock  
Miss Lea  
Mr Mann  
Mr Parsons

Prime Minister's Office

Chancellor's Office

Sir Terence Burns - Treasury

Mr P Sedgwick - "  
Mr P Allum - "  
Miss M O'Mara - "  
Mr P Hall - "  
Mr G Pike - "

Mr M J Dicks - Bank of England  
Mr J Exeter - " " "

Miss S Carter - CSO  
Mr E Lomas - "  
Mr C Bryant - "  
Mr D Sterling - "  
Mr J Alexander - "



CONFIDENTIAL

FROM: S J DAVIES  
DATE: 12 FEBRUARY 1987

MR CULPIN

*Rx X, Common-Stock  
points clearly to  
32.*

cc : PPS ✓  
Sir Peter Middleton  
Sir Terence Burns  
Mr Odling-Smee  
Mr Sedgwick  
Miss O'Mara  
Mr Pickford

#### GDP GROWTH IN 1986

You may find it helpful to have a note on the publication of figures for 1986 GDP growth.

2. The first estimate for the whole of 1986 will be available on Wednesday 18 February, when the preliminary Q4 GDP(O) estimate is to be published. The latest figures I have seen from the CSO suggest this will show 2.7 growth for 1986 as a whole. This includes a substantial fall in construction output in the fourth quarter, based on very little information. My expectation is that this figure will be revised up on the basis of the later information that will be available when full fourth quarter GDP figures are published three days after the Budget.

3. The latest internal CSO projections for the average estimate of GDP show 2.4 per cent growth in 1986. The CSO are projecting large rises in the expenditure and income measures in the fourth quarter, making good much of the discrepancy between the (O), (E), and (I) measures of GDP that had built up earlier in the year. These projections are still extremely uncertain.

4. The January Internal Treasury forecast showed 3 per cent growth in 1986, based on the movement of the output measure up to the third quarter of 1986. This growth figure was given in the Chancellor's paper for today's Cabinet.

**CONFIDENTIAL**

5. It has still to be decided whether the FSBR will show ~~2½~~ or ~~3~~ per cent for GDP growth in 1986.

SJD

**S J DAVIES**

FROM: G HACCHE  
DATE: 13 February 1987

1. MISS O'MARA
2. CHANCELLOR

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

Since the beginning of the year, unit wage costs have grown 1.3 per cent - certainly an improvement on the rates recorded in 1985 but not Credit Suisse first Boston's zero growth which attracted much press attention.

mem  
13/2

Moana  
Pse + hawk  
Mark:

#### MANUFACTURING PRODUCTIVITY AND UNIT WAGE COSTS

1. Manufacturing productivity saw a further significant increase, of 1 per cent, in 1986Q4, similar to EA's estimate of the current underlying productivity growth rate (Mr Davies' minute of 9 February gave a range of 3½-4 per cent a year). While the increase was about half that seen in 1986Q2 and Q3 (1.7 per cent and 1.9 per cent respectively), the slow down in the rate of productivity growth merely reflects cyclical factors; manufacturing employment ceased to fall in 1986Q4, probably reflecting the strong output growth since 1986Q1.

#### MANUFACTURING PRODUCTIVITY GROWTH (per cent changes)

	CHANGE IN OUTPUT PER HEAD	CHANGE IN EMPLOYMENT	CHANGE IN OUTPUT
1985Q4 - 1986Q1	-0.5	-0.5	-0.1
1986Q1 - 1986Q2	1.7	-0.8	0.9
1986Q2 - 1986Q3	1.9	-0.8	1.1
1986Q3 - 1986Q4	1.0	0.0	1.0

2. Over the year to 1986Q4 manufacturing productivity rose by 4.2 per cent which, together with average earnings growth of just over 8 per cent, implies a rise in manufacturing unit wage costs of 3.7 per cent. This is probably close to underlying unit

wage cost growth (Earnings growth  $7\frac{1}{4}$ -8 per cent; productivity growth  $3\frac{1}{2}$ -4 per cent). In Q4 itself, unit wage costs rose by 1.8 per cent following a fall of 0.5 per cent in Q3 and no change in Q1. The pick up in unit wage cost growth reflects both a slow down in productivity growth and a pick up in actual (rather than underlying) earnings growth due to factors such as back pay and large bonus payments.

3. The latest international comparisons are shown below:

	MANUFACTURING UNIT WAGE COST				
	(year on year per cent changes)				
	UK	Canada	USA	Japan	Germany
1985	5	2	2	2	0
1986Q1	8	1	1	4	3
1986Q2	7	1	2	5	3
1986Q3	4	NA	0	4	5
1986Q4	4	NA	NA	NA	NA

*Gwyn Hacche*

GWYN HACCHE

CONFIDENTIAL

*rip*



FROM: CATHY RYDING

DATE: 16 February 1987

MRS J DAVIES

cc Sir P Middleton  
Sir T Burns  
Mr Odling-Smee  
Mr Sedgwick  
Mr Culpin  
Miss O'Mara  
Mr Pickford

**GDP GROWTH IN 1986**

The Chancellor has seen your minute to Mr Culpin of 12 February.

2. The Chancellor has commented that on your paragraph 5, commonsense points clearly to GDP growth of 3 per cent in 1986.

*CR*

CATHY RYDING

*Handwritten initials*

To:

cc Mr Liesner  
Mr Ward

PS/PRIME MINISTER  
PS/SECRETARY OF STATE  
PS/MINISTERS OF STATE  
PS/PARLIAMENTARY UNDER SECRETARY OF STATE  
PS/PERMANENT SECRETARY

From:

B MITCHELL  
Deputy Director  
BSO  
Newport  
GTN 2411 2252

*Handwritten red checkmark*

17 February 1987

**CAPITAL EXPENDITURE PRESS NOTICE**

A press notice giving provisional figures for the fourth quarter of 1986 is attached for information. The notice will be published at 11.30 am on Thursday 19 February. As usual, the contents should be treated as confidential until then.

*Handwritten signature of B Mitchell*

B MITCHELL

# DTI Press Notice

Department of Trade and Industry

1 Victoria Street SW1H 0ET

Press Office:

Out of hours: 01-215 7877

**CONFIDENTIAL**  
**UNTIL 11.30 HOURS**  
**ON DAY OF RELEASE**

## CAPITAL EXPENDITURE IN THE FOURTH QUARTER OF 1986: PROVISIONAL ESTIMATES

The provisional estimate of capital expenditure by the manufacturing, construction, distribution and financial industries\* in the fourth quarter of 1986 is £4575 million, at 1980 prices seasonally adjusted; over one per cent lower than in the preceding quarter, and almost 4 per cent lower than in the fourth quarter of 1985.

Expenditure in 1986 as a whole was over 2 per cent lower than in 1985 which was the highest level recorded.

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

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

£ million at 1980 prices, seasonally adjusted

	Manufacturing industries** (including leased assets $\emptyset$ )	Construction, distribution and financial industries*** (excluding assets leased to manufacturers)	Total
1982	5600	9329	14929
1983	5557	9781	15338
1984	6593	11187	17780
1985	6963	12333	19296
1986	6648 (35%)	12186 (65%)	18834
1983 Q1	1314	2420	3734
Q2	1368	2401	3769
Q3	1393	2395	3788
Q4	1482	2565	4047
1984 Q1	1537	2598	4135
Q2	1628	2844	4472
Q3	1711	2881	4592
Q4	1717	2863	4580
1985 Q1	1858	3385	5243
Q2	1666	2845	4511
Q3	1708	3082	4790
Q4	1731	3020	4751
1986 Q1	1781	3109	4890
Q2	1682	3052	4734
Q3	1630	3006	4636
Q4 (p)	1555	3020	4575

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

\*\* Divisions 2, 3 and 4

\*\*\* Divisions 5, 6 and 8

$\emptyset$  Assets leased from owners in the financial industries.

p Provisional

The effect of leasing on manufacturing investment is described in Note 1.

## MANUFACTURING INDUSTRIES (REVISED DEFINITION)

The provisional estimate of manufacturers' direct expenditure in the fourth quarter of 1986 is £1444 million, at 1980 prices seasonally adjusted. In addition, it is important to take account of the leasing of assets to manufacturers from the financial industries. This is taken to amount to £111 million in the fourth quarter, at 1980 prices seasonally adjusted, giving a total investment in the manufacturing industries of £1555 million; just over  $4\frac{1}{2}$  per cent lower than in the previous quarter and over 10 per cent lower than in the fourth quarter of 1985.

The volume of investment (including leased assets) in 1986 as a whole was  $4\frac{1}{2}$  per cent lower than in 1985. On the same annual basis of comparison, expenditure (including leasing) on individual assets increased by over  $\frac{1}{2}$  per cent for new building work, but decreased by over 5 per cent for plant and machinery, and by  $6\frac{1}{2}$  per cent for vehicles.

## CONSTRUCTION, DISTRIBUTION AND FINANCIAL INDUSTRIES

The provisional estimate of investment by these industries (excluding leasing to manufacturers) in the fourth quarter of 1986 is £3020 million, at 1980 prices seasonally adjusted;  $\frac{1}{2}$  per cent higher than in the preceding quarter, and the same as in the fourth quarter of 1985.

The volume of investment (excluding leasing to manufacturers) in 1986 as a whole was more than 1 per cent lower than in 1985. On the same basis, expenditure (excluding leasing to manufacturers) on individual assets rose by  $2\frac{1}{2}$  per cent for new building work, but fell by almost  $\frac{1}{2}$  per cent for plant and machinery, and by almost  $9\frac{1}{2}$  per cent for vehicles.



## TOTAL INVESTMENT Ø

Capital expenditure estimates for Division 0 (Agriculture, Forestry and Fishing), certain industries in Division 1 (Energy and Water Supply), Division 7 (Transport and Communication) and Division 9 (Other Miscellaneous Services) for the fourth quarter of 1986 are not yet available. Consequently, the analysis of investment in this section is confined to trends up to and including the third quarter of 1986.

In the third quarter of 1986, total capital expenditure in Divisions 0 to 9 was £8725 million, at 1980 prices seasonally adjusted; almost  $1\frac{1}{2}$  per cent higher than in the previous quarter, but  $1\frac{1}{2}$  per cent lower than expenditure in the same quarter a year ago. In the last twelve months expenditure was over  $1\frac{1}{2}$  per cent lower than expenditure in the preceding twelve months.

Expenditure in Division 0 in the third quarter of 1986 was £165 million, at 1980 prices seasonally adjusted; almost 16 per cent lower than in the previous quarter and almost  $18\frac{1}{2}$  per cent lower than in the same quarter a year ago. In the last twelve months expenditure in Division 0 was  $15\frac{1}{2}$  per cent below expenditure in the preceding twelve months.

Expenditure in Division 1 in the third quarter of 1986 was £1298 million, at 1980 prices seasonally adjusted; over 11 per cent higher than in the previous quarter, but over 5 per cent lower than in the same quarter a year ago. In the last twelve months expenditure in Division 1 was more than  $5\frac{1}{2}$  per cent below expenditure in the preceding twelve months.

Expenditure in Division 7 in the third quarter of 1986 was £1013 million, at 1980 prices seasonally adjusted;  $14\frac{1}{2}$  per cent higher than in the previous quarter and over 9 per cent higher than in the same quarter a year ago. In the last twelve months expenditure in Division 7 was almost  $9\frac{1}{2}$  per cent below expenditure in the preceding twelve months.

Expenditure in Division 9 in the third quarter of 1986 was £1614 million, at 1980 prices seasonally adjusted; almost 1 per cent lower than in the previous quarter but over  $2\frac{1}{2}$  per cent higher than in the same quarter a year ago. In the last twelve months expenditure in Division 9 was  $5\frac{1}{2}$  per cent higher than expenditure in the preceding twelve months.

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

NOTES

1. EFFECT OF LEASING ON MANUFACTURING INVESTMENT

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

INVESTMENT BY MANUFACTURING INDUSTRIES (REVISED DEFINITION)

£ million at 1980 prices

	Capital Expenditure	Estimated Volume of assets leased from financial industries	Total Expenditure
1976	6470	370	6840
1977	6773	479	7252
1978	7220	685	7905
1979	7496	734	8230
1980	6479	835	7314
1981	4865	832	5697
1982	4704	896	5600
1983	4779	778	5557
1984	5756	837	6593
1985	5851	1112	6963
1986	5864	784	6648

2. An industrial analysis of leased assets is not available.

### 3. ASSET COVERAGE OF THE CAPITAL EXPENDITURE ESTIMATES

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

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

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

5. These estimates of capital expenditure in the fourth quarter of 1986, together with current price data will be published in British business on 27 February 1987. More detailed estimates for the fourth quarter will be published in British business on 27 March 1987.

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

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

Analysis by ownership												Analysis by type of asset			
	Total	Agriculture forestry and fishing	Energy and water supply	Mineral extraction metal, mine-ral and chemical industries	Metal goods engineer-ing and vehicles industries	Other manufac-turing industries	Construct-ion	Distribut-ion etc	Transport and communica-tion	Financial and business services etc	Other services	New building work	Vehicles	Plant and machin-ery	
Divisions	0-9	0	1	2	3	4	5	6	7	8	9	----- 0-9 -----			
Period															
1979	32,866	1,144	5,559	2,221	2,758	2,517	670	3,594	4,141	5,162	5,101	12,428	5,449	14,990	
1980	31,440	1,019	5,679	1,869	2,380	2,230	467	3,236	3,907	5,685	4,968	11,883	4,582	14,974	
1981	28,888	881	5,967	1,346	1,807	1,713	411	2,969	3,071	6,110	4,614	11,431	3,620	13,837	
1982	30,176	1,049	6,086	1,240	1,707	1,758	464	3,177	2,823	6,585	5,288	12,377	3,693	14,105	
1983	31,140	1,145	6,004	1,269	1,749	1,761	503	3,282	3,121	6,775	5,531	12,543	3,701	14,895	
1984	34,364	1,075	5,738	1,481	2,112	2,163	520	3,782	3,621	7,722	6,150	13,882	4,342	16,141	
1985	35,608	787	5,321	1,664	2,076	2,111	569	4,109	3,883	8,767	6,321	13,539	4,693	17,376	
1986	p N/A	N/A	N/A	1,631	2,065	2,169	556	4,165	N/A	8,249	N/A	N/A	N/A	N/A	
1982	Q1	7,296	260	1,491	312	426	427	128	769	637	1,618	1,227	3,002	867	3,427
	Q2	7,447	268	1,502	298	436	439	98	787	678	1,617	1,324	3,003	875	3,569
	Q3	7,760	256	1,592	313	428	446	114	795	783	1,692	1,343	3,173	1,017	3,570
	Q4	7,674	265	1,502	318	418	446	123	826	725	1,658	1,394	3,199	935	3,540
1983	Q1	7,686	280	1,589	320	395	402	105	793	720	1,719	1,363	3,118	825	3,744
	Q2	7,605	283	1,474	305	434	425	143	805	750	1,657	1,329	3,007	954	3,643
	Q3	7,708	278	1,458	323	441	443	124	804	787	1,653	1,397	3,108	906	3,694
	Q4	8,141	304	1,483	320	479	491	131	879	865	1,747	1,441	3,309	1,016	3,815
1984	Q1	8,294	292	1,459	344	499	537	119	906	826	1,730	1,581	3,420	1,063	3,811
	Q2	8,546	281	1,476	376	518	533	134	920	835	1,990	1,484	3,542	972	4,033
	Q3	8,740	258	1,410	372	541	538	136	981	951	2,024	1,528	3,453	1,122	4,164
	Q4	8,784	244	1,393	388	554	556	131	974	1,009	1,977	1,558	3,467	1,184	4,133
1985	Q1	9,560	210	1,366	398	564	530	154	1,027	1,188	2,570	1,552	3,376	1,468	4,716
	Q2	8,479	209	1,288	399	496	530	136	1,006	917	1,944	1,555	3,369	1,109	4,001
	Q3	8,862	202	1,369	425	492	536	142	1,051	928	2,145	1,573	3,418	1,092	4,352
	Q4	8,707	166	1,298	442	525	514	137	1,025	851	2,108	1,641	3,376	1,024	4,307
1986	Q1	9,061	204	1,345	407	550	528	153	998	920	2,254	1,702	3,603	1,007	4,452
	Q2	8,607	196	1,167	408	520	533	134	1,066	884	2,073	1,626	3,266	1,081	4,260
	Q3	8,725	165	1,298	404	504	566	134	1,046	1,013	1,982	1,614	3,385	1,039	4,301
	Q4p	N/A	N/A	N/A	412	491	541	135	1,055	N/A	1,940	N/A	N/A	N/A	N/A

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

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

N/A - not available

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

Analysis by ownership								Analysis by user			
Divisions	Total for Divisions 1-8	Production and construction industries 1-5	Manufacturing industries (revised definition) 2-4	Distribution and financial services, transport etc. 6-8	Analysis by type of asset Divisions 1-8			Assets leased to manufac-turers	Divisions 2-4 (Manufacturing) including assets leased to manufacturers	Divisions 5,6 and 8 excluding assets leased to manufacturers	Divisions 5,6,7 and 8 excluding assets leased to manufacturers
					New building work	Vehicles	Plant and machinery				
Period	1-8	1-5	2-4	6-8							
1979	26,621	13,725	7,496	12,896	8,068	5,021	13,532	734	8,230	8,691	12,832
1980	25,453	12,625	6,479	12,828	7,698	4,202	13,553	835	7,314	8,553	12,460
1981	23,393	11,242	4,865	12,150	7,587	3,263	12,542	832	5,697	8,658	11,729
1982	23,839	11,254	4,704	12,584	7,864	3,294	12,680	896	5,600	9,329	12,152
1983	24,463	11,286	4,779	13,178	7,929	3,299	13,236	778	5,557	9,781	12,903
1984	27,139	12,014	5,756	15,125	8,626	3,960	14,553	837	6,593	11,187	14,808
1985	28,499	11,741	5,851	16,758	8,386	4,322	15,791	1,112	6,963	12,333	16,216
1986	p N/A	N/A	5,864	N/A	N/A	N/A	N/A	784	6,648	12,186	N/A
1982 Q1	5,808	2,784	1,164	3,024	1,934	773	3,101	185	1,349	2,331	2,968
Q2	5,855	2,773	1,173	3,082	1,860	785	3,210	234	1,407	2,268	2,946
Q3	6,161	2,892	1,186	3,269	2,037	916	3,209	247	1,432	2,354	3,137
Q4	6,015	2,806	1,181	3,209	2,034	821	3,160	230	1,412	2,377	3,102
1983 Q1	6,043	2,811	1,117	3,232	2,031	718	3,295	196	1,314	2,420	3,140
Q2	5,993	2,781	1,165	3,211	1,908	848	3,237	203	1,368	2,401	3,151
Q3	6,033	2,789	1,207	3,243	1,919	818	3,295	186	1,393	2,395	3,182
Q4	6,395	2,904	1,290	3,491	2,071	915	3,409	192	1,482	2,565	3,430
1984 Q1	6,421	2,958	1,380	3,463	2,052	960	3,410	158	1,537	2,598	3,425
Q2	6,782	3,037	1,428	3,745	2,255	867	3,659	200	1,628	2,844	3,678
Q3	6,954	2,997	1,451	3,957	2,154	1,037	3,762	260	1,711	2,881	3,832
Q4	6,982	3,021	1,497	3,961	2,165	1,095	3,722	219	1,717	2,863	3,872
1985 Q1	7,798	3,012	1,492	4,786	2,110	1,369	4,319	366	1,858	3,385	4,573
Q2	6,715	2,849	1,426	3,866	2,104	1,002	3,609	240	1,666	2,845	3,762
Q3	7,087	2,964	1,453	4,123	2,118	1,017	3,952	255	1,708	3,082	4,010
Q4	6,899	2,916	1,481	3,984	2,054	934	3,912	250	1,731	3,020	3,871
1986 Q1	7,155	2,982	1,485	4,172	2,196	918	4,040	296	1,781	3,109	4,029
Q2	6,785	2,761	1,461	4,023	1,969	991	3,826	221	1,682	3,052	3,936
Q3	6,946	2,906	1,475	4,040	2,112	955	3,880	155	1,630	3,006	4,019
Q4	p N/A	N/A	1,444	N/A	N/A	N/A	N/A	111	1,555	3,020	N/A

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

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

N/A - not available

FROM: P F L ALLUM  
DATE: 17 February 1987

1. MR S N DAVIES *egs*  
2. CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Monck  
Mr Burgner  
Mr Scholar  
Mr P N Sedgwick  
Mr Culpin  
Mr S Davies  
Mr Gray  
Miss O'Mara  
Mr Pickford  
Mr Hacche  
Mr Hudson  
Mr Pickering  
Mr Dyer (+1 for No. 10)  
Mr Cropper  
Mr Ross Goobey  
Mr Tyrie  
Mr Stirling - CS01  
Mr Clary - CS0  
Mr Lang - CS0

**GDP (OUTPUT MEASURE) IN FOURTH QUARTER 1986**

The CSO will publish the preliminary estimate for GDP(O) on 18 February.

**Fourth Quarter Figures**

2. GDP(O) is estimated to have remained broadly unchanged between the third and fourth quarters of 1986, following an increase of 1½ per cent between the second and third quarters. GDP(O) is estimated to have increased by just over 2½ per cent in the year to 1986Q4.

3. GDP(O) excluding oil and gas extraction rose by ½ per cent between third and fourth quarters of 1986 and by just under 3 per cent in the year to 1986Q4.

4. The contribution of changes in the individual components of GDP(O) are tabled below:

<u>Industry</u>	Contribution to percentage change in GDP(O)
	1986Q4 on 1986Q3
1. Agriculture, forestry and fishing	0.0
2. Construction	-0.2**
3. Services	0.6
4. Industrial Production of which:	-0.4
- oil and gas extraction	-0.6
- other energy and water supply	-0.1
- manufacturing	0.3
5. GDP(O)*	0.0

\* Sum of rows 1-4

\*\* Not for use

5. The unchanged level of output in Q4 reflected growth in manufacturing and services output - up around 1 per cent and 3/4 per cent respectively - offset by a 5½ per cent fall in energy production as oil and gas extraction was depressed by a pipeline leak and maintenance shutdowns.

6. GDP has grown by over 11½ per cent since 1979H1 and by over 16½ per cent since the 1981 H1 trough.

7. The expenditure, income and output measures of GDP can move differently from each other between quarters. The output measure, generally regarded as the best indicator of short run movements in growth, shows sustained growth since the first quarter of 1986 after allowing for erratic movements in oil and gas extraction. By contrast the expenditure and income estimates currently show little change between the first and third quarters of 1986. GDP(O), measured both in total and excluding oil and gas extraction grew by almost 2 3/4 per cent between 1985 and 1986. There is not yet sufficient information on the expenditure and income components of GDP in the fourth quarter of 1986 to

judge whether the provisional estimate of the average measure, published next month, will show growth of 2 or 2½ per cent between 1985 and 1986.

Line to take

8. Positive

(a) Non-oil GDP(O) up about ½ per cent between third and fourth quarters of 1986, and by almost 3 per cent in the year to 1986Q4.

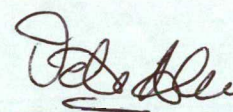
(b) Continued growth in manufacturing output. Up 1 per cent between Q3 and Q4, and up nearly 3 per cent since beginning of year to reach highest level since 1980Q1.

(c) GDP(O) up over 16½ per cent since trough in 1981Q1 and nearly 12 per cent since June 1983 election. Now in sixth successive year of growth at real average rate of nearly 3 per cent a year - longest period of growth since 1973 oil price rise.

(d) Service sector output in 1986Q4 around 3 ¾ per cent above its level a year earlier.

9. Defensive

(a) No growth in GDP(O) between Q3 and Q4. Largely reflects erratic fall in oil and gas extraction. Non-oil output up ½ per cent between Q3 and Q4, and up almost 3 per cent in Q4 on year earlier. Pause in manufacturing output now over with 1 per cent rise between Q3 and Q4 and 3 per cent rise this year. Service sector output up around ¾ per cent between Q3 and Q4 and up 3 ¾ per cent in year to 1986Q4.



P F L ALLUM



*purp*

FROM: A C S ALLAN

DATE: 18 February 1987

SIR T BURNS

cc Sir P Middleton or

**GDP FIGURES**

The Chancellor has seen Mr Allum's minute of 17 February on the GDP(O) figures for Q4 1986. He was disturbed by the comment that it is still too early to judge whether the CSO's provisional estimate of GDP(A) will show growth of 2 or 2½ per cent between 1985 and 1986.

2. You had earlier told him that you were discussing with Mr Hibbert the whole issue of what GDP figures the CSO would publish, and whether we would choose (in the FSBR) to use the CSO figures or to go our own way - in effect anticipating the CSO's subsequent revisions. The Chancellor feels it would be absurd for us to show GDP growth of only 2 per cent, when nothing else in the economy seems consistent with that. He feels it would be much better to have a steady row of 3 per cents. If the CSO stuck at 2 per cent and we had to go our own way, there seems a strong case for trying to get them to say in a footnote that they suspect there may be under-recording.

3. You told me these points would be covered in the note on the Industry Act Forecast, to be circulated next week.

*ACSA*

A C S ALLAN

CONFIDENTIAL



FROM: CATHY RYDING  
DATE: 19 February 1987

MR NAISBITT

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir P Middleton  
Sir T Burns  
Mr Monck  
Mr Scholar  
Mr Sedgwick  
Mr Gieve  
Mr Culpin  
Mr S Davies  
Miss O'Mara  
Mr Pickford  
Mr Hacche  
Mr Dyer  
Mr Cropper  
Mr Ross Goobey  
Mr Tyrie

**CAPITAL EXPENDITURE IN MANUFACTURING AND SERVICE INDUSTRIES -  
FOURTH QUARTER 1986**

The Chancellor was grateful for your minute of 18 February.

*The Chancellor*

2. He has commented that this is a very suspect series. He was puzzled by the comment in your paragraph 5 that these investment figures taken together with figures for stockbuilding, and with ~~provisional G4 figures for consumers' expenditure and trade~~, point to a large rise in the expenditure estimate of GDP in the fourth quarter. He would be grateful for an explanation.

CATHY RYDING

Reference

RD

To:

SECRETARY OF STATE

(Circulation list attached)

From:

PETER RICHARDSON  
S2C  
Room 242  
Sanctuary Buildings  
215 6265

✓

6 March 1987

**CREDIT BUSINESS IN JANUARY**

A Press Notice giving details of credit business in January 1987 is attached for information. This will be issued at 11.30 am on Monday, March 9. As usual, the contents should be treated as confidential until then.

*P H Richardson*  
P H RICHARDSON

# DTI Press Notice

CONFIDENTIAL  
UNTIL 11.30 HOURS  
ON DAY OF RELEASE

Department of Trade and Industry

1 Victoria Street SW1H 0ET

Press Office: 01-215 4471/4475

No: 87/142

Out of hours: 01-215 7877

9 March 1987

## CREDIT BUSINESS IN JANUARY

During January £2.7 billion of new credit was advanced by finance houses, other specialist credit grantors, retailers and on bank credit cards. This was slightly less than the amount advanced in December but advances remain close to the average monthly level for the fourth quarter of 1986.

Total advances in the latest three months, November to January, were 3 per cent lower than in the previous three months. Lending by finance houses and other specialist credit grantors decreased by 6 per cent between the two periods. Within this total, lending to consumers decreased by 6 per cent and lending to businesses decreased by 5 per cent. Advances on bank credit cards increased by 1 per cent between the two periods. Retailers advanced 3 per cent less in the latest three months than in the previous three months.

There was an increase of £0.3 billion in amounts outstanding to finance houses, other specialist credit grantors, retailers and on bank credit cards between end-December and end-January. The total amount outstanding at end-January was £24.1 billion, 3 per cent more than the total three months earlier.

## Notes to Editors

1 All figures are quoted after seasonal adjustment.

2 Table 1 covers the credit business of finance houses, other specialist credit grantors, retailers and on bank credit cards. Table 2 covers the business of finance houses and other specialist credit grantors only, but provides an analysis of new credit advanced to consumers and businesses. The credit advances shown in Table 1 for retailers and bank credit cards are mainly to consumers. A high proportion of credit advanced in certain types of agreement, notably on bank credit cards and by mail order houses, is repaid within a month, reflecting the use of such agreements as a method of payment rather than as a means of obtaining credit.

3 From January 1986 the statistics include new credit advances by finance houses and other specialist credit grantors on running account agreements on which information was not collected previously. Lending on bank credit cards is also included for the first time in the January 1986 statistics. Lending by banks, other than on bank credit cards, and by companies where the group specialises in lending to other companies only are excluded from the statistics in this Press Notice.

4 Charges for credit and deposits or downpayments are excluded from the figures of new credit advanced which thus represent the amount of credit advanced during the period. Figures for retailers are estimated from the value of their self-financed credit sales, which include both charges and deposits. The figures for retailers' credit sales include sales on budget and other running-account agreements and exclude credit sales financed by banks, finance houses, and other specialist credit grantors.

5 Amounts outstanding are the amounts owed, excluding unearned charges, on credit agreements of all types at the end of the period, irrespective of the period in which credit was advanced. Unearned credit charges are those charges, mainly interest, included at the outset of a fixed-sum credit agreement on the assumption that the agreement lasts its full term.

6 Further definitions are given at the foot of the tables accompanying this Press Notice.

7 Full results of the inquiries which collect the monthly information on credit are published by HM Stationery Office in Business Monitor SDM6 - Credit Business of finance houses and other specialist credit grantors - and in Business Monitor SDM8 - Credit business of retailers. Both may be obtained on subscription (£17.50 each title per annum) from HM Stationery Office PO Box 569, London SE1 9NH. Individual copies are available, price £3.20 each from:

The Library, Business Statistics Office, Government Buildings, Cardiff Road, Newport, GWENT. Telephone: Newport (0633) 222973.

8 Non-press calls to 01-215 6400.

TABLE 1

TOTAL CREDIT BUSINESS OF FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS,  
RETAILERS AND ON BANK CREDIT CARDS (SEASONALLY ADJUSTED)

£ Million

	NEW CREDIT ADVANCED					TOTAL AMOUNT OUTSTANDING (a)	
	TOTAL (c)	FINANCE HOUSES AND OTHER SPECIALIST CREDIT GRANTORS (b)		BANK CREDIT CARDS	RETAILERS (e)	CHANGE	AMOUNT AT END OF PERIOD
		FIXED SUM (d)	RUNNING ACCOUNT				
1983	10,524	6,840			3,684	2,246R	12,199R
1984	11,507	7,662			3,845	2,159	14,358R
1985	12,996R	8,727			4,269R	2,586R	16,944R
1986	31,515R	10,720R	3,045R	12,916	4,834	2,952R	23,772R
1985 1st Qtr	3,103R	2,068			1,035R	586R	14,944R
2nd Qtr	3,083R	2,030			1,053R	533R	15,477R
3rd Qtr	3,374	2,293			1,081	745R	16,222R
4th Qtr	3,436	2,336			1,100	722R	16,944R
1986 1st Qtr	7,375	2,655	648	2,926	1,146	980	21,800
2nd Qtr	7,739	2,640	793	3,115	1,191	418	22,218
3rd Qtr	8,223	2,722	839	3,395	1,267	968	23,186
4th Qtr	8,178R	2,703R	765R	3,480	1,230	586R	23,772R
1986 JAN	2,540	947	214	996	383	353	21,173
FEB	2,463	906	196	976	385	302	21,475
MAR	2,372	802	238	954	378	325	21,800
APR	2,717	969	251	1,093	404	120	21,920
MAY	2,409	819	263	942	385	117	22,037
JUN	2,613	852	279	1,080	402	181	22,218
JUL	2,685	885	278	1,107	415	219	22,437
AUG	2,668	890	289	1,068	421	302	22,739
SEP	2,870	947	272	1,220	431	447	23,186
OCT	2,759	925	269	1,152	413	247R	23,433R
NOV	2,635	843	243	1,129	420	18R	23,451R
DEC	2,784R	935R	253R	1,199	397	321R	23,772R
1987 JAN	2,664	875	231	1,147	411	300	24,072
1986 AUG-OCT	8,297	3,592		3,440	1,265	996R	23,433R
1987 NOV-JAN	8,083	3,380		3,475	1,228	639	24,072
Percentage increase over previous quarter	-3	-6		1	-3	-36	3

---- indicates a break in the series

R = revised

- NOTES
- (a) Until December 1985 excluding amounts outstanding on Bank Credit Cards and block discounted agreements.
  - (b) See Table 2 for an analysis into agreements with consumers and agreements with businesses.
  - (c) Until December 1985 includes only direct fixed-sum business of Finance Houses and other specialist Credit Grantors and advances by Retailers.
  - (d) From January 1986 including new credit on block discounted agreements.
  - (e) Self-financed credit advanced by clothing retailers, household goods retailers, mixed retail businesses (other than Co-operative Societies) and general mail-order houses only.

TABLE 2  
TOTAL CREDIT BUSINESS OF FINANCE HOUSES AND OTHER  
SPECIALIST CREDIT GRANTORS (SEASONALLY ADJUSTED)

£ Million

	NEW CREDIT ADVANCED				TOTAL AMOUNTS OUTSTANDING			
	AGREEMENTS WITH CONSUMERS (b)		AGREEMENTS WITH BUSINESSES (c)		FIXED SUM AGREEMENTS (a)	RUNNING ACCOUNT AGREEMENTS	DEALER STOCK FUNDING LOANS (d)	
	FIXED SUM CREDIT	RUNNING ACCOUNT CREDIT	FIXED SUM CREDIT (a)	RUNNING ACCOUNT CREDIT				
1983	4,470		2,370		9,378	995	652	
1984	5,092		2,570		11,183	1,233	789	
1985	6,168		2,559		13,165	1,642	939	
1986	7,251R	3,025R	3,469R	20	14,778	2,082	1,019	
1985 1st Qtr	1,381		687		11,680	1,290	853	
2nd Qtr	1,401		629		12,074	1,403	908	
3rd Qtr	1,661		632		12,660	1,503	971	
4th Qtr	1,725		611		13,165	1,642	939	
1986 1st Qtr	1,833	644	822	4	13,858	1,755	1,027	
2nd Qtr	1,781	788	859	5	13,959	1,856	989	
3rd Qtr	1,852	835	870	4	14,363	1,957	1,006	
4th Qtr	1,785R	758R	918R	7	14,778	2,082	1,019	
1986 JAN	665	212	282	2	13,480	1,701	1,032	
FEB	629	195	277	1	13,673	1,727	1,026	
MAR	539	237	263	1	13,858	1,755	1,027	
APR	650	250	319	1	13,892	1,787	987	
MAY	558	262	261	1	13,942	1,810	982	
JUN	573	276	279	3	13,959	1,856	989	
JUL	612	277	273	1	14,032	1,894	1,026	
AUG	606	288	284	1	14,190	1,922	989	
SEP	634	270	313	2	14,363	1,957	1,006	
OCT	607	265	318	4	14,549R	2,013	1,080	
NOV	570	241	273	2	14,637	2,044R	1,024	
DEC	608R	252R	327R	1	14,778R	2,082R	1,019	
1987 JAN	605	230	270	1	15,021	2,116	932	
1986 AUG-OCT	2,670		922		14,549R	2,013	1,080	
1987 NOV-JAN	2,506		874		15,021	2,116	932	
Percentage increase over previous quarter		-6		-5		3	5	-14

---- indicates a break in the series

R = revised

- NOTES:
- (a) From January 1986 including block discounted agreements.
  - (b) Until December 1985 figures are for consumer credit agreements regulated under the Consumer Credit Act 1974. These comprise non-exempt agreements involving the provision of credit not exceeding £15,000 (£5,000 before 20 May 1985) to individuals.
  - (c) Until December 1985 figures are for credit agreements not regulated under the Consumer Credit Act 1974, entered into by companies which also enter into regulated credit agreements.
  - (d) Figures in this column are excluded from amounts outstanding in Table 1.

CIRCULATION LIST

Mr Alan Clark  
Mr Geoffrey Pattie  
Mr Giles Shaw  
Lord Lucas  
Mr Michael Howard  
Mr John Butcher  
Sir Brian Hayes  
Mr Liesner  
Mr Treadgold  
Mr Whiting  
Mr Healey  
Mr Stibbard  
Mr Miner  
Mr Norton  
Miss Marson  
Mr Mattock  
Miss Lea  
Mr Mann  
Mr Parsons

Prime Minister's Office

Chancellor's Office

Sir Terence Burns - Treasury  
Mr P Sedgwick - "  
Mr P Allum - "  
Miss M O'Mara - "  
Mr P Hall - "  
Mr G Pike - "

Mr M J Dicks - Bank of England  
Mr J Exeter - " " "

Miss S Carter - CSO  
Mr E Lomas - "  
Mr C Bryant - "  
Mr D Sterling - "  
Mr J Alexander - "





## Summary Table

£ million

			1986		1987		
	1986	1987	Q4	Q1	Q2	Q3	Q4
Visible balance	-8463	-9625	-2560	-1210	-2317	-3109	-2989
Invisibles	8509	7946	2003	2010	2017	2213	1706
- Services	5609	5708	1470	1389	1390	1564	1365
- IPD†	5057	5676	1368	1480	1376	1584	1236
- Transfers	-2157	-3438	-835	-859	-749	-935	-895
Current Account	46	-1679	-557	800	-300	-896	-1283
Net transactions in external assets and liabilities*	-12585	733	-5447	2585	586	-4450	2012
Balancing item*	12539	946	5096	-3046	86	5467	-1561

† Interest, profit and dividends

\* Not seasonally adjusted

Services (Table C)

4. The surplus on services in 1987 is now estimated to have been £5.7 billion - little changed from the revised surplus of £5.6 billion for 1986. Insurance companies' underwriting earnings have been revised upwards by about £0.7 billion a year following discovery of a reporting error for 1985 by the Association of British Insurers which led to further errors in the 1986 and 1987 estimates. The flat picture for the services surplus between 1986 and 1987 masks a sharp improvement in earnings from financial services which more than offset widening deficits on travel and civil aviation and general government services. In the fourth quarter, however, net financial earnings declined as Lloyds' earnings fell back from the abnormally high third quarter level, and the services surplus as a whole returned to the lower levels of the first half of 1987.

Interest profits and dividends (IPD) (Table D)

5. The IPD surplus is now estimated to have risen to £5.7 billion in 1987, compared to £5.1 billion in 1986. These figures include upward revisions to past estimates to take account in particular of lower payments abroad by UK subsidiaries of foreign banks and other companies as well as increased earnings by UK residents from bank deposits held abroad, especially in Swiss trustee accounts which are covered for the first time. The rise in the IPD surplus in 1987

stemmed mainly from higher net earnings from direct investment which more than offset a reduction in net portfolio earnings and a widening in the deficit on UK banks' net interest payments abroad. In the fourth quarter, the IPD surplus fell back partly as a result of higher payments abroad by UK oil companies and partly as a result of lower earnings from direct and portfolio investment abroad, the sterling value of which was reduced by the pound's appreciation particularly against the dollar.

### Transfers

6. The transfers balance was broadly unchanged in the fourth quarter, although the deficit with the EC fell by £0.1 billion from its high level in the third quarter. In 1987 as a whole, however, the transfers deficit increased by £1.2 billion reflecting almost entirely an increase in net transfers to the EC from their abnormally low level in 1986.

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

#### Net capital transactions

	£ million						
	1986	1987	1986 Q4	1987 Q1	Q2	Q3	Q4
Direct investment	-7391	-11719	-4377	-1005	-4521	-4727	-1466
Portfolio investment	-15153	+20569	-1840	+1208	+2673	+4309	+12379
Banks' net foreign currency lending abroad	+10460	-759	+959	+3193	+4157	-3941	-4168
Banks' net sterling lending abroad	-350	+3879	+11	+1198	+1357	+218	+1106
Other	+2739	+775	-509	-486	+1389	-39	-89
Official reserves	-2891	-12012	+306	-1523	-4469	-269	-5751
Total	-12585	+733	-5447	+2585	+586	-4450	+2012

7. Recorded net capital inflows in the fourth quarter were £2 billion which more than offset the current deficit to leave a negative balancing item. Direct investment abroad by UK companies was slightly lower than previous quarters but remained at a high level and included Ladbroke's take-over of Hilton hotels. This was offset only partly by direct investment inflows into the UK which included Hong Kong and Shanghai Bank's investment in Midland and the National

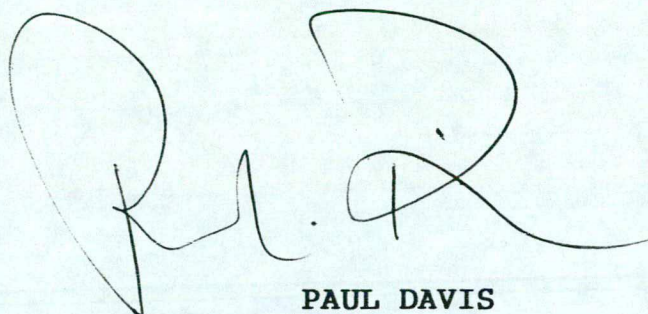
Australia Bank's investment in Clydesdale and Northern. UK financial institutions repatriated substantial funds and non-residents continued to invest in UK securities including the BP and Eurotunnel new issues so that these net portfolio inflows were strongly positive and more than enough to finance the current deficit and net direct outflows. There was an inflow of almost £6 billion to the reserves.

8. The experience of 1987 as a whole was broadly similar to that for the fourth quarter with net direct investment outflows more than offset by net portfolio inflows. The inflow to the reserves for the year was £12 billion, and the balancing item was less than £1 billion compared to more than £12 billion in 1986.

Assessment

9. The revisions to past figures mean that the estimated invisibles surplus for 1987 at £8 billion is rather higher than the £7½ billion forecast in the Autumn Statement - but still lower than the £8½ billion forecast in last year's FSBR. The fourth quarter surplus at £1.7 billion is of course still subject to revision but is not wholly encouraging. The underlying services surplus remains broadly flat, as does the deficit on transfers. The smaller surplus on IPD suggest that sterling's appreciation combined with only modest growth abroad are restricting UK earnings on overseas assets. Buoyant UK profits and relatively high domestic interest rates seem likely to sustain returns to foreign investors in the UK - although lower oil prices and output could reduce North Sea companies' payments abroad. The CSO will re-assess its monthly projection of the invisibles surplus for the February trade figures press notice to be published on 25 March.

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



PAUL DAVIS  
EA2

Draft Press Briefing for IDT

1. 1987 invisibles surplus of £8 billion shows continuing surplus on services earnings and further rise in income from UK's net overseas assets.

2. Fall in invisibles surplus in 1987Q4 reflects partly a return to more normal earnings from services from the exceptionally high level in the third quarter. Fourth quarter out-turn is close to CSO's monthly projections for October to December.

3. Why did invisibles surplus fall from £8½ billion in 1986 to £8 billion in 1987? A rise in net transfers to the EC from the abnormally low level of 1986 was offset only partly by a rise in income from net overseas assets and an increase in the services surplus.

4. Increased deficits on travel, civil aviation and sea transport in 1987 were more than offset by increased net earnings from financial and other services so that the total services surplus rose.

5. Effects of stock market fall on invisibles <sup>unlikely to be significant.</sup> ~~difficult to judge.~~  
~~Affects both sides of the account, seems likely to have raised rates of return on equity investments at home and abroad.~~ <sup>but not levels of earnings</sup>  
*Main effect is on level of net assets, and not on net earnings.*

6. Effects of exchange rate changes difficult to quantify but dollar's weakness towards the end of 1987 may well have lowered sterling value of UK earnings on dollar investments.

7. Why such large upward revisions to invisibles surplus in first three quarters of 1987? Revisions to first three quarters' estimate reflects new information, especially on insurance and other financial services.

8. Further revisions to recent quarters' estimates possible as new information becomes available.

9. CSO estimates of invisibles unreliable. Estimates based on latest information available, new information coming in all the time. Always state that most recent quarter provisional.
10. Projection of invisibles balance in first quarter of 1988 will be published in current account press notice for February on 25 March.
11. Positive balancing item of £0.9 billion in 1987 reflects unrecorded current account credits or unrecorded capital inflows, compared to positive balancing item of £12.5 billion in 1986.

To:

cc Mr Liesner  
Mr Ward

PS/PRIME MINISTER  
PS/SECRETARY OF STATE  
PS/MINISTERS OF STATE  
PS/PARLIAMENTARY UNDER SECRETARIES OF STATE  
PS/PERMANENT SECRETARY

From:

B MITCHELL  
Deputy Director  
BSO  
Newport  
GTN 2411 2252

16 March 1987

CAPITAL EXPENDITURE PRESS NOTICE

A press notice giving revised figures for the fourth quarter of 1986 is attached for information. The notice will be published at 11.30 am on Thursday 19 March. As usual, the contents should be treated as confidential until then.

There has been a reduction of almost 1% in the figure for the manufacturing industries (including leased assets) compared with the provisional estimates. On the other hand there has been an increase of over 4% in the estimates for the construction, distribution and financial industries (excluding assets leased to manufacturers), which is mainly accounted for by an upward revision in the figure for finance leasing. The overall effect has been to increase the total estimate by over 2½%.

B MITCHELL

# DTI Press Notice

Department of Trade and Industry  
1 Victoria Street SW1H 0ET  
Press Office:  
Out of hours: 01 215 7877

**CONFIDENTIAL**  
**UNTIL 11.30 HOURS**  
**ON DAY OF RELEASE**

## CAPITAL EXPENDITURE IN THE FOURTH QUARTER OF 1986: REVISED ESTIMATES

The revised estimate of capital expenditure by the manufacturing, construction, distribution and financial industries\* in the fourth quarter of 1986 is £4695 million, at 1980 prices seasonally adjusted; over 1 per cent higher than in the preceding quarter, but almost 3 per cent lower than in the fourth quarter of 1985.

Expenditure by these industries in 1986 as a whole was almost 2 per cent lower than in 1985 which was the highest level recorded.

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

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

£ million at 1980 prices, seasonally adjusted

	Manufacturing industries** (including leased assets $\emptyset$ )	Construction, distribution and financial industries*** (excluding assets leased to manufacturers)	Total
1982	5600	9330	14930
1983	5557	9780	15337
1984	6591	11187	17778
1985	6969	12328	19297
1986	6620 (35%)	12327 (65%)	18947
1983 Q1	1305	2401	3706
Q2	1369	2403	3772
Q3	1393	2391	3784
Q4	1490	2585	4075
1984 Q1	1530	2564	4094
Q2	1621	2846	4467
Q3	1705	2880	4585
Q4	1735	2898	4633
1985 Q1	1832	3298	5130
Q2	1672	2864	4536
Q3	1709	3091	4800
Q4	1756	3076	4832
1986 Q1	1779	3085	4864
Q2	1677	3073	4750
Q3	1622	3017	4639
Q4 (r)	1543	3152	4695

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

\*\* Divisions 2, 3 and 4

\*\*\* Divisions 5, 6 and 8

$\emptyset$  Assets leased from owners in the financial industries.

r Revised

The effect of leasing on manufacturing investment is described in Note 1.



## MANUFACTURING INDUSTRIES (REVISED DEFINITION)

The revised estimate of manufacturers' direct expenditure in the fourth quarter of 1986 is £1417 million, at 1980 prices seasonally adjusted. In addition, it is important to take account of the leasing of assets to manufacturers from the financial industries. This is taken to amount to £125 million in the fourth quarter, at 1980 prices seasonally adjusted, giving a total investment in the manufacturing industries of £1543 million; nearly 5 per cent lower than in the previous quarter and just over 12 per cent lower than in the fourth quarter of 1985.

The volume of investment (including leased assets) in 1986 as a whole was 5 per cent lower than in 1985. On the same annual basis of comparison, expenditure (including leasing) on individual assets increased by almost 2½ per cent for new building work but fell by 8 per cent for vehicles and by 6 per cent for plant and machinery.

On the same annual basis, the more notable changes by industry (excluding leasing - see Note 2) were rises in investment of 9 per cent in paper, printing and publishing, of 6½ per cent in textiles, leather and clothing and of over 3 per cent in instrument and electrical engineering. There were decreases in investment of 9½ per cent in metal manufacture, of over 7 per cent in other manufacturing, and of nearly 5½ per cent in minerals.

## CONSTRUCTION, DISTRIBUTION AND FINANCIAL INDUSTRIES

The revised estimate of investment by these industries (excluding leasing to manufacturers) in the fourth quarter of 1986 is £3152 million, at 1980 prices seasonally adjusted; 4½ per cent higher than in the preceding quarter, and 2½ per cent higher than in the fourth quarter of 1985.

The volume of investment (excluding leasing to manufacturers) in 1986 as a whole was virtually the same as in 1985. On the same annual basis of comparison, expenditure (excluding leasing to manufacturers) on individual assets rose by over 3 per cent for new building work and by almost 1 per cent for plant and machinery, but fell by over 7 per cent for vehicles.

On the same annual basis, the more notable changes by industry (including leasing - see Note 2) were rises in investment of over 12½ per cent in banking, insurance and other finance, of 7 per cent in retail and catering, and of nearly 4½ per cent in business services and construction. There were decreases in investment of over 20½ per cent in finance leasing, and of over 10½ per cent in wholesaling.

## TOTAL INVESTMENT Ø

Capital expenditure estimates for Division 0 (Agriculture, Forestry and Fishing), certain industries in Division 1 (Energy and Water Supply), Division 7 (Transport and Communication) and Division 9 (Other Miscellaneous Services) for the fourth quarter of 1986 are not yet available. Consequently, the analysis of investment in this section is confined to trends up to and including the third quarter of 1986.

In the third quarter of 1986, total capital expenditure in Divisions 0 to 9 was £8718 million, at 1980 prices seasonally adjusted; over 1 per cent higher than in the previous quarter but over  $1\frac{1}{2}$  per cent lower than expenditure in the same quarter a year ago. In the last twelve months expenditure was nearly  $1\frac{1}{2}$  per cent lower than expenditure in the preceding twelve months.

Expenditure in Division 0 in the third quarter of 1986 was £165 million, at 1980 prices seasonally adjusted; almost 16 per cent lower than in the previous quarter and almost  $18\frac{1}{2}$  per cent lower than in the same quarter a year ago. In the last twelve months, expenditure in Division 0 was  $15\frac{1}{2}$  per cent below expenditure in the preceding twelve months.

Expenditure in Division 1 in the third quarter of 1986 was £1294 million, at 1980 prices seasonally adjusted; over 11 per cent higher than in the previous quarter but almost  $5\frac{1}{2}$  per cent lower than in the same quarter a year ago. In the last twelve months expenditure in Division 1 was over  $5\frac{1}{2}$  per cent below expenditure in the preceding twelve months.

Expenditure in Division 7 in the third quarter of 1986 was £1006 million, at 1980 prices seasonally adjusted; 14 per cent higher than in the previous quarter and nearly 9 per cent higher than in the same quarter a year ago. In the last twelve months expenditure in Division 7 was  $9\frac{1}{2}$  per cent below expenditure in the preceding twelve months.

Expenditure in Division 9 in the third quarter of 1986 was £1614 million, at 1980 prices seasonally adjusted; over  $\frac{1}{2}$  per cent lower than in the previous quarter but over  $2\frac{1}{2}$  per cent higher than in the same quarter a year ago. In the last twelve months, expenditure in Division 9 was  $5\frac{1}{2}$  per cent higher than expenditure in the preceding twelve months.

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

1. EFFECT OF LEASING ON MANUFACTURING INVESTMENT

Assets have traditionally been classified to the industries of their ownership. Since capital goods acquired for leasing out are mainly bought by the service industries, leasing to manufacturers produces an apparent switch in investment to the service industries from the manufacturing industries. The following table illustrates the effect of leasing from the financial industries. In 1986 assets leased from owners in the financial industries represented an addition of 14 per cent of manufacturers' capital expenditure. Assets leased from owners in other industries outside manufacturing are not included in this analysis.

INVESTMENT BY MANUFACTURING INDUSTRIES (REVISED DEFINITION)

£ million at 1980 prices

	Capital Expenditure	Estimated Volume of assets leased from financial industries	Total Expenditure
1976	6470	370	6840
1977	6773	479	7252
1978	7220	685	7905
1979	7496	734	8230
1980	6479	835	7314
1981	4865	832	5697
1982	4704	896	5600
1983	4779	778	5557
1984	5755	837	6592
1985	5850	1119	6969
1986	5816	804	6620

2. An analysis of leased assets by industry of lessee is not available.

### 3. ASSET COVERAGE OF THE CAPITAL EXPENDITURE ESTIMATES

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

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

- i. The latest quarter's estimates relate to Divisions 2 to 4 (Manufacturing Industries - revised definition), Division 5 (Construction), Division 6 (Distribution etc), and Division 8 (Finance and Business Services).
- ii. The previous quarter's figures cover those Divisions listed in (i) plus Division 0 (Agriculture, Forestry and Fishing), Division 1 (Energy and Water Supply), Division 7 (Transport and Communication) and Division 9 (Other Miscellaneous Services). Figures for the fourth quarter of 1986 in respect of Divisions 0, 1, 7 and 9 will be published in the first quarter 1987 provisional press notice on 21 May 1987.

5. More detailed estimates of capital expenditure in the fourth quarter of 1986, together with current price data, will be published in British business on 27 March 1987.

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

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

Divisions	Analysis by ownership											Analysis by type of asset		
	Total	Agriculture forestry and fishing	Energy and water supply	Mineral extraction metal, mine-ral and chemical industries	Metal goods engineer-ing and vehicles industries	Other manufac-turing industries	Construct-ion	Distribut-ion etc	Transport and communica-tion	Financial and business services etc	Other services	New building work	Vehicles	Plant and machin-ery
	0-9	0	1	2	3	4	5	6	7	8	9	----- 0-9 -----		
Period														
1979	32,866	1,144	5,559	2,221	2,758	2,517	670	3,594	4,141	5,162	5,101	12,428	5,449	14,990
1980	31,440	1,019	5,679	1,869	2,380	2,230	467	3,236	3,907	5,685	4,968	11,883	4,582	14,974
1981	28,888	881	5,967	1,346	1,807	1,713	411	2,969	3,071	6,110	4,614	11,431	3,620	13,837
1982	30,176	1,049	6,086	1,240	1,707	1,758	464	3,177	2,823	6,585	5,288	12,377	3,693	14,105
1983	31,138	1,145	6,004	1,269	1,749	1,761	503	3,282	3,121	6,773	5,531	12,542	3,701	14,895
1984	34,364	1,075	5,738	1,480	2,112	2,163	520	3,782	3,621	7,722	6,150	13,886	4,341	16,136
1985	35,609	787	5,321	1,664	2,076	2,111	569	4,109	3,883	8,769	6,321	13,553	4,692	17,364
1986	N/A	N/A	N/A	1,603	2,083	2,130	544	4,187	N/A	8,401	N/A	N/A	N/A	N/A
1982 Q1	7,286	260	1,491	312	426	427	128	769	637	1,609	1,227	3,002	867	3,417
Q2	7,444	268	1,502	298	436	439	98	787	678	1,614	1,324	3,003	875	3,566
Q3	7,758	256	1,592	313	428	446	114	795	783	1,690	1,343	3,173	1,017	3,568
Q4	7,688	265	1,502	318	418	446	123	826	725	1,671	1,394	3,199	935	3,554
1983 Q1	7,658	280	1,589	320	395	402	105	793	720	1,691	1,363	3,115	822	3,722
Q2	7,607	283	1,474	305	434	425	143	805	750	1,659	1,329	3,005	956	3,646
Q3	7,705	278	1,458	323	441	443	124	804	787	1,649	1,397	3,109	908	3,688
Q4	8,169	304	1,483	320	479	491	131	879	865	1,775	1,441	3,313	1,015	3,841
1984 Q1	8,254	292	1,459	349	496	540	119	908	827	1,683	1,581	3,416	1,057	3,780
Q2	8,541	281	1,476	373	516	531	134	924	835	1,987	1,484	3,543	975	4,023
Q3	8,729	258	1,410	371	542	534	136	982	948	2,020	1,528	3,454	1,129	4,147
Q4	8,840	244	1,393	387	557	558	131	968	1,012	2,032	1,558	3,474	1,180	4,186
1985 Q1	9,448	210	1,373	406	557	535	151	1,033	1,184	2,448	1,552	3,368	1,450	4,630
Q2	8,504	209	1,286	399	496	529	138	1,005	919	1,969	1,555	3,375	1,123	4,006
Q3	8,865	202	1,366	423	496	527	141	1,050	924	2,161	1,573	3,419	1,103	4,343
Q4	8,792	166	1,296	435	527	519	139	1,022	856	2,190	1,641	3,392	1,016	4,384
1986 Q1	9,036	204	1,353	414	539	530	147	1,006	912	2,228	1,702	3,598	1,000	4,438
Q2	8,618	196	1,164	405	521	529	136	1,064	883	2,095	1,626	3,272	1,086	4,260
Q3	8,718	165	1,294	400	509	552	133	1,047	1,006	1,997	1,614	3,396	1,030	4,292
Q4	N/A	N/A	N/A	384	514	518	127	1,069	N/A	2,081	N/A	N/A	N/A	N/A

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

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

N/A - not available

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

Divisions Period	Analysis by ownership					Analysis by type of asset Divisions 1-8						Analysis by user			
	Total for Divisions	Production and construction industries	Manufacturing industries (revised definition)	Distribution and financial services, transport etc.		New building work	Vehicles	Plant and machinery	Assets leased to manufac- turers	Divisions 2-4 (Manufacturing) including assets leased to manufacturers	Divisions 5,6 and 8 excluding assets leased to manufacturers	Divisions 5,6,7 and 8 excluding assets leased to manufacturers			
	1-8	1-5	2-4	6-8											
1979	26,621	13,725	7,496	12,896		8,068	5,021	13,532	734	8,230	8,691	12,832			
1980	25,453	12,625	6,479	12,828		7,698	4,202	13,553	835	7,314	8,553	12,460			
1981	23,393	11,242	4,865	12,150		7,587	3,263	12,542	832	5,697	8,658	11,729			
1982	23,839	11,254	4,704	12,584		7,864	3,294	12,680	896	5,600	9,330	12,152			
1983	24,462	11,286	4,779	13,176		7,928	3,299	13,236	778	5,557	9,780	12,901			
1984	27,139	12,013	5,755	15,126		8,631	3,959	14,548	837	6,591	11,187	14,809			
1985	28,501	11,740	5,850	16,761		8,400	4,322	15,779	1,119	6,969	12,328	16,211			
1986	N/A	N/A	5,816	N/A		N/A	N/A	N/A	804	6,620	12,327	N/A			
1982 Q1	5,798	2,784	1,164	3,014		1,934	773	3,092	181	1,345	2,325	2,962			
Q2	5,852	2,773	1,173	3,080		1,860	785	3,208	233	1,406	2,266	2,944			
Q3	6,159	2,892	1,186	3,268		2,037	916	3,207	246	1,432	2,353	3,136			
Q4	6,028	2,806	1,181	3,222		2,034	821	3,174	236	1,417	2,385	3,110			
1983 Q1	6,015	2,811	1,117	3,204		2,027	715	3,273	188	1,305	2,401	3,121			
Q2	5,995	2,781	1,165	3,214		1,906	850	3,240	204	1,369	2,403	3,152			
Q3	6,029	2,789	1,207	3,240		1,920	821	3,289	186	1,393	2,391	3,178			
Q4	6,423	2,904	1,290	3,519		2,075	914	3,434	200	1,490	2,585	3,450			
1984 Q1	6,381	2,963	1,385	3,417		2,048	954	3,379	146	1,530	2,564	3,391			
Q2	6,777	3,031	1,421	3,746		2,256	871	3,649	199	1,621	2,846	3,680			
Q3	6,943	2,993	1,447	3,951		2,155	1,044	3,745	258	1,705	2,880	3,828			
Q4	7,038	3,026	1,502	4,012		2,172	1,091	3,775	233	1,735	2,898	3,910			
1985 Q1	7,686	3,021	1,498	4,664		2,102	1,351	4,233	334	1,832	3,298	4,481			
Q2	6,741	2,848	1,424	3,893		2,109	1,017	3,615	248	1,672	2,864	3,782			
Q3	7,090	2,955	1,447	4,136		2,119	1,028	3,943	262	1,709	3,091	4,015			
Q4	6,984	2,916	1,481	4,068		2,069	926	3,988	275	1,756	3,076	3,932			
1986 Q1	7,129	2,983	1,483	4,147		2,192	911	4,027	296	1,779	3,085	3,998			
Q2	6,797	2,755	1,455	4,042		1,974	996	3,826	222	1,677	3,073	3,956			
Q3	6,939	2,889	1,461	4,050		2,122	947	3,870	160	1,622	3,017	4,023			
Q4	N/A	N/A	1,417	N/A		N/A	N/A	N/A	125	1,543	3,152	N/A			

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

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

N/A - not available

FROM: P F L ALLUM  
DATE: 19 MARCH 1987

CHANCELLOR OF THE EXCHEQUER

cc : Chief Secretary  
Financial Secretary  
Economic Secretary  
Sir Peter Middleton  
Sir Terence Burns  
Mr Cassell  
Mr Monck  
Mr Odling-Smee  
Mr Scholar  
Mr Sedgwick  
Mr Culpin  
Mr S J Davies  
Miss O'Mara  
Mr Hacche  
Mr Cropper  
Mr Tyrie  
Mr Ross Goobey

Mr Clare - CSO

GDP FIGURES FOR THE FOURTH QUARTER OF 1986

1. Provisional estimates of GDP in the fourth quarter of 1986 will be published by the CSO tomorrow (Friday) at 11.30 a.m. They show:

- a 0.7 per cent increase in the average estimate of GDP between 1986Q3 and 1986Q4;
- growth between 1985 and 1986, based on the increase in the average estimate of GDP, of 2.6 per cent.

There were no real last minute surprises, and the figures for GDP(A) and for the components of expenditure are almost exactly the same as the FSBR estimates for 1986.

2. The figure for growth between 1985 and 1986, based on the average estimate of GDP, is in line with last month's preliminary estimate of growth in 1986 based on the output measure. The 0.7 per cent increase in the average measure between the third and fourth quarters of 1986 compares with zero growth shown by the preliminary figures for the output measure published a month ago. Figures for the output measure have, in fact, been revised up since last month, and now show a 0.3 per cent rise between the third and fourth quarters (about  $\frac{3}{4}$  per cent non-oil growth). Between 1985 and 1986 GDP(O) now shows 2.8 per cent growth as against 2.6 per cent published last month.

**Output, Expenditure and Income Estimates of real GDP**

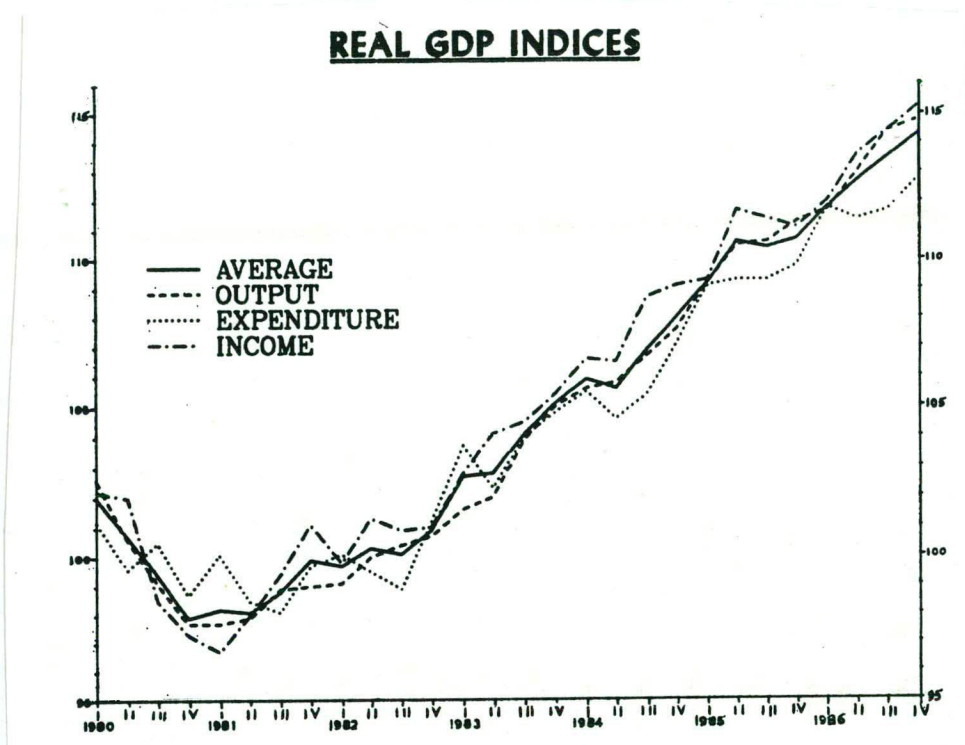
3. The **output measure** is the **most reliable indicator of short-term movements** in GDP, and historically has been much less subject to revision than the income or expenditure estimates. The message from the output estimate is that, **after a period of weakness during 1985 and at the beginning of 1986, the economy grew strongly during 1986; growth in the non-oil economy between the first and last quarters of 1986 was slightly more than 3½ per cent (4½ per cent at an annual rate).**

4. The **income and expenditure measures** of GDP both show real growth of **around 2½ per cent between 1985 and 1986.** Earlier published estimates, covering the period to the third quarter of 1986, showed a particularly odd profile, with the income and expenditure estimates rising sharply in the first quarter of 1986 then remaining broadly flat through to the third quarter. Revisions incorporated in the figures published on Friday bring the income measure of GDP closely into line with the profile of the output measure. The expenditure measure, despite revision, still displays an implausibly large rise in the first quarter of 1986 and an equally implausible fall in the second quarter, but over the last two quarters of 1986 has grown broadly in line with the income and output estimates of GDP.

5. The **expenditure components** of GDP include a rise of **4½ per cent in consumers' expenditure between 1985 and 1986, a rise of 3 per cent in exports, and a ½ per cent increase in fixed investment.** Imports rose by almost 6 per cent over the same period. The **income components** of GDP show a **7 per cent fall in industrial and commercial companies profits net of stock appreciation between 1985 and 1986, but profits growth of over 2 per cent between the first and second halves of 1986.** A breakdown between oil and non-oil company profits will be published on Thursday 26 March, and is expected to show some recovery in oil company profits in the fourth quarter of 1986 relative to levels seen earlier in the year.



6. The chart below shows the paths of the output, income, expenditure, and average measures of real GDP since 1980.



**Money GDP and the GDP deflator**

7. The figures published on Friday will include estimates of money GDP and the GDP deflator. In the year to 1986Q4, nominal GDP at market prices is estimated to have increased by  $5\frac{3}{4}$  per cent. The market price GDP deflator rose by just over 1 per cent between the third and fourth quarters, and was  $2\frac{1}{2}$  per cent higher in the fourth quarter than a year earlier.

8. The figures below compare the 1987 FSBR forecast for growth in money GDP and the GDP deflator during 1986-87 with the outturn for the first three quarters of this period.

(percentage changes on a year earlier)

	<u>1986</u> <u>Q2 to Q4</u>	<u>1986-87</u> <u>FSBR forecast</u>
Money GDP at market prices	6.0	6
GDP deflator at market prices	3.1	3

Lines to take

Positive

1. Latest figures show GDP has reached new record level in 1986Q4. Economy by then had almost completed sixth year of growth - at approaching 3 per cent annual rate since 1981H1.

2. Output measure, must reliable measure of short term movements in GDP, shows over 3 per cent growth over last year (3½ per cent on non-oil basis).

Defensive

1. Output measure relatively depressed in 1986Q4? Reflect erratic fall in North Sea oil and gas extraction. Non-oil output up <sup>3</sup>/<sub>4</sub> per cent between Q3 and Q4, and up 3½ per cent in Q4 on year earlier.

2. Fall in real investment expenditure in 1986Q4? Profile of investment spending during 1986 highly erratic; little emphasis should be placed on single quarter's figure. FSRB forecast projects 4 per cent growth in investment spending between 1986 and 1987; DTI Investment Intentions Survey shows non-manufacturing investment expected to rise by 8 per cent; CBI January Monthly Enquiry pointed to a pick up in manufacturing investment.

3. Fall in company profits? A fall in company profits overall was generally expected following the fall in oil prices. It reflects sharply lower North Sea oil profits; non-oil company profits remain buoyant.



P F L ALLUM

UNCLASSIFIED

RD



FROM: N G FRAY

DATE: 20 March 1987

MR P F L ALLUM

**GDP FIGURES FOR THE FOURTH QUARTER OF 1986**

The Chancellor was grateful for your minute of 19 March, the contents of which he has noted.

*Nigel Fray*  
N G FRAY

## MONTHLY ECONOMIC BRIEF

Prepared by the CSO on 27 March 1987

There was an estimated PSBR repayment of £0.3 billion in February giving a cumulative PSBR total for the first eleven months of 1986-87 of £0.1 billion. The borrowing requirement is usually high in March and the latest forecast for 1986-87, announced in the Budget, is £4 billion.

Sterling rose strongly during March trading in the range  $70\frac{1}{2}$  to  $72\frac{1}{2}$  in effective terms compared to an average ERI in February of 69. Bank base rates were cut by  $\frac{1}{2}$  per cent on 9 March and by a further  $\frac{1}{2}$  per cent on 18 March, the day after the Budget. At close of play on 26 March the markets were discounting a further fall in base rates. Some lenders for house purchase have already announced a cut of one per cent or more in mortgage interest rates.

Currently a one per cent fall in the average mortgage rate reduces the RPI by 0.36 per cent. Taken together with the non-indexation of excise duties the net effect of the Budget has been to relieve the pressure on RPI inflation by around  $\frac{1}{2}$  per cent.

Published provisional figures for the fourth quarter of 1986 suggest that the average measure of GDP was about  $3\frac{1}{2}$  per cent higher than the fourth quarter of 1985. This increase, and our first estimates of GDP in the first quarter of 1987, suggest a shading up of our assessment of the current underlying trend in GDP to the range  $2\frac{1}{2}$ - $4\frac{1}{2}$  per cent per annum.

Adult unemployment (seasonally adjusted) fell very sharply, by 44,000, between January and February, the largest monthly fall since the current series began in 1971. The size of the fall reflects some catching up on the flat figure last month but the trend in unemployment continues firmly downwards. It seems likely that even without all the various measures - Restart, new availability tests and employment measures - unemployment would have fallen over the last six months.

In February exports were 12 per cent higher than in January and imports  $6\frac{1}{2}$  per cent higher, (the snow in January affected exports in particular). There was a visible trade deficit of £0.2 billion compared with January's deficit of £0.5 billion. The growth in the underlying level of non-oil export volume is continuing but the underlying level in non-oil import volume may have stabilised. The current account was in surplus by £0.4 billion in the first two months of 1987 following a deficit of £1.1 billion in 1986 as a whole.

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

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

**GDP (average measure)** in the fourth quarter of 1986 was  $3\frac{1}{2}$  per cent higher than in the same period a year ago. This figure does not take account of past experience which shows that revisions to growth rates for the initial published estimates of GDP were on average, upwards, though not uniformly so. The assessment of current underlying trend for the first quarter of 1987 is that the rate of increase lies in the range  $2\frac{1}{2}$ - $4\frac{1}{2}$  per cent per annum.

**Industrial production** in the three months to January 1987 was  $1\frac{1}{2}$  per cent higher than in the same period a year ago; manufacturing output was 2 per cent higher. The assessment of underlying trend for industrial production is that the rate of change currently lies in the range 1-3 per cent per annum. The trend in manufacturing output is in the range 2-4 per cent per annum.

**Retail prices** rose by just under 4 per cent in the twelve months to February 1987. It is only possible to provide a useful indicator of trend for about 70 per cent of the RPI, mainly that covering private sector prices and excluding eg mortgage interest, rent, rates, products produced by nationalised industries, seasonal food and petrol. The current trend for this series is around 4 per cent per annum. In the twelve months to February 1987 this series rose a little under 4 per cent (not published).

**Producer input prices** were unchanged in seasonally adjusted terms in February and are expected to fall a little in March.

**Average earnings (underlying)** in the twelve months to January 1987 rose by  $7\frac{1}{2}$  per cent. The current trend is estimated to be  $7\frac{1}{2}$  per cent per annum.

**Unit wage costs in manufacturing** in the three months to January 1987 rose by  $3\frac{1}{2}$  per cent compared with the same period a year ago. The current underlying trend is estimated to be in the range 3-5 per cent per annum.

**Unemployment (excluding school leavers)** in the twelve months to January has fallen on average by 7,000 per month. Over the past 6 months there has been an average fall of 24,000 per month.

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

Gross domestic product (average measure)

1980 = 100, seasonally adjusted

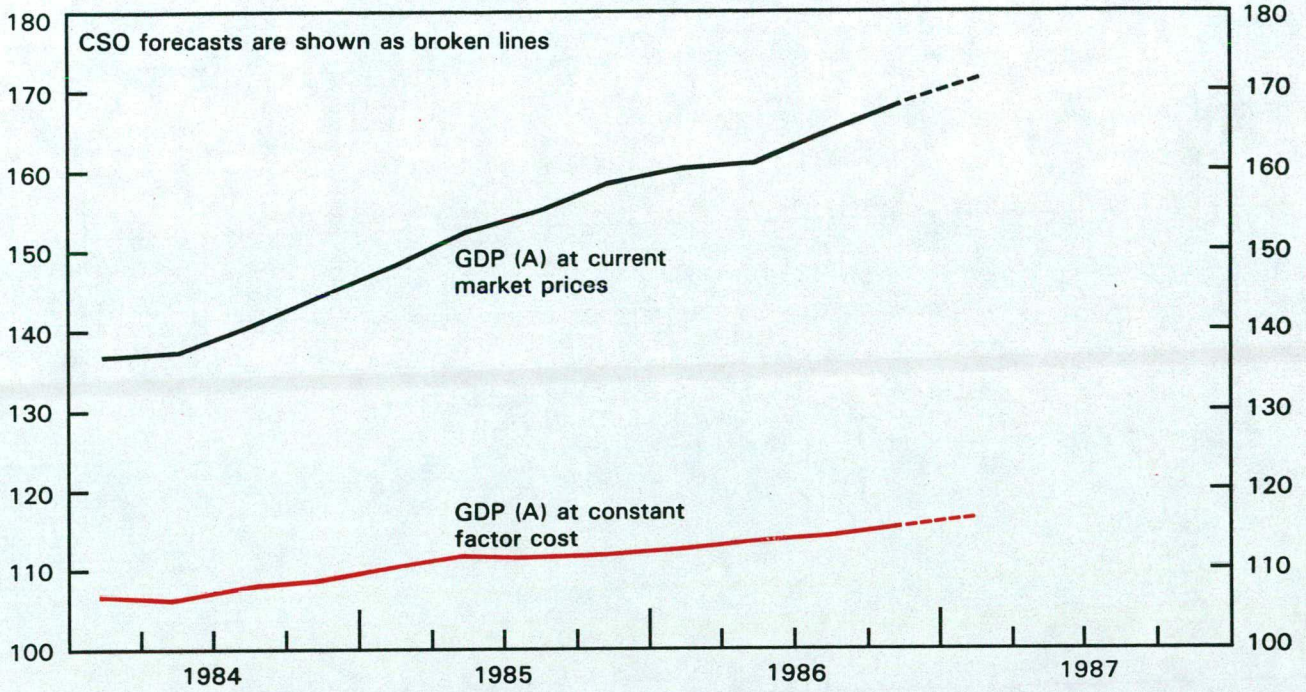


CHART 1B

Gross domestic product (average measure)

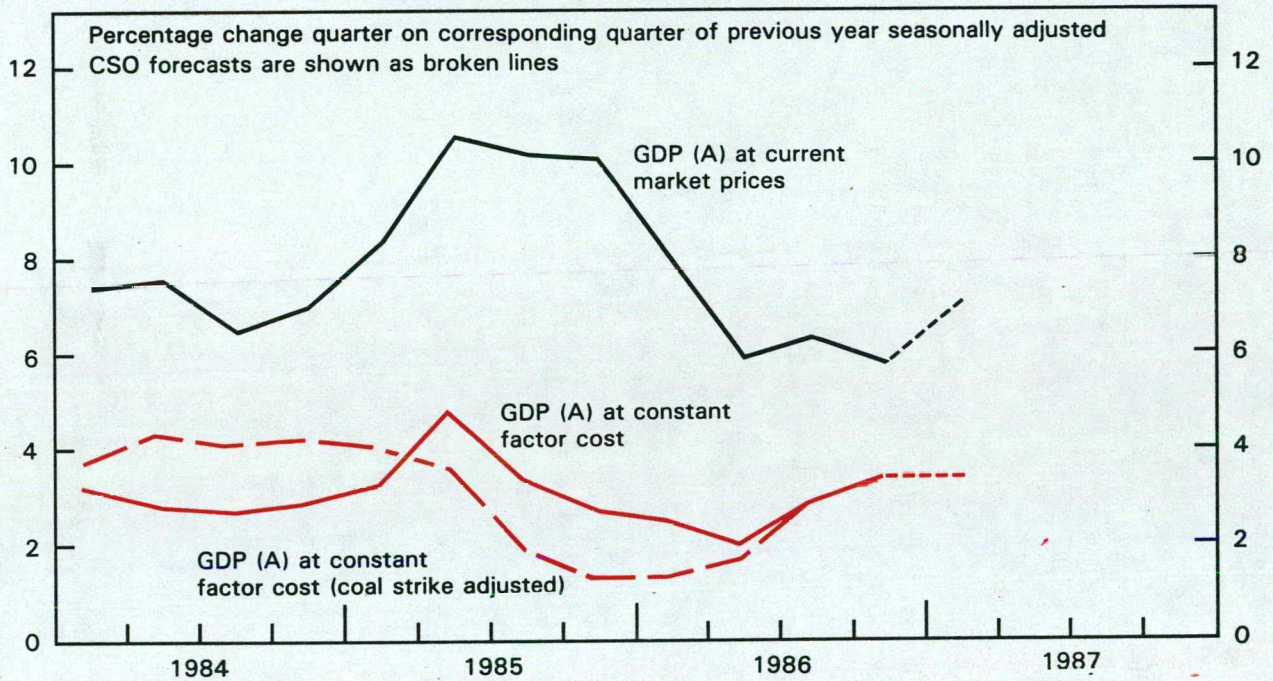
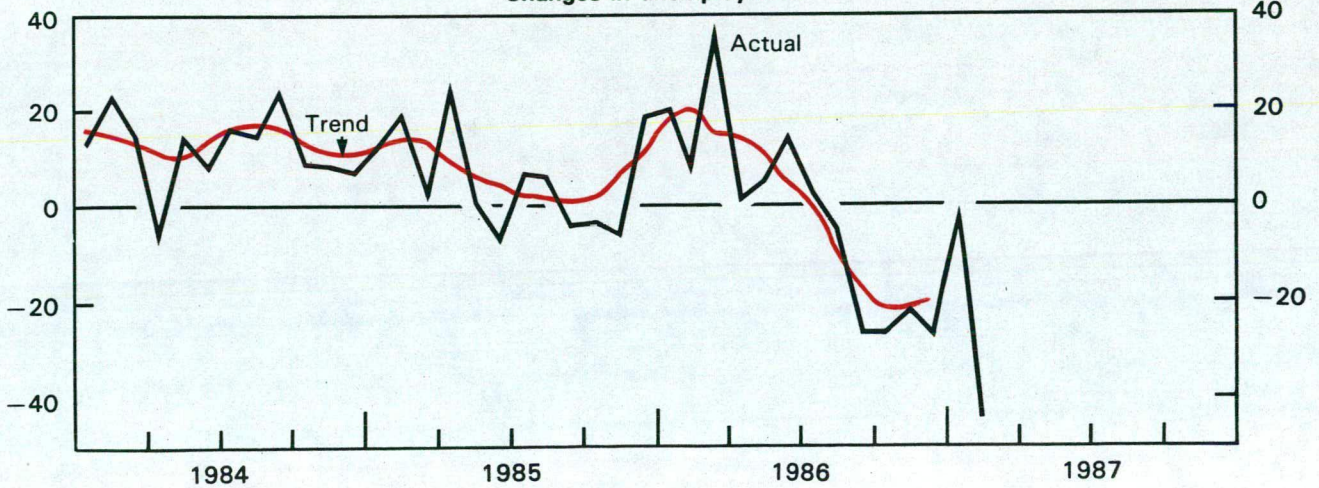


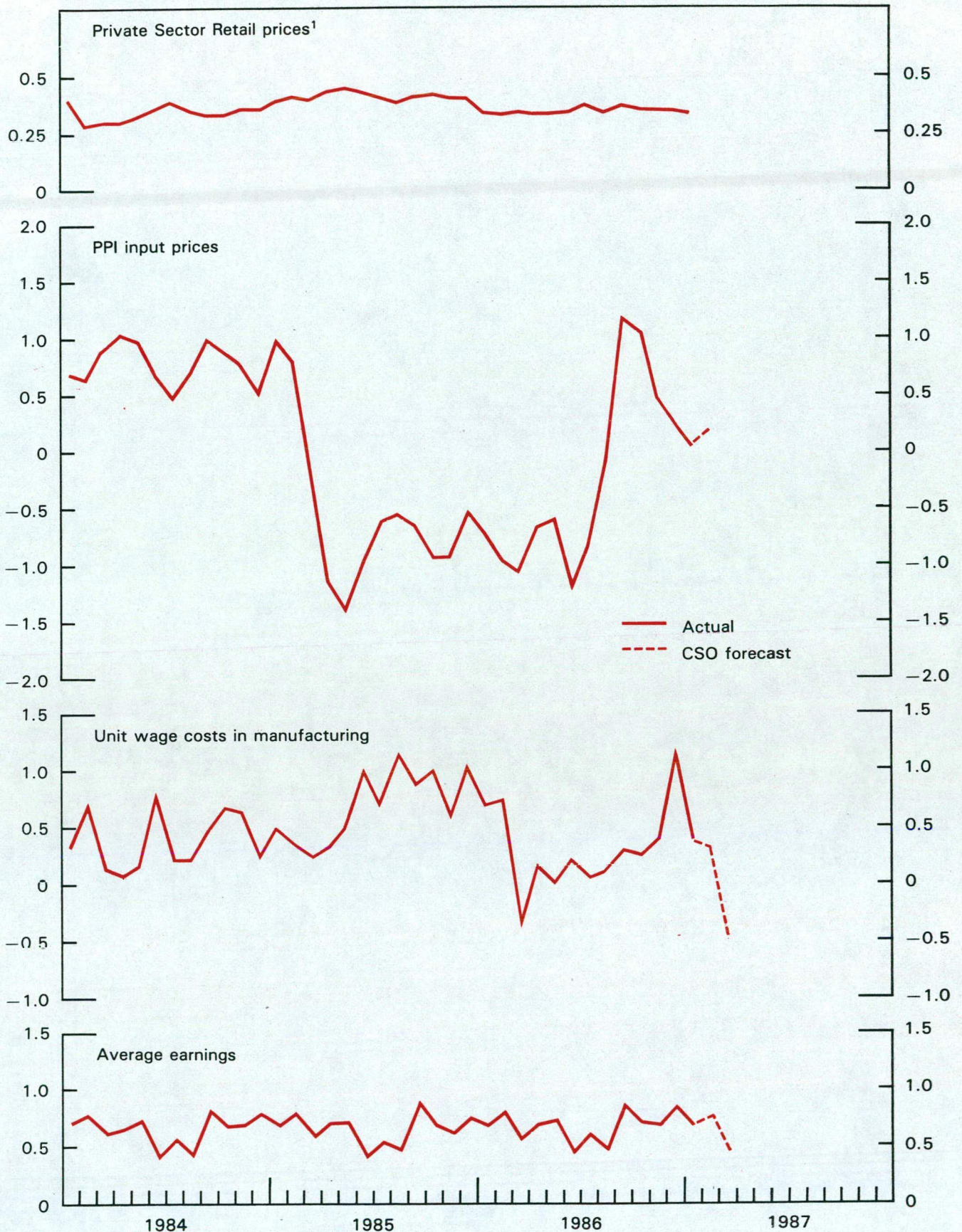
CHART 2

Changes in unemployment



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

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



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

CHART 4

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

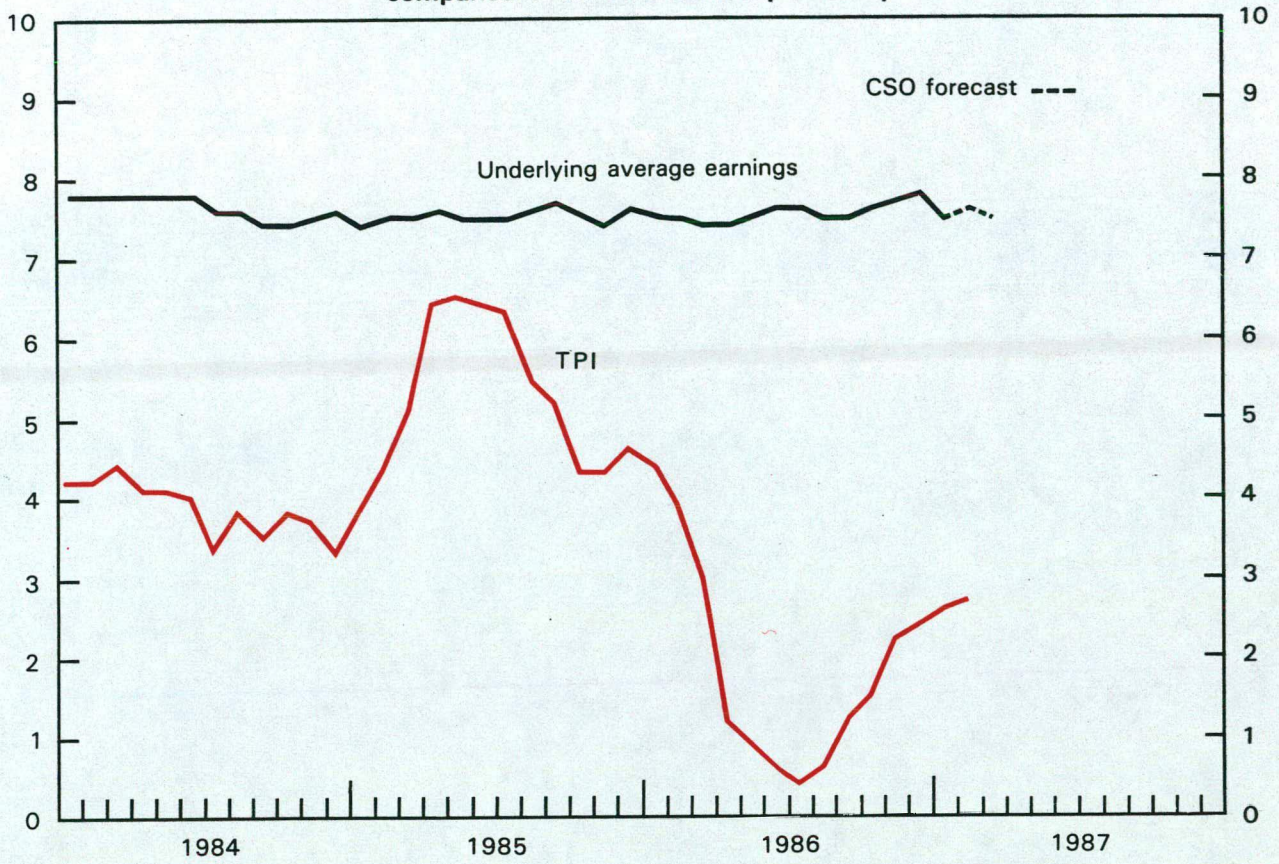
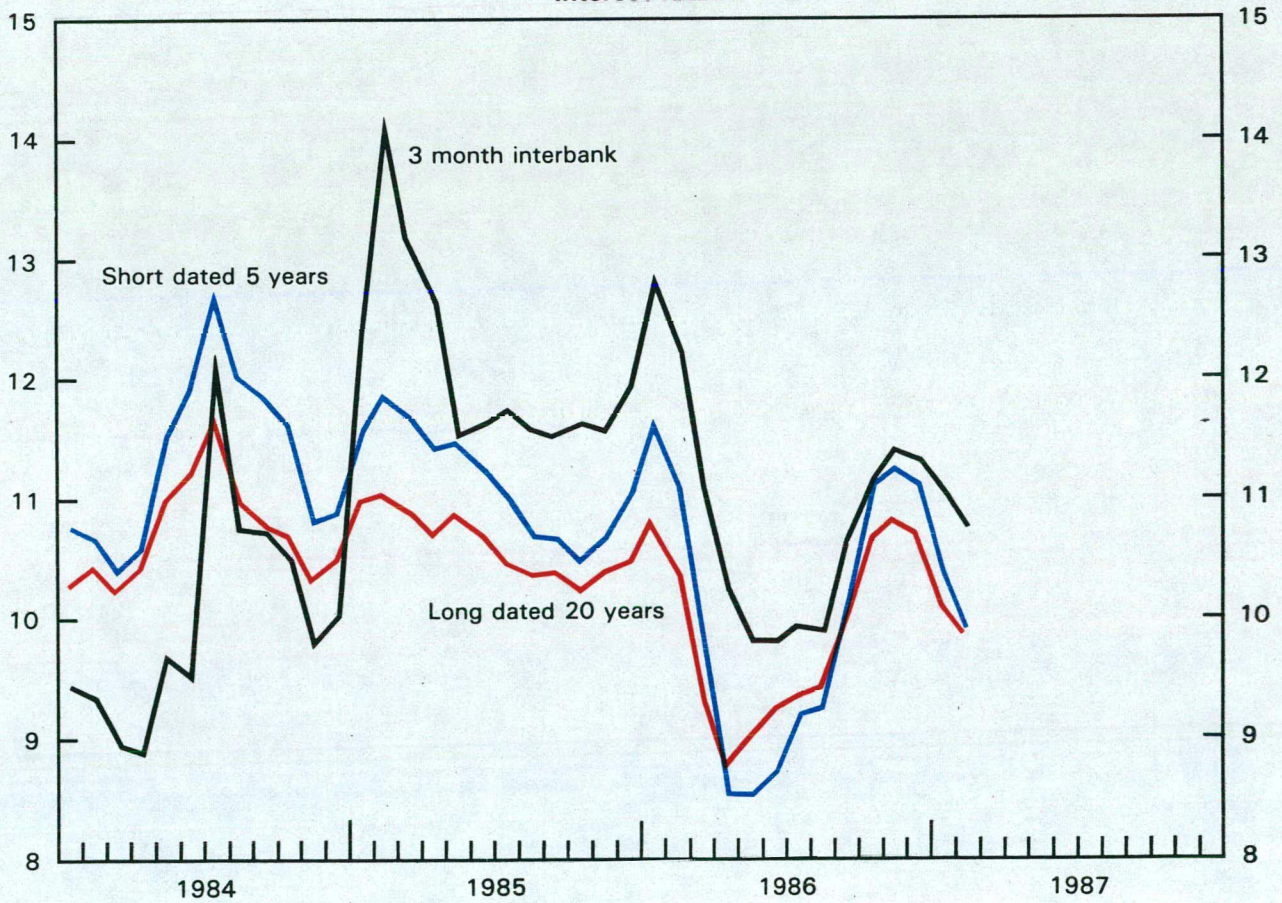


CHART 5

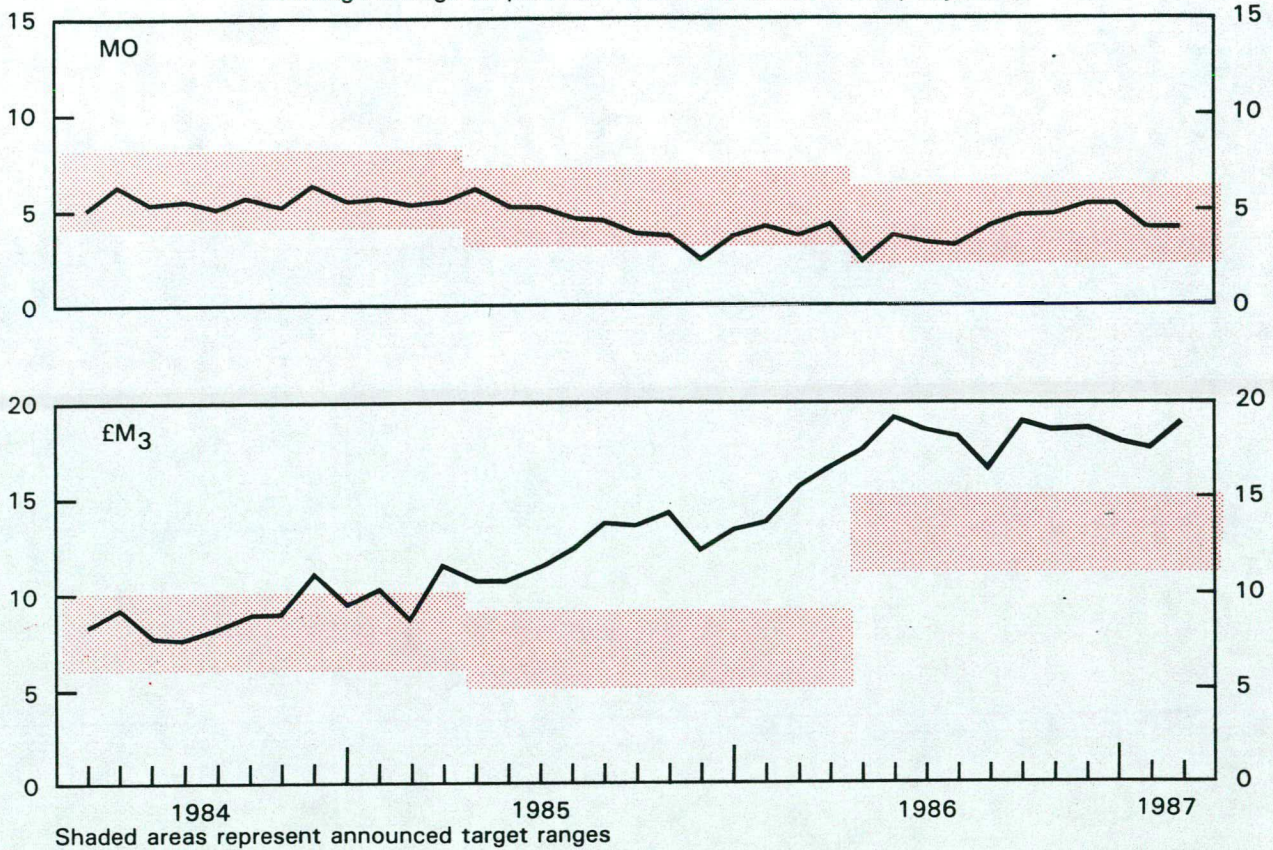
Interest rates





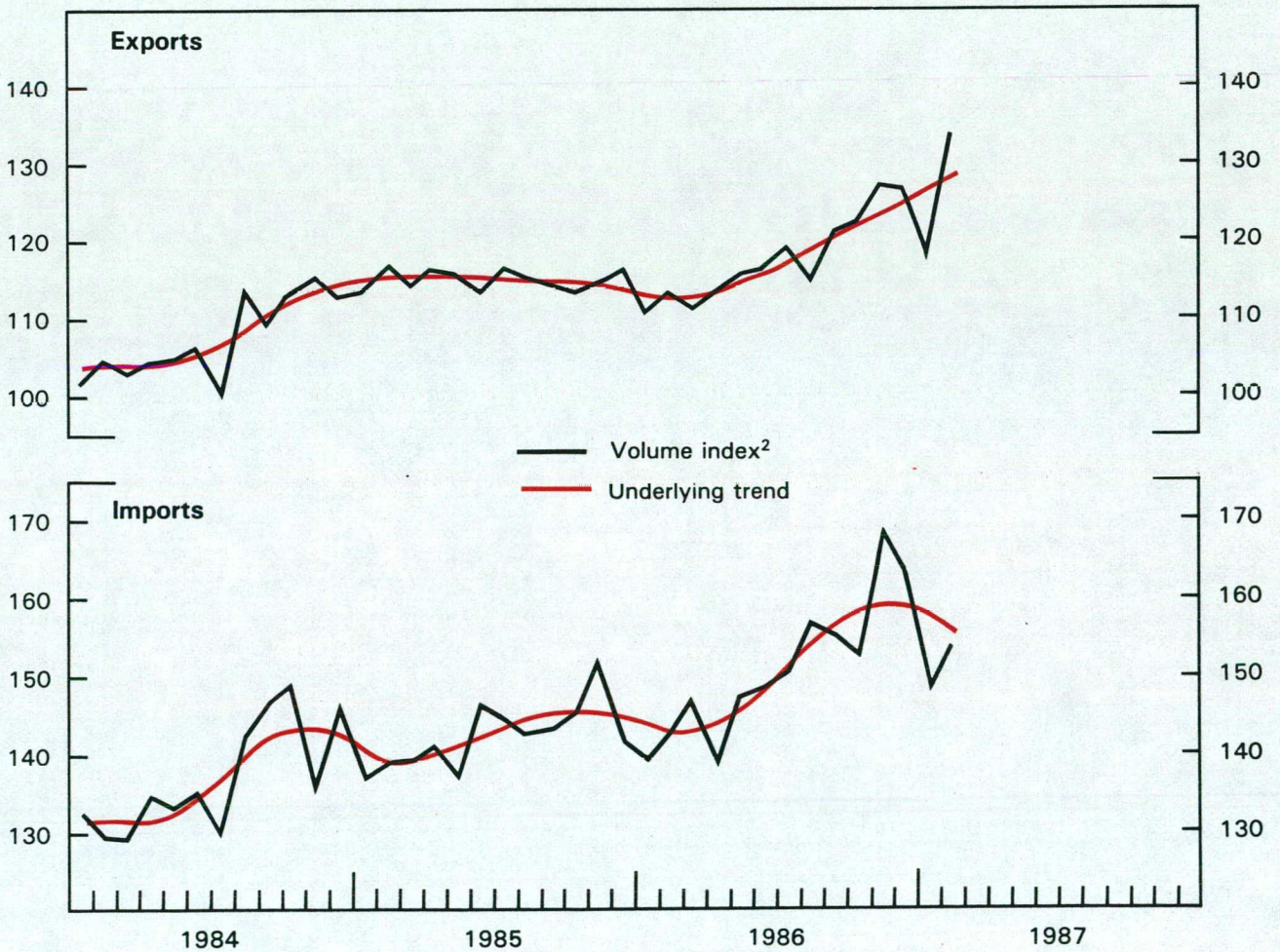
Monetary aggregates

Percentage Change on previous 12 months (not seasonally adjusted)



Exports and Imports (excluding oil and erratics<sup>1</sup>)

Index 1980 = 100



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

Reference.....

RP

To:

SECRETARY OF STATE

(Circulation list attached)

From:

PETER RICHARDSON  
S2C  
Room 242  
Sanctuary Buildings  
215 6265

3 April 1987

**CREDIT BUSINESS IN FEBRUARY**

A Press Notice giving details of credit business in February 1987 is attached for information. This will be issued at 11.30 am on Monday, April 6. As usual, the contents should be treated as confidential until then.

  
P. H. RICHARDSON

# DTI Press Notice

CONFIDENTIAL  
UNTIL 11.30 HOURS  
ON DAY OF RELEASE

Department of Trade and Industry

1 Victoria Street SW1H 0ET

Press Office: 01-215 4471/4475

No: 87/209

Out of hours: 01-215 7877

6 April 1987

## CREDIT BUSINESS IN FEBRUARY

During February £2.9 billion of new credit was advanced by finance houses, other specialist credit grantors, retailers and on bank credit cards. This was above the level in recent months and considerably higher than the £2.7 billion advanced in January, when the bad weather had a depressing effect. Within the February total, new credit advanced by finance houses and other specialist credit grantors on fixed sum agreements was particularly high.

Total advances in the latest three months, December to February, were 2 per cent higher than in the previous three months. Lending by finance houses and other specialist credit grantors also increased by 2 per cent between the two periods. Within this total, lending to consumers increased by 1 per cent and lending to businesses increased by 4 per cent. Advances on bank credit cards increased by 4 per cent between the two periods. Retailers advanced 3 per cent less in the latest three months than in the previous three months.

There was an increase of £0.4 billion in amounts outstanding to finance houses, other specialist credit grantors, retailers and on bank credit cards between end-January and end-February. The total amount outstanding at end-February was £24.5 billion, 4 per cent more than the total three months earlier.

---

prepared by the Government Statistical Service

---



## Notes to Editors

- 1 All figures are quoted after seasonal adjustment.
- 2 Table 1 covers the credit business of finance houses, other specialist credit grantors and building societies, retailers and on bank credit cards. Table 2 covers the business of finance houses, other specialist credit grantors and building societies only, but provides an analysis of new credit advanced to consumers and businesses. The credit advances shown in Table 1 for retailers and bank credit cards are mainly to consumers. A high proportion of credit advances in certain types of agreement, notably on bank credit cards and by mail order houses, is repaid within a month, reflecting the use of such agreements as a method of payment rather than as a means of obtaining credit.
- 3 From January 1986 the statistics include new credit advances by finance houses and other specialist credit grantors on running account agreements on which information was not collected previously. Lending on bank credit cards is also included for the first time in the January 1986 statistics. Unsecured loans by building societies, which are advanced under the provisions of the Building Societies Act 1986, are included from January 1987. Lending by banks, other than on bank credit cards, and by companies where the group specialises in lending to other companies only are excluded from the statistics in this Press Notice.
- 4 Charges for credit and deposits or downpayments are excluded from the figures of new credit advanced which thus represent the amount of credit advanced during the period. Figures for retailers are estimated from the value of their self-financed credit sales, which include both charges and deposits. The figures for retailers' credit sales include sales on budget and other running-account agreements and exclude credit sales financed by banks, finance houses, and other specialist credit grantors.
- 5 Amounts outstanding are the amounts owed, excluding unearned charges, on credit agreements of all types at the end of the period, irrespective of the period in which credit was advanced. Unearned credit charges are those charges, mainly interest, included at the outset of a fixed-sum credit agreement on the assumption that the agreement lasts its full term.
- 6 Further definitions are given at the foot of the tables accompanying this Press Notice.
- 7 Full results of the inquiries which collect the monthly information on credit are published by HM Stationery Office in Business Monitor SDM6 - Credit business of finance houses and other specialist credit grantors - and in Business Monitor SDM8 - Credit business of retailers. Both may be obtained on subscription (£17.50 each title per annum) from HM Stationery Office PO Box 569, London SE1 9NH. Individual copies are available, price £3.20 each from:  
The Library, Business Statistics Office, Government Buildings, Cardiff Road, Newport GWENT. Telephone: Newport (0633) 222973.
- 8 Non-press calls to 01-215 6400.

TABLE 1

TOTAL CREDIT BUSINESS OF FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS AND  
BUILDING SOCIETIES, RETAILERS AND ON BANK CREDIT CARDS (SEASONALLY ADJUSTED)

		NEW CREDIT ADVANCED					TOTAL AMOUNT OUTSTANDING (a)	
		TOTAL	FINANCE HOUSES AND OTHER SPECIALIST CREDIT GRANTORS (b)		BANK CREDIT CARDS	RETAILERS	CHANGE	AMOUNT AT END OF PERIOD
		(c)	FIXED SUM (d)	RUNNING ACCOUNT		(e)		
1983		10,524	6,840			3,684	2,246	12,199
1984		11,507	7,662			3,845	2,159	14,358
1985		12,996	8,727			4,269	2,586	16,944
1986		31,515	10,720	3,045	12,916	4,834	2,952	23,772
1985 1st Qtr		3,103	2,068			1,035	586	14,944
2nd Qtr		3,083	2,030			1,053	533	15,477
3rd Qtr		3,374	2,293			1,081	745	16,222
4th Qtr		3,436	2,336			1,100	722	16,944
1986 1st Qtr		7,375	2,655	648	2,926	1,146	980	21,800
2nd Qtr		7,739	2,640	793	3,115	1,191	418	22,218
3rd Qtr		8,223	2,722	839	3,395	1,267	968	23,186
4th Qtr		8,178	2,703	765	3,480	1,230	586	23,772
1986 FEB		2,463	906	196	976	385	302	21,475
MAR		2,372	802	238	954	378	325	21,800
APR		2,717	969	251	1,093	404	120	21,920
MAY		2,409	819	263	942	385	117	22,037
JUN		2,613	852	279	1,080	402	181	22,218
JUL		2,685	885	278	1,107	415	219	22,437
AUG		2,668	890	289	1,068	421	302	22,739
SEP		2,870	947	272	1,220	431	447	23,186
OCT		2,759	925	269	1,152	413	247	23,433
NOV		2,635	843	243	1,129	420	18	23,451
DEC		2,784	935	253	1,199	397	321	23,772
1987 JAN		2,695R	870R	237R	1,177R	411	320R	24,092R
FEB		2,948	1,032	225	1,276	415	366	24,458
1986 SEP-NOV		8,264	3,499		3,501	1,264	712	23,451
1987 DEC-FEB		8,427	3,552		3,652	1,223	1,007	24,458
Percentage increase over previous quarter		2		2	4	-3	41	4

---- indicates a break in the series

R = revised

- NOTES (a) Until December 1985 excluding amounts outstanding on Bank Credit Cards and block discounted agreements.
- (b) Including Building Societies. See Table 2 for an analysis into agreements with consumers and agreements with businesses
- (c) Until December 1985 includes only direct fixed-sum business of Finance Houses and other specialist Credit Grantors and advances by Retailers.
- (d) From January 1986 including new credit on block discounted agreements.
- (e) Self-financed credit advanced by clothing retailers, household goods retailers, mixed retail businesses (other than Co-operative Societies) and general mail-order houses only.



CIRCULATION LIST

Mr Alan Clark  
Mr Geoffrey Pattie  
Mr Giles Shaw  
Lord Lucas  
Mr Michael Howard  
Mr John Butcher  
Sir Brian Hayes  
Mr Liesner  
Mr Treadgold  
Mr Whiting  
Mr Healey  
Mr Stibbard  
Mr Miner  
Mr Norton  
Miss Marson  
Mr Mattock  
Miss Lea  
Mr Mann  
Mr Parsons

Prime Minister's Office

Chancellor's Office

Sir Terence Burns - Treasury  
Mr P Sedgwick - "  
Mr P Allum - "  
Miss M O'Mara - "  
Mr P Hall - "  
Mr G Pike - "

Mr M J Dicks - Bank of England  
Mr J Exeter - " " "

Miss S Carter - CSO  
Mr E Lomas - "  
Mr C Bryant - "  
Mr D Sterling - "  
Mr J Alexander - "

Paper  
Pse  
Tang

FROM: S J DAVIES  
DATE: 6 APRIL 1987

CHANCELLOR OF THE EXCHEQUER

- cc : Sir Peter Middleton
- Sir Terence Burns
- Sir G Littler
- Mr Odling-Smee
- Mr H P Evans
- Mr Sedgwick
- Mr Culpin
- Mr Matthews
- Miss O'Mara
- Mr P Allum
- Mr Naisbitt

*X is clearly false. There is  
no demand diff. Since activity  
in the black economy is not a  
white. The problem is that any  
fig. is for of which is uncertain  
but also arguable. But  
constr. for official  
statistics designed  
to estimate the black  
economy.*

**GDP ESTIMATES AND THE BLACK ECONOMY**

1. You asked whether other countries should follow the Italian lead in trying to take account of the black economy in official estimates of GDP. The recent 15 per cent upward revision to Italian GDP is thought to reflect mainly, though not entirely, the inclusion of activity in the black economy. It follows a large upward revision in 1978, which was thought to take account of black economy activity worth around 4-4½ per cent of GDP.
2. If the black economy could be measured with any accuracy we would surely want to include some allowance for it in the UK National Accounts. But the black economy cannot be measured directly - the concealment of transactions from the tax collector or the police also involves their concealment from government statisticians.
3. Rough indirect estimates can be made. Areas of expenditure in which black economy transactions may be important can be identified; surveys may show, for example, the extent to which people pay by cash rather than cheque for certain services, or reveal other signs that black economy transactions are taking place. One study has compared the expenditure of self-employed households recorded in the Family Expenditure Survey with their declared income. This study showed that the expenditure of the self-employed tends to be high given their recorded income, and drew conclusions about the scale of under-recording of income by the self-employed. Indirect measurement of the

note  
blkeco

*Shake  
Helen.  
work done  
on how  
to make  
economy  
work  
by  
policy  
change?  
H.*



black economy based on survey evidence will always involve the problem that some survey respondents may conceal the evidence that might be used to compute the scale of black economy transactions.

4. A recent comprehensive study\* concluded, on the basis of analysis of existing survey evidence, that the size of the black economy in the UK is likely to be in the range  $2\frac{1}{2}$  - 5 per cent of GDP. Much higher estimates (up to 15 per cent) have been quoted by others in the past, based on changes in the amount of cash - and in particular high denomination notes - in circulation. The studies that produced these high estimates are fairly clearly flawed.

5. The National Accounts currently include one adjustment which has in the past been interpreted as relating to the black economy. On the grounds that some black economy transactions are reflected in the expenditure measure of GDP but not in the income measure, the latter is adjusted to equal the former on average. While in the second half of the 1970s the unadjusted income measure was generally 3-4 per cent lower than the expenditure measure, in recent years the two measures have been much closer and this adjustment is not currently of much importance.

6. Further adjusting the National Accounts statistics to take account of the black economy would involve changes that would almost inevitably fail to command widespread agreement. And if any adjustment to the level of GDP would be open to dispute, adjustments to past growth would be still more controversial. For example, one of the more extreme calculations (by Kent Matthews of the University of Liverpool) has the size of the black economy rising from 2.3 per cent of GDP in 1974 to 12.1 per cent in 1980. Such an adjustment to the CSO's GDP figures would transform perceptions about the relative performance of the UK economy in the second half of the 1970s. While this particular estimate does not need to be taken seriously, any adjustment to the current level of GDP would require some necessarily shakily founded assumption about how the black economy has grown over time.

---

\* Britain's Shadow Economy by Stephen Smith.

7. Thus it is clear that there would be a cost to revising the estimated level of GDP to reflect black economic activity: the estimate adopted would be open to challenge and the reputation of the CSO's GDP figures might suffer more generally. The CSO would be put into the position of having to defend a particular estimate of the black economy. Economists at the University of Liverpool amongst others would certainly accuse the CSO of grossly underestimating the true size of the black economy if an adjustment in the 2½-5 per cent range were made.

X 8. Adjusting the figures would bring no benefit in terms of understanding or monitoring what is going on in the economy from year to year. Assessment of longer term economic performance might be helped if one could really rely on the estimates made of growth in the black economy: in practice it is clear that one could not rely on such estimates.

9. Thus the only benefit felt would be in comparisons of UK GDP levels with those of other countries. But the small black economy adjustment that seems appropriate for the UK means that our relative position would not be much improved. The black economy is much less important here than in Italy (or, probably, in some other countries where there is more self-employment and a higher proportion of small businesses than in the UK).



S J DAVIES

## MONTHLY ECONOMIC BRIEF

Prepared by the CSO on 30 April 1987

Adult unemployment fell again between February and March, by 30,000, continuing the sharp downward trend. The effect of employment measures has been broadly neutral over the past two months, but Restart continues to reduce the count and the new availability tests now seem likely to be having a substantial impact. It is likely that all these various influences explain most but not all of the fall in unemployment in recent months.

The employed labour force has grown further in the fourth quarter of 1986, and the rate of growth appears to have strengthened since the first half of last year.

There was an estimated PSBR of £3.3 billion in March, which, following the PSBR close to zero for the first eleven months of 1986-87, gave a cumulative total of £3.3 billion for the financial year. The outturn is somewhat lower than the forecast for 1986-87 of £4 billion announced in the Budget.

The projection of the average measure of GDP in the first quarter of 1987 suggests a rise of nearly  $3\frac{1}{2}$  per cent compared with the first quarter of 1986. This projection is in line with our assessment of the current underlying trend in GDP which is in the range  $2\frac{1}{2}$ - $4\frac{1}{2}$  per cent per annum.

The annual rate of RPI inflation was 4.0 per cent in March - 0.1 percentage points higher than in February. Little change is expected for April compared with March. Most mortgages will not be affected by the recent reductions in mortgage interest rates until May.

In March exports were  $7\frac{1}{2}$  per cent lower than in February and imports  $4\frac{1}{2}$  per cent lower. (A fall in exports in March was expected, the figures for February having benefited from some catching up after the snow in January.) Visible trade showed a deficit of £0.4 billion in March compared with a deficit of £0.2 billion in February. The latest figures suggest that the trend in non-oil export volume may have flattened out, and that the underlying trend in non-oil import volume is below the level of the fourth quarter of 1986. There was an estimated current account surplus of £0.6 billion in the first quarter of 1987 comprising a visible deficit of £1.2 billion and a projected invisibles surplus of £1.8 billion.

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

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

**GDP (average measure)** in the fourth quarter of 1986 was  $3\frac{1}{2}$  per cent higher than in the same period a year ago. This figure does not take account of past experience which shows that revisions to growth rates for the initial published estimates of GDP were on average, upwards, though not uniformly so. The assessment of current underlying trend for the first quarter of 1987 is that the rate of increase lies in the range  $2\frac{1}{2}$ - $4\frac{1}{2}$  per cent per annum.

**Industrial production** in the three months to February 1987 was  $2\frac{1}{2}$  per cent higher than in the same period a year ago; manufacturing output was 4 per cent higher. The assessment of current underlying trend for industrial production is that the rate of change currently lies in the range 2-5 per cent per annum. The current underlying trend in manufacturing output is in the range 3-6 per cent per annum.

**Retail prices** rose by 4 per cent in the twelve months to March 1987. It is only possible to provide a useful indicator of trend for about 70 per cent of the RPI, mainly that covering private sector prices and excluding eg mortgage interest, rent, rates, products produced by nationalised industries, seasonal food and petrol. The current trend for this series is around 4 per cent per annum. In the twelve months to March 1987 this series rose a little over  $3\frac{1}{2}$  per cent (not published).

**Producer input prices** showed a small increase of 0.2 per cent in seasonally adjusted terms in March after having remained unchanged between January and February. Little change is expected in April.

**Average earnings (underlying)** in the twelve months to February 1987 rose by  $7\frac{1}{2}$  per cent. The current trend is estimated to be 7-8 per cent per annum.

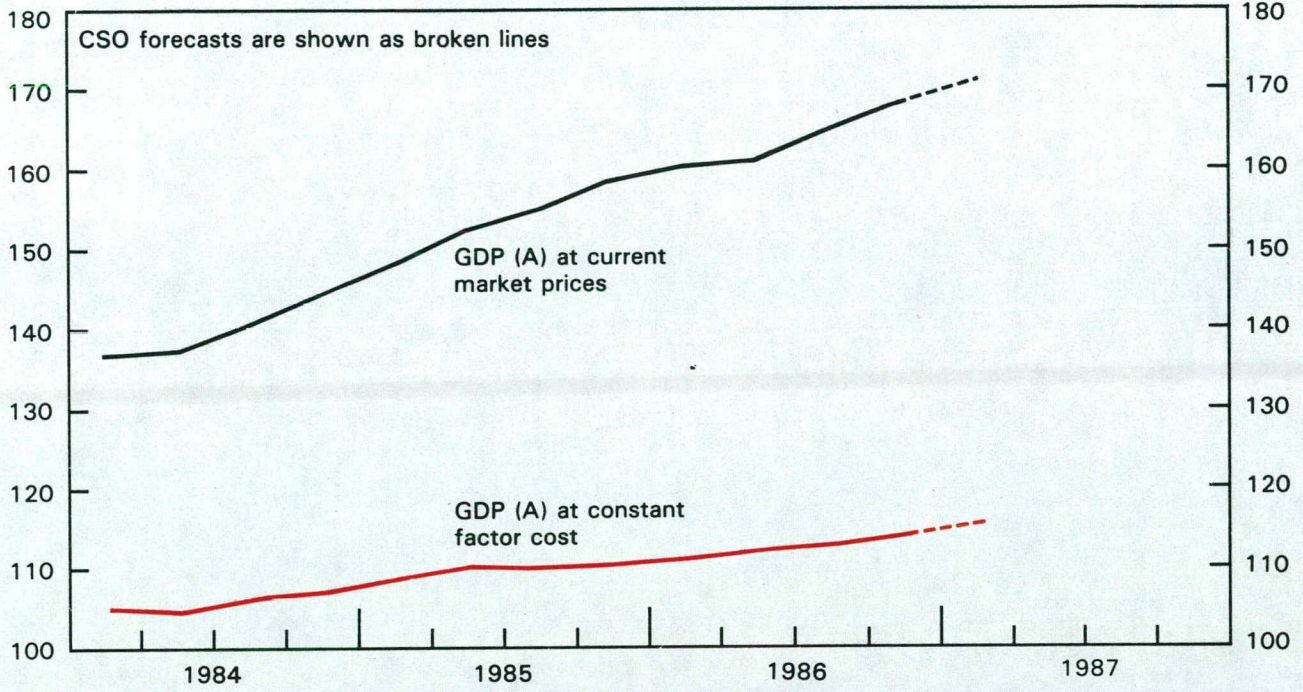
**Unit wage costs in manufacturing** in the three months to February 1987 rose by 2 per cent compared with the same period a year ago. The current underlying trend is estimated to be in the range 1-4 per cent per annum.

**Unemployment (excluding school leavers)** in the twelve months to March has fallen on average by 13,000 per month. Over the past 6 months there has been an average fall of 25,000 per month.

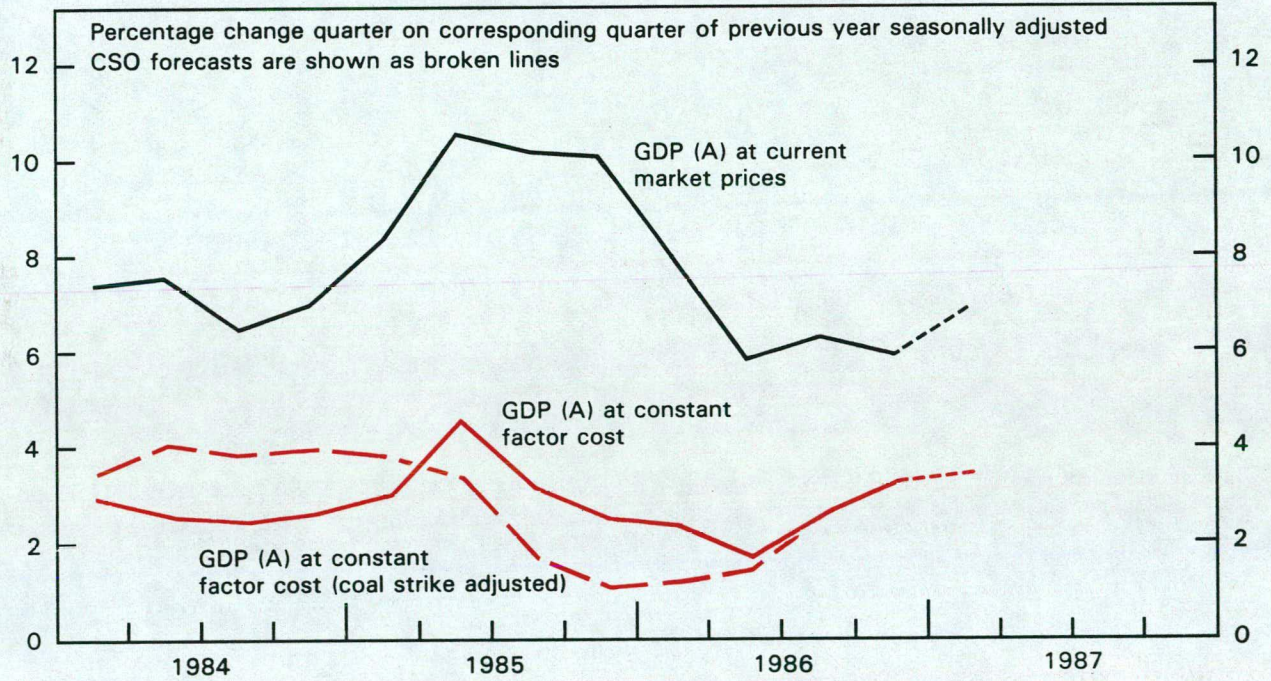
Movements over the latest published 12 months include any revisions that may have occurred since last publication (in general any such differences only occur in the GDP series).

Gross domestic product (average measure)

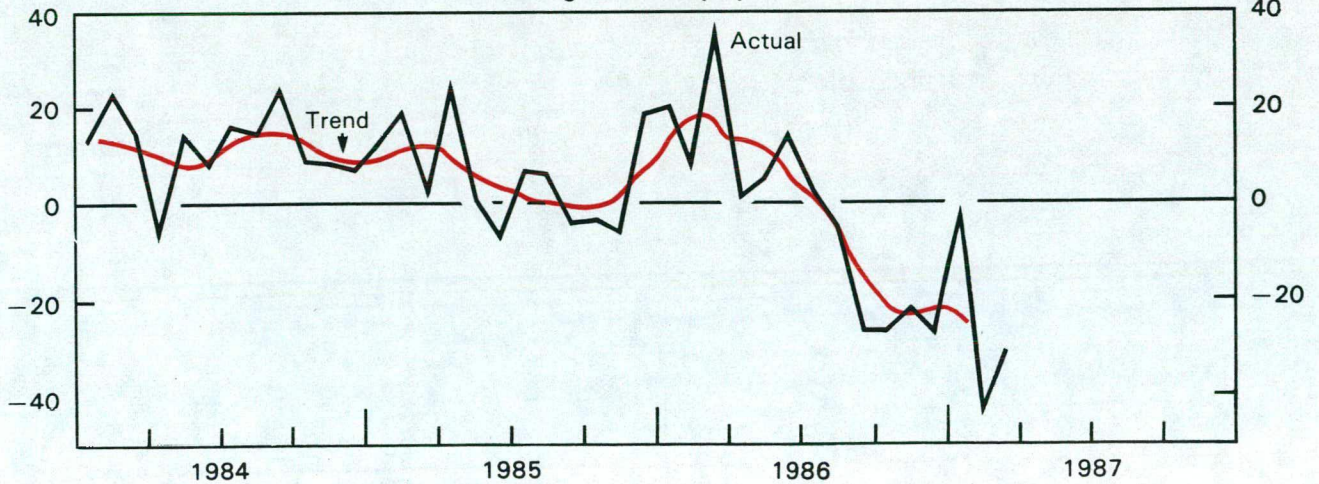
1980 = 100, seasonally adjusted



Gross domestic product (average measure)

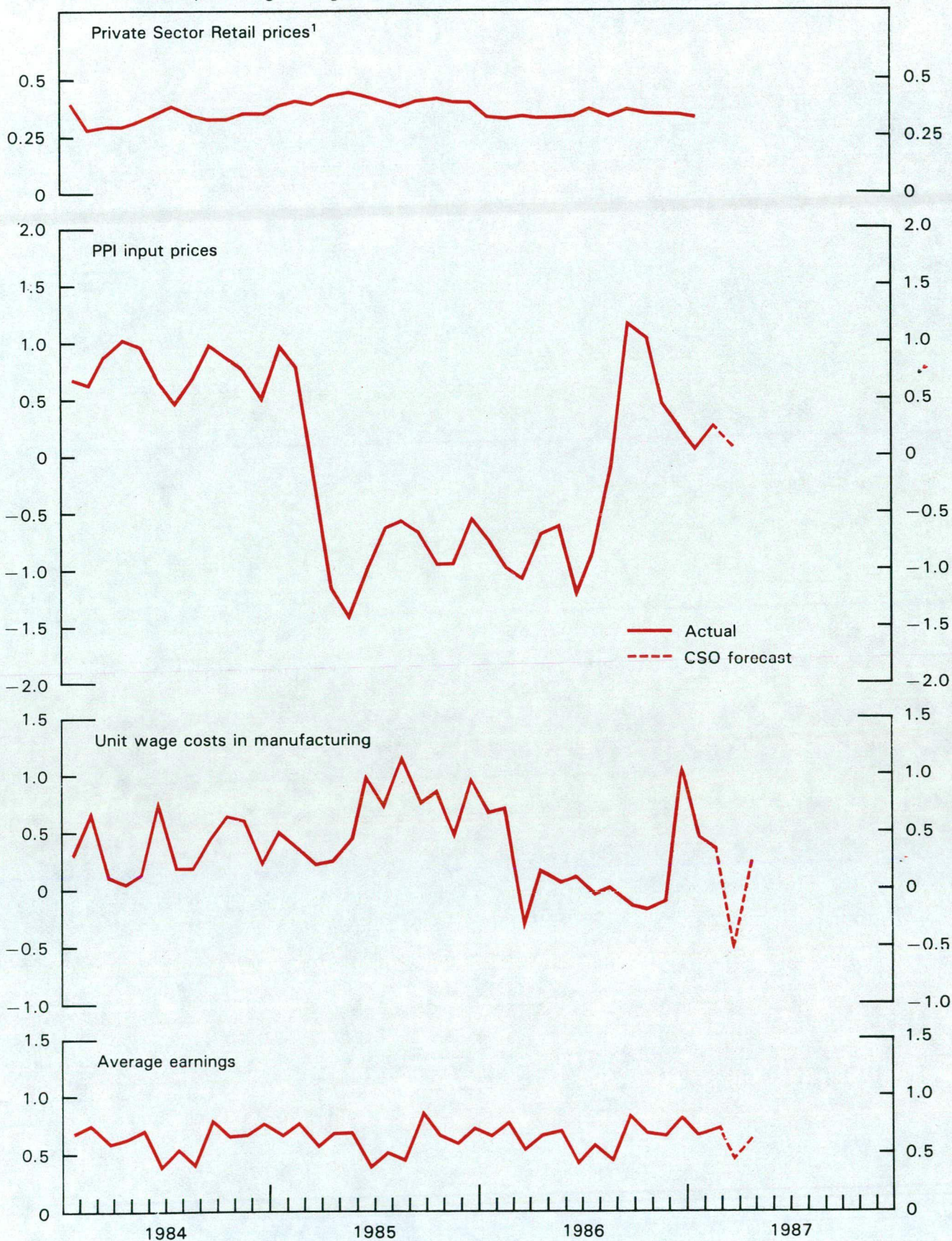


Changes in unemployment



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

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



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

CHART 4

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

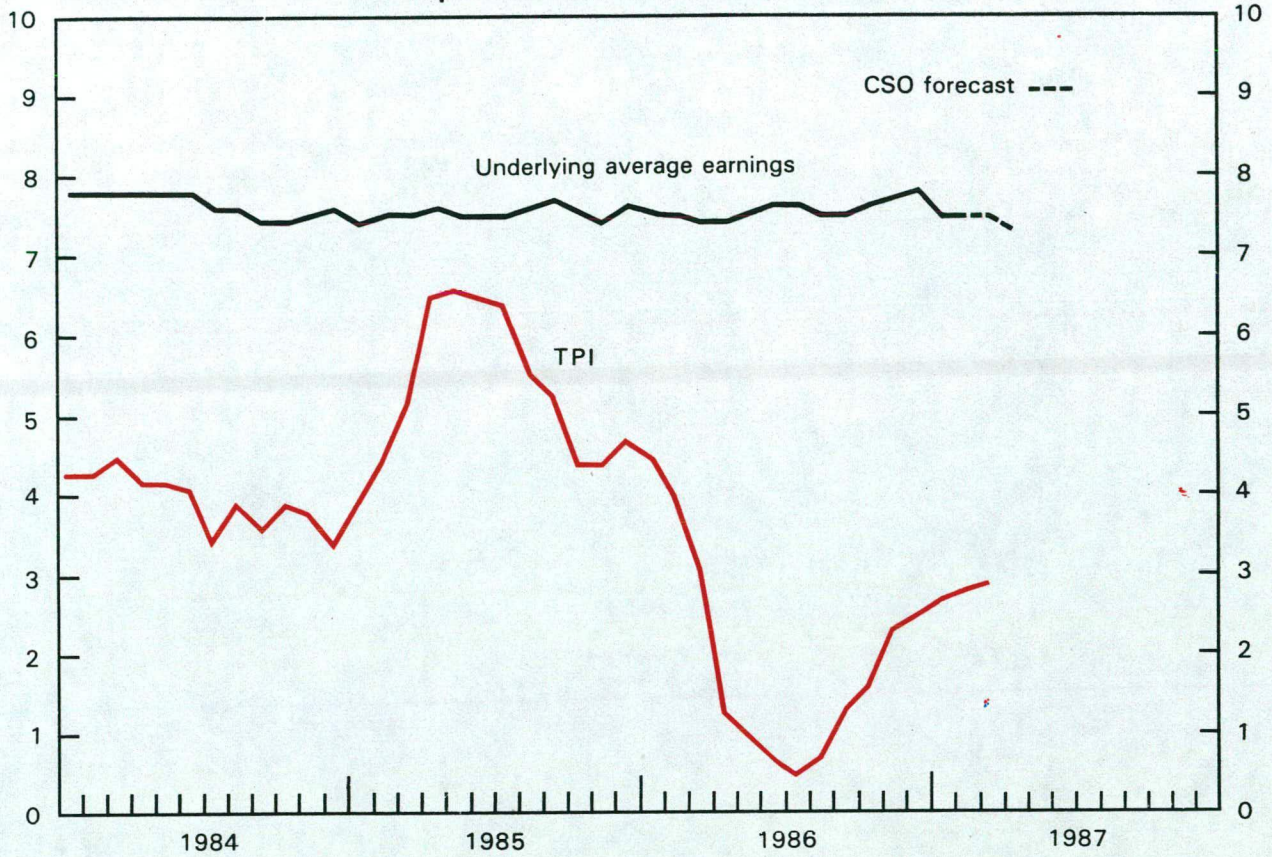
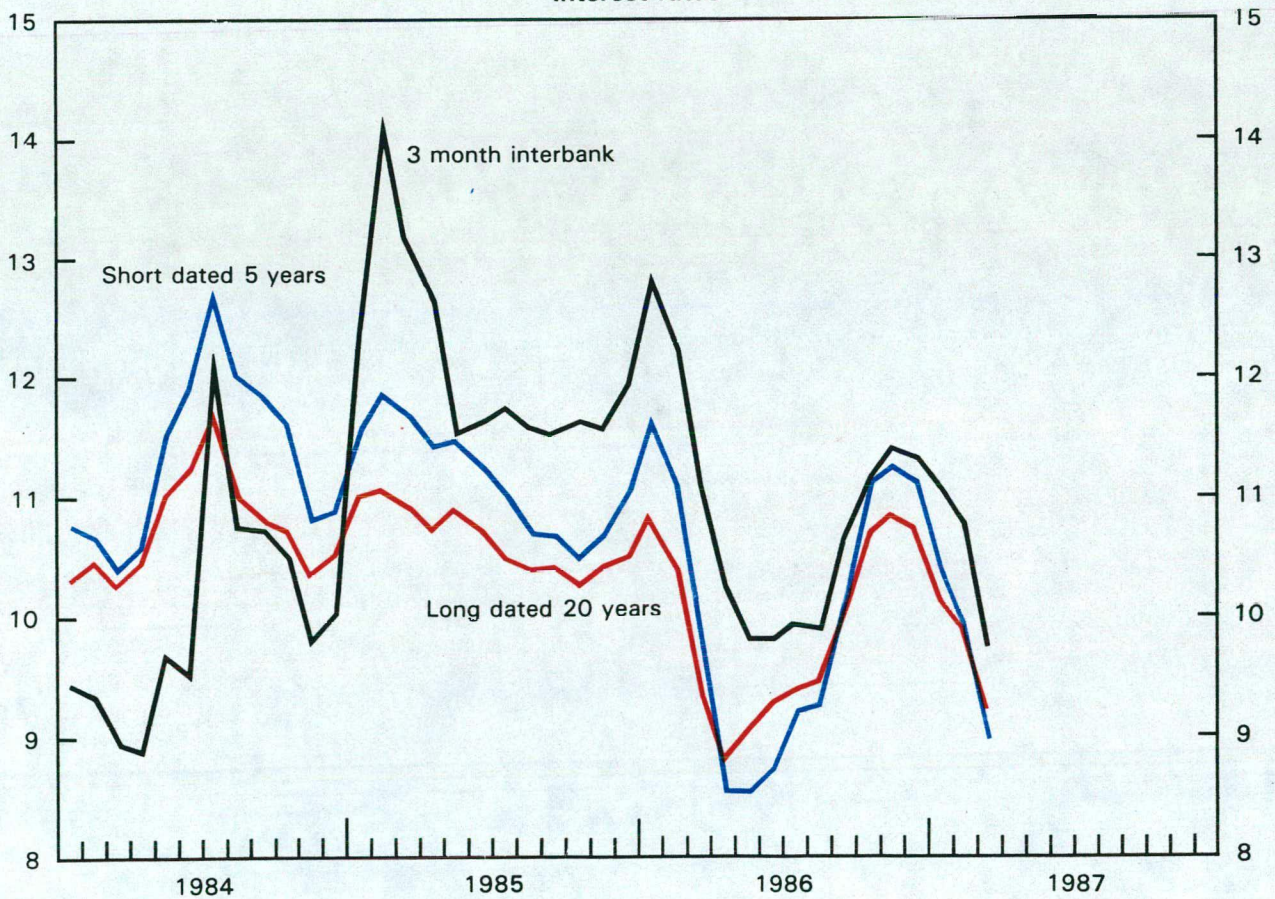


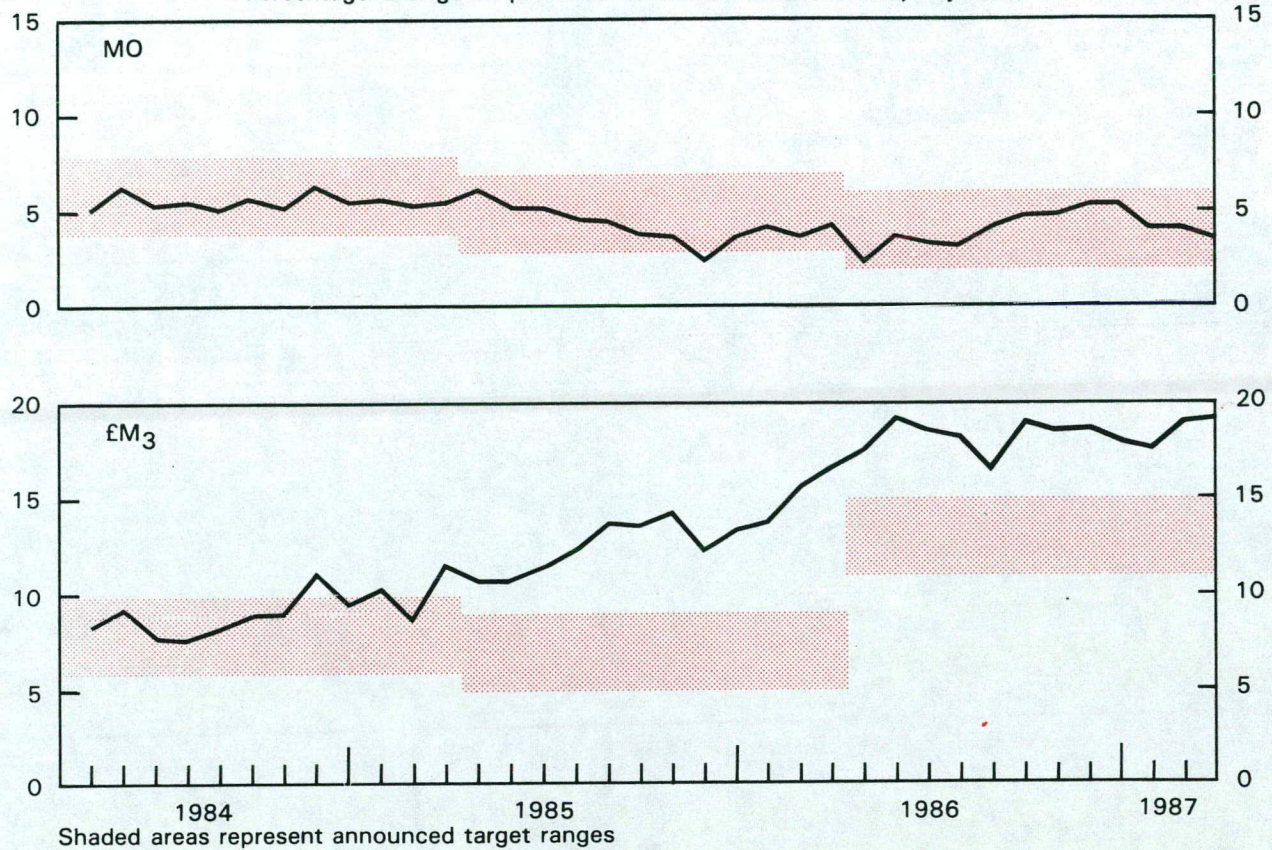
CHART 5

Interest rates



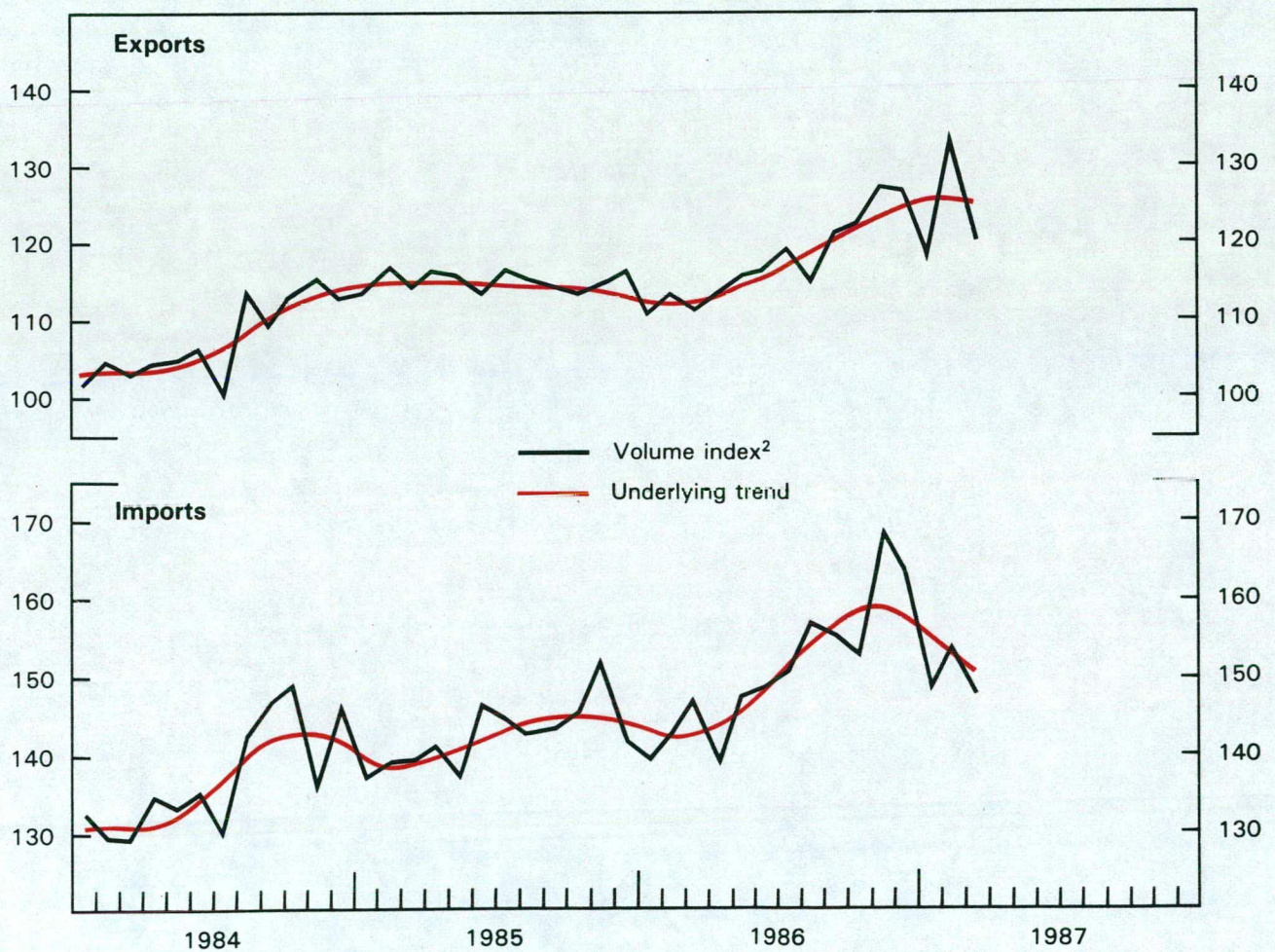
**Monetary aggregates**

Percentage Change on previous 12 months (not seasonally adjusted)



**Exports and Imports (excluding oil and erratics<sup>1</sup>)**

Index 1980 = 100



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



MONTHLY ECONOMIC BRIEF

DETAILED ASSESSMENTS SUPPLEMENT

<u>Sections</u>	<u>Contents</u>	<u>Page</u>
A	ECONOMIC ACTIVITY	8
A1	Total gross domestic product (in real terms)	8
A2	Money GDP	9
A3	Output measures	9
A4	Cyclical indicators	11
B	THE LABOUR MARKET	12
B1	Unemployment and vacancies	12
B2	Employment and hours	14
B3	Redundancies	17
C	PAY, PRICES AND REAL DISPOSABLE INCOME	19
C1	Average earnings	19
C2	Unit wage costs and competitiveness	20
C3	Producer prices	21
C4	Retail prices	22
C5	Real personal disposable income (RPDI)	23
D	COMPONENTS OF DOMESTIC EXPENDITURE	24
D1	Consumers' expenditure	24
D2	General government final consumption	24
D3	Gross domestic fixed capital formation	25
D4	Stockbuilding	25
E	OVERSEAS TRADE AND CURRENT BALANCE	26
F	FINANCIAL	27
F1	PSBR	27
F2	Monetary growth	28
F3	Financial markets	30
-	TABLES	32
-	QUALITY OF LATEST INFORMATION AVAILABLE	36

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

A1.1 The current estimate for the fourth quarter of 1986 suggests that the average measure of GDP, GDP(A), was 1 per cent higher than the previous quarter and  $3\frac{1}{2}$  per cent higher than the fourth quarter of 1985. Between the years 1985 and 1986 the growth in GDP(A) was some  $2\frac{1}{2}$  per cent (or over 2 per cent if allowance is made for the effects of the coal dispute in 1985).

A1.2 The three measures of GDP at constant factor cost show somewhat different quarterly profiles through 1986 but there is much closer correspondence between their growth rates in the year-on-year comparison: all three measures indicate a growth in the region of  $2\frac{1}{2}$ -3 per cent between the two years (or  $\frac{1}{2}$  per cent less after allowing for the coal dispute).

A1.3 Because of the bad weather in January, the projections for the first quarter of 1987 are more tentative than usual. These show GDP(E) moving forward nearly 2 per cent compared with the fourth quarter due to a very marked improvement in the trade balance (because of a fall in imports); GDP(I) is projected to rise nearly  $1\frac{1}{2}$  per cent between the same two quarters, reflecting a further recovery in North Sea profits and a rise in non-North Sea company profits; GDP(O) is showing only a modest rise (see paragraph A3 for further details).

A1.4 Combining these measures, the first quarter 1987 projection for GDP(A) suggests a rise of 1 per cent over the fourth quarter level and a rise of  $3\frac{1}{2}$  per cent compared with the first quarter of 1986. Our best assessment of the current underlying trend in GDP(A) is that it lies in the range of  $2\frac{1}{2}$ - $4\frac{1}{2}$  per cent per annum.

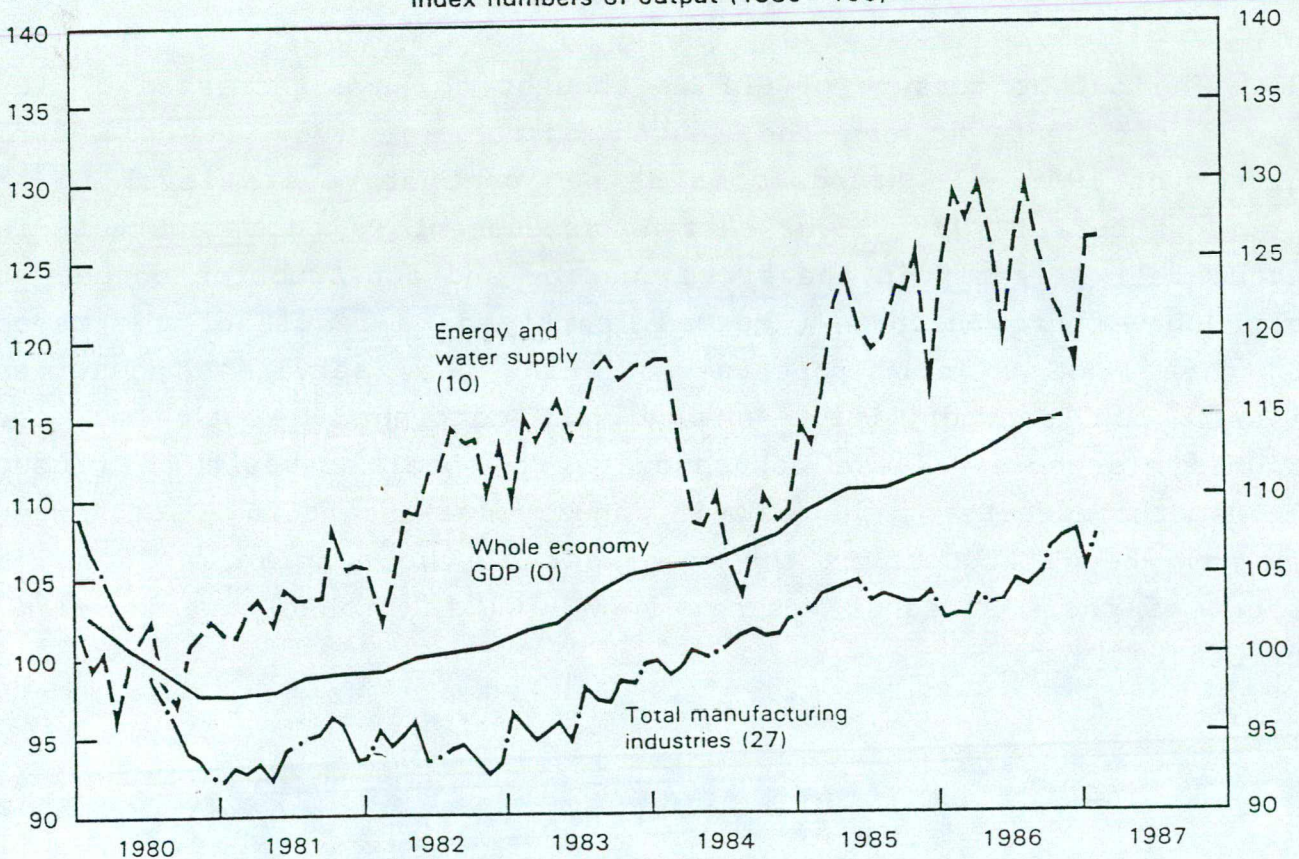
A2 Money GDP

A2.1 The current projection of money GDP for the first quarter of 1987 suggests growth of 2 per cent compared with the previous quarter and 7 per cent compared with the first quarter of 1986. Between 1985 and 1986, it increased by 6½ per cent, or 6 per cent if broad allowance is made for the effect of the coal strike in 1985.

A3 Output measures

A3.1 Manufacturing output reached a temporary peak in the second quarter of 1985 and then declined 2 per cent by the first quarter of 1986. However, during the remainder of 1986, output more than recovered this lost ground, and in the fourth quarter is now estimated to have been nearly 3 per cent higher than in the second quarter of 1985 and also 2½ per cent higher than in the third quarter of 1986. The provisional figure for February 1987 suggests a level of output broadly unchanged from the fourth quarter, following the decline of 2½ per cent recorded in January, which reflects partly, though not entirely, the effects of the heavy snow in certain areas in that month.

Index numbers of output (1980 = 100)



Note: Figures in Brackets represent percentage of GDP (0) by weight in base year 1980.

A3.2 Trends in the energy sector are difficult to determine, because of short-term movements in oil extraction caused by seasonal maintenance work and, at the end of last year, reduced production due to a pipeline leak. Output in the last quarter of 1986 showed some decline but output was high in January, reflecting the high demand for energy during the severe weather together with the repairing of the oil pipeline, and in February.

A3.3 The underlying output of all production industries in the second half of 1985 was approximately 1 per cent below the level reached in the first half, but since then underlying output has increased steadily - mainly reflecting the improvement in manufacturing output. Published figures were little changed between the third and fourth quarters of 1986, a reduction in energy output (mainly lower oil extraction) being offset by an increase in manufacturing. In January 1987, this pattern was reversed due to the effect of the severe weather but the published index for production industries for February recorded a further increase as manufacturing output recovered. The March index is expected to decline to about  $111\frac{1}{2}$  (February was 112.6), reflecting a temporary fluctuation in oil extraction, but then return to about  $112\frac{1}{2}$  in April.

A3.4 The output measure of GDP is thought to have increased by less than  $\frac{1}{2}$  per cent between the fourth quarter of 1986 and the first quarter of 1987. It stands some  $3\frac{1}{2}$  per cent above its level in the first quarter of 1986. Our current assessment is that manufacturing output fell slightly in the first quarter and construction output was well down. Energy output increased, partly as a result of the repair of the leaking oil pipeline. Within the service industries, distribution showed little change but continued growth has been assumed elsewhere. These assessments are more uncertain than usual because the effects of the snow in January are uncertain - some output may have been recouped in the remainder of the quarter, and the net effect of the unseasonal weather on GDP(0) is probably well under  $\frac{1}{2}$  per cent.

A4 Cyclical indicators

A4.1 The cyclical indicators continue to give no clear view of the direction of the business cycle over the last year. The coincident index was little changed during 1986, though it has been falling during the four months to February of this year, largely because of movements below trend in retail sales. The longer leading index rose strongly between December and March reflecting the sharp rise in share prices but, like the shorter leading index, it has been behaving irregularly in recent months.

A4.2 Since the trough in 1981, the main economic series which are used to "define" the business cycle (ie. the three measures of GDP, industrial production and retail sales) have not as a whole exhibited the sharp swings in growth rate seen in previous cycles. One interpretation of this is that the effect of the business cycle on the economy has been diminished. It would therefore be unsurprising that the indicator system has failed to reveal any clear cycle in recent years and a matter of some note that the major economic time series are now exhibiting no significant cyclical behaviour.

B. THE LABOUR MARKET

B1 Unemployment and vacancies

B1.1 UK unemployment (seasonally adjusted, excluding school leavers) fell sharply again between February and March by 30,000 to 3.043 million (11.0 per cent).

B1.2 There have now been eight consecutive monthly falls since last July, over which period unemployment has decreased by 180,000. In the 6 months since September there has been a fall of 150,000 or 25,000 per month, the largest six month fall since March 1973. The current trend is probably close to the six monthly average.

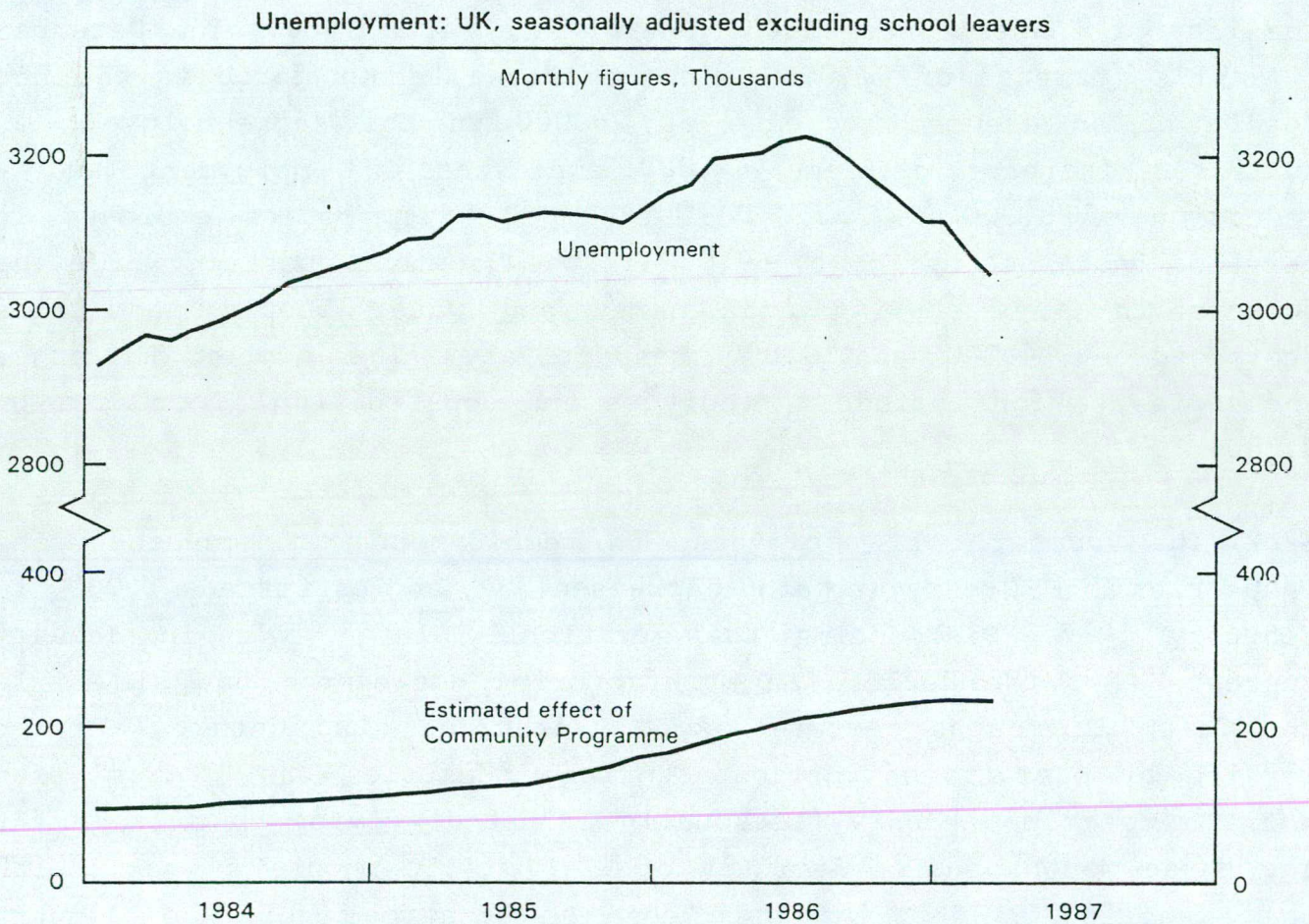
B1.3 Restart and availability testing could explain most of the fall in seasonally adjusted unemployment in March. It is particularly difficult to assess the effect of availability testing, though given the pattern of reduced inflows and a reduction in those unemployed with short durations over the past few months, it is likely that the new tests are now having a substantial impact. Restart has been reducing the count by a little under 10,000 per month since July, and this appears to have been maintained between February and March. The effect of employment measures has been broadly neutral over the past two months.

B1.4 For the second month running, all regions had a fall in unemployment in March. Similarly, all regions have now had a fall over the past six months, although only marginally in Scotland. Over the past year the unemployment rate has fallen fastest in Wales and in the North, and the only regions to experience a rise were Scotland and Northern Ireland.

B1.5 The headline claimant total (unadjusted, including school leavers) fell by 82,000 in March to 3.143 million, 11.4 per cent of the working population. The overall total was 180,000 lower than a year ago, the largest 12 month fall since December 1973. In March there was a fall of nearly 75,000 among adults and nearly 8,000 among school leavers. The school leaver total, at 72,000, was 13,000 lower than a year ago.

B1.6 The stock of vacancies at jobcentres (seasonally adjusted and excluding Community Programme) increased by 3,500 to nearly 211,000 in March, some recovery from the recent falls.

B1.7 Inflows of notified vacancies, outflows and placings all recovered very sharply following the falls in the previous two months, and are back to record levels since the series began in 1980. These latest figures for March probably reflect some rebound from the effects of the bad weather between the January and February vacancy counts.



B2 Employment and hours

B2.1 This month there are a full set of estimates for the quarter ending December 1986 and latest figures in manufacturing for February 1987. The estimates for non-manufacturing sectors for earlier quarters have been revised in the light of the later data now available and the routine annual recalculation of seasonal adjustment factors. The employed labour force in Great Britain - which includes the self-employed and HM Forces as well as employees in employment - is estimated to have increased by 87,000 in the last quarter of 1986 following an increase of 54,000 in the third quarter. This continues the upward trend which started in March 1983, since when the employed labour force is estimated to have increased by 1,130,000. The total increase over the year ending December 1986 is estimated at 176,000 compared with the increase of 236,000 in the previous year; however the rate of increase has strengthened since March 1986. The December quarter's increase of 87,000 in the employed labour force is the net result of an assumed increase of 26,000 in the self-employed, an estimated increase of some 64,000 employees in employment and a reduction of 3,000 HM Forces. The number of employees employed in services increased again, by 69,000 in the December quarter, while the numbers in manufacturing and energy and water supply industries decreased by 4,000 and 9,000 respectively. The number in other industries (which include agriculture and construction) increased by 8,000.

B2.2 The number of employees in employment in manufacturing industries in Great Britain decreased by an estimated 1,000 in February 1987. Discounting the erratically large fall in January suggests that the decline in manufacturing employment has slowed in the last six months compared to the previous six months. Overtime working by operatives in manufacturing industries was 12.2 million hours a week in February (seasonally adjusted) giving an average for the three months ending February of 11.5 million hours a week. With the exception of what may have been an erratic figure for January 1987, overtime working has fluctuated around 11.5 to 12 million hours



**CONFIDENTIAL**

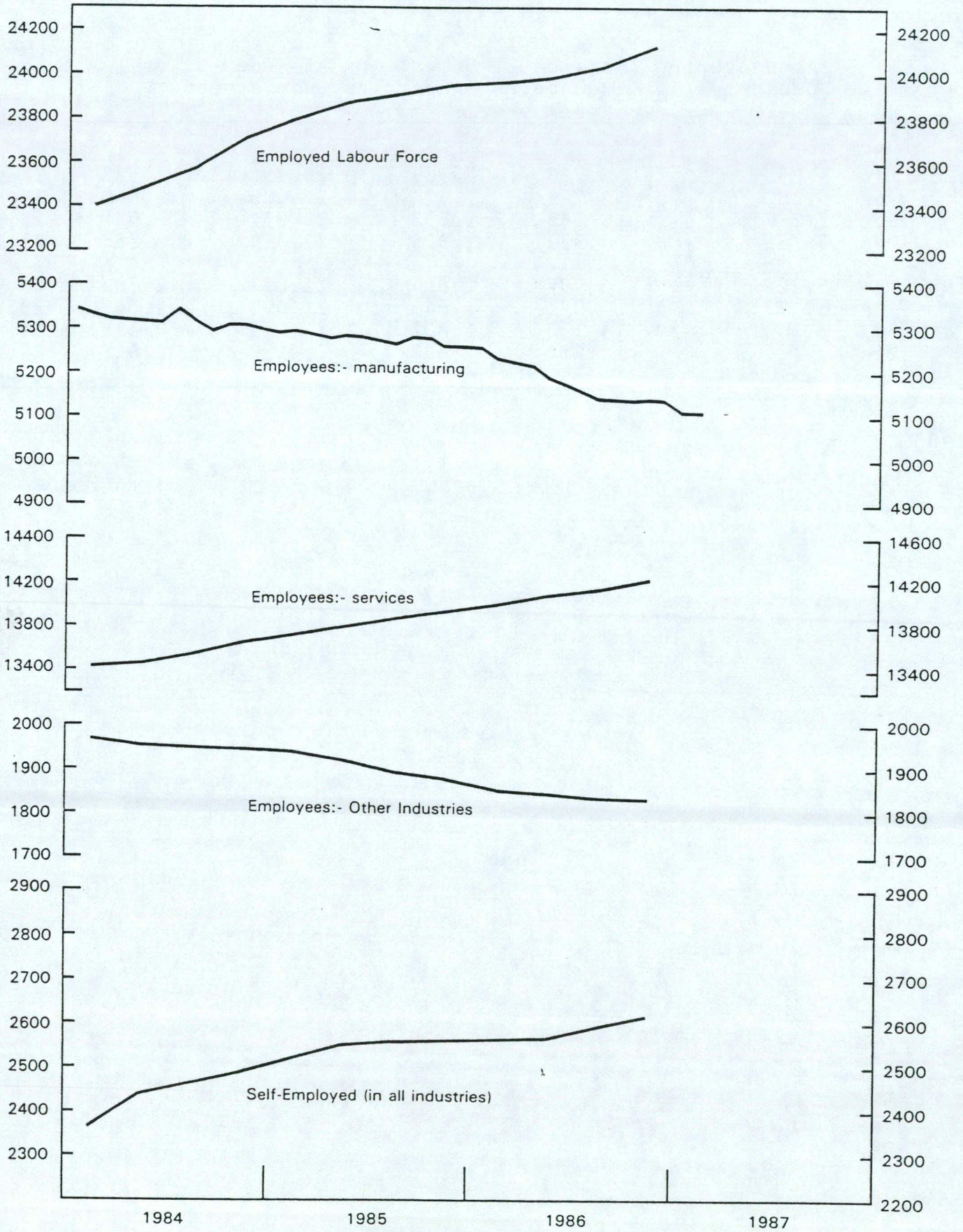
The Employed Labour Force in Great Britain    Thousand: Seasonally adjusted

Employees in employment					Self- Employed Persons	Employed Labour Force
	Manufacturing Industries	Service Industries	Other Industries	All Industries and Services		
<b>Levels</b>						
1985 Mar	5,288	13,726	1,939	20,954	2,522	23,802
Jun	5,282	13,799	1,922	21,003	2,550	23,879
Sep	5,279	13,865	1,893	21,037	2,554	23,917
Dec	5,261	13,932	1,876	21,069	2,558	23,951
1986 Mar	5,226	13,997	1,854	21,077	2,563	23,962
Jun	5,175	14,075	1,848	21,098	2,567	23,986
Sep	5,141	14,153	1,831	21,125	(2,592)	24,040
Dec	5,137	14,222	1,830	21,189	(2,618)	24,127
<b>Changes</b>						
1985 Q1	- 11	+ 70	- 7	+ 9	+ 29	+ 87
Q2	- 6	+ 73	- 17	+ 49	+ 28	+ 77
Q3	- 3	+ 66	- 29	+ 34	+ 4	+ 38
Q4	- 18	+ 67	- 17	+ 32	+ 4	+ 34
1986 Q1	- 35	+ 65	- 22	+ 8	+ 5	+ 11
Q2	- 51	+ 78	- 6	+ 21	+ 4	+ 24
Q3	- 34	+ 70	- 17	+ 27	(+ 25)	+ 54
Q4	- 4	+ 69	- 1	+ 64	(+ 26)	+ 87
1985 Jul	- 8					
Aug	- 5					
Sep	+ 10					
Oct	- 3					
Nov	- 13					
Dec	- 2					
1986 Jan	- 5					
Feb	- 24					
Mar	- 6					
Apr	- 7					
May	- 29					
Jun	- 15					
Jul	- 17					
Aug	- 12					
Sep	- 5					
Oct	- 2					
Nov	+ 2					
Dec	- 4					
1987 Jan	- 22					
Feb	- 1					

NB: Employed Labour Force also includes HM Forces  
 Brackets indicate projections based on the assumption that the average rate of increase between 1981 and 1986 is continuing.

**CONFIDENTIAL**

### Employment Thousands



a week since January 1986, a little below the peak level of slightly above 12 million hours a week which was maintained for most of 1985. Short time working resulted in the loss of 0.43 million hours a week (seasonally adjusted) in manufacturing industries in February 1987 which made an average of 0.48 million hours per week lost in the three months ending February. This compares with an average of 0.57 million hours per week lost in the previous three months ending November and 0.38 million hours per week lost in the three months ending February 1986.

B2.3 The index of average weekly hours worked by operatives in manufacturing industries (which takes account of hours of overtime and short time as well as normal basic hours) was estimated at 103.3 in February 1987 (seasonally adjusted). This gave an average for the three months ending February of 102.8 which compares with 102.9 for three months ending February 1986.

B3 Redundancies

B3.1 The underlying trend in the number of redundancies confirmed as due to occur (measured by a seven month ended moving average) continued downward in February, as it has done since mid-1986. This apparent decline has arisen partly because of a probable downturn in redundancies, but is affected to an uncertain extent by the consequences of changes in the Redundancy Fund rules, including erosion of the quality of reporting in recent months. The downward trend in confirmed redundancies in the manufacturing sector, in which most redundancies occur, has followed a similar pattern to total redundancies since mid-1986 for similar reasons. In the energy and water supply sector, which is less likely to be affected by changes in reporting quality, the trend rose in February for the second successive month as a result of redundancies in the coal industry, after previously falling since May 1986. The downward trend since July 1986 in other industries and services accelerated in January and February, on the basis of the provisional estimates.

CONFIDENTIAL

B3.2 The number of confirmed redundancies in the three months ending February 1987 is expected to average about 15,000 a month, compared with just over 24,000 a month recorded during the corresponding period a year ago.

NB. The commentary on the trend is now in terms of a seven month moving average, instead of the twelve month moving average previously used. The trend in the new moving average more closely reflects current movements than the previously used figures.

CONFIDENTIAL

C PRICES AND REAL DISPOSABLE INCOMEC1 Average earnings

C1.1 The underlying increase in average weekly earnings in the year to February was about 7½ per cent, similar to the actual increase of 7.4 per cent. Temporary factors had a negligible effect and largely offset each other:-

- changes in the timing of pay settlements inflated the actual increase with the effect of two settlements for teachers in the twelve month period (because of the delay in reaching the April 1985 settlement) being partly offset by the delay in the settlements for telecommunications employees;
- industrial action by some telecommunications employees depressed the actual increase.

C1.2 There is little sign of a significant change in the annual underlying increase. By February about 30 per cent of employees had received current pay round settlements, on average about 1 per cent lower than in the previous round, but the effect of these lower settlements on the underlying average earnings increase has been offset by additional payments related to economic activity. The prospect for March and April is that this situation will continue, although in April since a relatively large number of employees will be paid new settlements there is a possibility that the underlying increase may fall. The actual twelve month increases are expected to be below the underlying increases because of the high level of back pay in March and April last year.

C2 Unit wage costs and competitiveness

C2.1 Unit wage costs in the whole economy rose by over 2 per cent between the third and fourth quarters of 1986. In the first quarter of 1987 the rise is likely to be over 1 per cent, with total wage costs rising by about  $1\frac{1}{2}$  per cent and GDP(0) rising by nearly  $\frac{1}{2}$  per cent; this would give a rise in unit wage costs of nearly 5 per cent since the first quarter of 1986.

C2.2 In the three months to February manufacturing unit wage costs increased by 2 per cent compared with the previous three months. A rise in average earnings of  $2\frac{1}{2}$  per cent was only partially offset by a  $\frac{1}{2}$  per cent increase in productivity. (However this rise in average earnings is probably erratically high due to temporary factors such as back pay and the low productivity increase is due to a weather affected output figure for January. Consequently the calculated increase in unit wage costs is above the underlying trend.) Unit wage costs in the three months to February were 2 per cent higher than a year earlier, an increase of 8 per cent in average earnings being partially offset by an increase of 6 per cent in productivity.

C2.3 UK competitiveness (as measured by relative actual unit labour costs in manufacturing) improved by around 17 per cent in the year to the fourth quarter of 1986. Following the sharp deterioration in competitiveness during 1985, the UK's competitive position by the end of 1986 had returned roughly to what it was at the end of 1984. The fall in the exchange rate during 1986 was almost entirely reflected in improved competitiveness because UK unit labour costs grew only a little faster than those elsewhere - a marked improvement on previous trends but in part a reflection of divergent cyclical movements in manufacturing productivity in the UK and other 'G5' countries. Since the fourth quarter of 1986, sterling has appreciated by nearly 7 per cent,  $5\frac{1}{2}$  percentage points of which are since the 'Louvre' agreement, reversing some of the earlier competitiveness gains.

C3 Producer prices

C3.1 The unadjusted price index for materials and fuel purchased by manufacturing industry fell by 0.7 per cent in the twelve months ended March after having fallen by 2.8 per cent in the twelve months ended February. Between February and March the index fell by 1.1 per cent, mainly because a seasonal fall in electricity costs and lower scheduled prices for petroleum products were only partly offset by a rise in prices of home-produced food manufacturing materials. The seasonally adjusted index for materials and fuel showed a small increase of 0.2 per cent in March after having remained unchanged between January and February. It is now less than  $\frac{1}{2}$  per cent lower than at the same time in 1986, though it remains  $11\frac{1}{2}$  per cent below its peak of two years ago. The unadjusted index is expected to show little change in April and to be about 1 per cent higher than in April 1986. The seasonally adjusted index is also expected to show little change in April.

C3.2 The price index for home sales of manufactured products rose by 0.3 per cent in March. This was about the same rate of increase as in five of the six preceding months: January's larger increase of 0.7 per cent in part reflected the tendency for manufacturers' price increases to be concentrated at the beginning of the year. The twelve-monthly rate of increase in the index, which had shown little change at around  $4\frac{1}{4}$  per cent since October, fell to 3.7 per cent in March, mainly as a result of the non-indexation of tobacco duties this year (compared with the increases last year). The index for manufacturing industry other than the food, drink and tobacco sector continued to show a twelve-monthly increase of 4.2 per cent. The index for all manufacturing industry is expected to show a rise approaching  $\frac{1}{2}$  per cent in April and the twelve-monthly rate of increase should fall a little further to about  $3\frac{1}{2}$  per cent. After adjusting for the effect of the rise in tobacco duties on last April's figure, this would represent a twelve-monthly increase of 4 per cent, the same as the Budget-adjusted increase in March and a little lower than the rises of around  $4\frac{1}{4}$  per cent in the preceding five months.

C4 Retail prices

C4.1 The annual rate of inflation, as measured by the 12-month change in the retail prices index, was 4.0 per cent in March - 0.1 percentage points higher than in February. The overall level of prices increased by 0.2 per cent between February and March - this compares with an increase of 0.1 per cent in the corresponding months last year. Higher prices were recorded for motor vehicles, household goods, and clothing.

C4.2 In April increases in local authority rents and rates and in mortgage interest payments (following the reduction in tax rates announced in the Budget) will contribute to an expected increase in the overall level of prices of about one per cent. This is comparable with the increase recorded for April last year. Little change is expected in the 12-month rate for April compared with March.

C4.3 Most mortgages will not be affected by the recent reductions in mortgage interest rates until May.



C5 Real personal disposable income (RPDI)

C5.1 Between the fourth quarter of 1986 and the first quarter of 1987 total wages and salaries are estimated to have risen by about 1½ per cent to reach a level about 8 per cent higher than in the first quarter of 1986.

C5.2 Personal disposable income is estimated to have risen by around 1½ per cent between the fourth quarter of 1986 and the first quarter of 1987. With prices, as measured by the consumers' expenditure deflator, rising by about 1 per cent in the same period, RPDI is tentatively estimated as rising by about ½ per cent.

	RPDI 1980 prices £bn	Consumers' expenditure 1980 prices £bn	Saving ratio per cent
1984	41.7*	36.7*	12
1985	42.9*	38.0*	11½
1986	44.7*	39.9*	11
1984 Q1	41.1	36.3	12
Q2	41.3	36.8	11
Q3	41.4	36.5	11½
Q4	43.2	37.1	14
1985 Q1	42.2	37.4	11½
Q2	42.7	37.6	12
Q3	42.8	38.3	10½
Q4	43.8	38.6	12
1986 Q1	44.0	39.0	11½
Q2	44.7	39.6	11½
Q3	44.8	40.3	10
Q4	45.3	40.3	11
1987 Q1	(45.7)	40.3	(11½)

\*Quarterly average

D COMPONENTS OF DOMESTIC EXPENDITURED1 Consumers' expenditure at constant prices

D1.1 In the fourth quarter of 1986, consumers' expenditure was at the same level as in the third quarter but nearly 4½ per cent higher than in the same period of 1985. This estimate reflects continued growth in most categories of retail goods but with falls in vehicles, food and energy.

D1.2 Preliminary estimates suggest that in the first quarter of 1987 consumers' expenditure was unchanged from its level in the fourth quarter of 1986. Expenditure on retail sales goods fell between the two quarters but this was offset by projected increased spending on vehicles and energy products and the general upward trend in services.

D1.3 The retail sales index has been rebased onto 1984 although 1980 has been retained as the reference year for the convenience of users (see Quality Section). The provisional index for March, at 125.5, gives a first quarter index of 125.4, 1 per cent below that for the fourth quarter of 1986. This provides further evidence that the strong growth in retail sales seen in 1986 has weakened. A value around 127 is forecast for April.

D2 General government final consumption at constant prices

D2.1 General government consumption is estimated to have been £13.0 billion in the first quarter of 1987. This is in line with the forecast shown in the Financial Statement and Budget Report 1987-88 (Table 3.14).

D3 Gross domestic fixed capital formation at constant prices

D3.1 Total fixed investment was £11.5 billion in the fourth quarter of 1986 taking the annual total to £46.6 billion, representing an increase of  $\frac{1}{2}$  per cent on 1985. The acceleration of investment caused by the announcement of reduced capital allowances in the 1984 Budget, although difficult to quantify, is believed to have increased fixed investment more in 1985 than 1986 reducing the increase in fixed investment between the two years. Fixed capital formation is expected to have been about £11.7 billion in the first quarter of 1987.

D3.2 Fixed investment by manufacturing industries (including leased assets) fell by 5 per cent between 1985 and 1986 whilst fixed investment in the construction, distribution and financial industries (excluding assets leased to manufacturers) was unchanged between the two years. There were reductions in fixed investment by the agriculture, oil and gas extraction and transport industries. On the other hand, there were increases in fixed capital formation by general government and in private sector dwellings.

D4 Stockbuilding at constant prices

D4.1 Stocks rose £0.4 billion in the fourth quarter of 1986, taking the increase for 1986 as a whole to £0.6 billion which was the same as 1985. Stocks are expected to have increased by about £0.1 billion in the first quarter of 1987.

D4.2 During 1986 the most notable feature was the increase in retail stocks amounting to £0.6 billion. Elsewhere in the economy the main features were an increase of £0.25 billion in construction stocks and a similar decrease in manufacturing stocks.

E OVERSEAS TRADE AND CURRENT BALANCE

E1.1 Visible trade showed a deficit of £0.4 billion in March with exports valued at £6.4 billion and imports at £6.8 billion.

E1.2 In the first quarter of 1987 visible trade showed a deficit of £1.2 billion, an improvement of £1.4 billion on the previous quarter. The surplus on oil increased by £0.3 billion and the deficit on non-oil trade was reduced by £1.1 billion.

E1.3 By value total exports increased by 1 per cent in the latest quarter while imports decreased by 5½ per cent. Excluding oil and the erratic items, export volume increased by 1 per cent in the latest quarter and import volume decreased by 7½ per cent.

E1.4 There was an estimated current account surplus of £0.6 billion in the first quarter of 1987 comprising a visible deficit of £1.2 billion and a projected invisibles surplus of £1.8 billion.

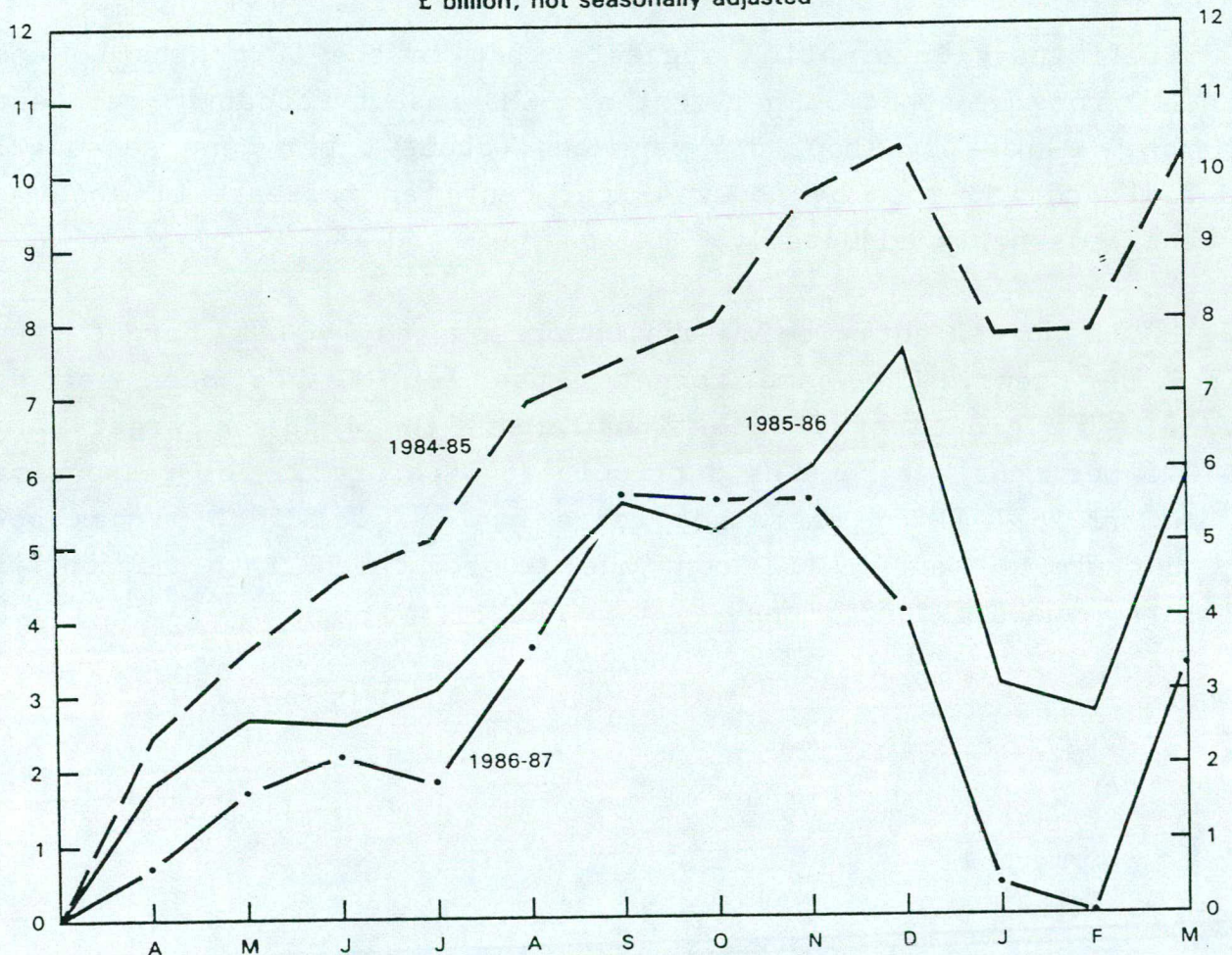
**F FINANCIAL**

**F1 PSBR**

F1.1 There was an estimated PSBR of £3.3 billion in March following a repayment of £0.4 billion in February, giving a cumulative PSBR total for 1986-87 of £3.3 billion. In 1985-86, the PSBR was £5.8 billion.

F1.2 The outturn is somewhat lower than the forecast for 1986-87 announced in the March Budget of £4 billion. It is also well below the original forecast of £7 billion; the main reasons for the shortfall were the buoyancy of non-oil tax revenues and low borrowing by local authorities and public corporations. The Budget forecast for the PSBR in 1987-88 is £4 billion.

**Cumulative PSBR from start of financial year  
£ billion, not seasonally adjusted**



Note: The seasonal pattern can differ from year to year

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

(£ billion, not seasonally adjusted)  
Comprising

	PSBR	CGBR(O)	LABR	PCBR
Outturns				
February	-0.4	0.1	-0.2	-0.4
March	3.3	2.3	0.8	0.2
April to March	3.3	4.6	0.1	-1.4

F2 Monetary growth

(All figures are unadjusted unless specified otherwise).

F2.1 Preliminary information suggests that in the 12 months to end-March, M0 rose by about 3½ per cent and £M3 rose by about 19 per cent. In March, M0 rose by about ¾ per cent (about ½ per cent seasonally adjusted) and £M3 rose by about 4½ per cent (an increase of about 3½ per cent seasonally adjusted).

F2.2 M0 is now slightly below the centre of its 1986/87 target range of 2-6 per cent. The same target range for M0 has been set for 1987/88. The growth of £M3 continues above the 1986/87 target range of 11-15 per cent but remains difficult to interpret. For reasons set out in the 1987 FSBR, no target range for £M3 for 1987/88 has been set, but broad money will continue to be taken into account in assessing monetary conditions.

F2.3 £M3 rose by about £6.9 billion in March. Provisional counterparts to the change in £M3 are as follows:

	<u>£ million</u>
PSBR	+3.3
Debt sales to the non-bank private sector and external flow to public sector	+1.1
(of which debt sales to nbps)	(+0.7)
Sterling lending to private sector	+3.5
Other counterparts	<u>-1.0</u>
Change in £M3	<u>+6.9</u>

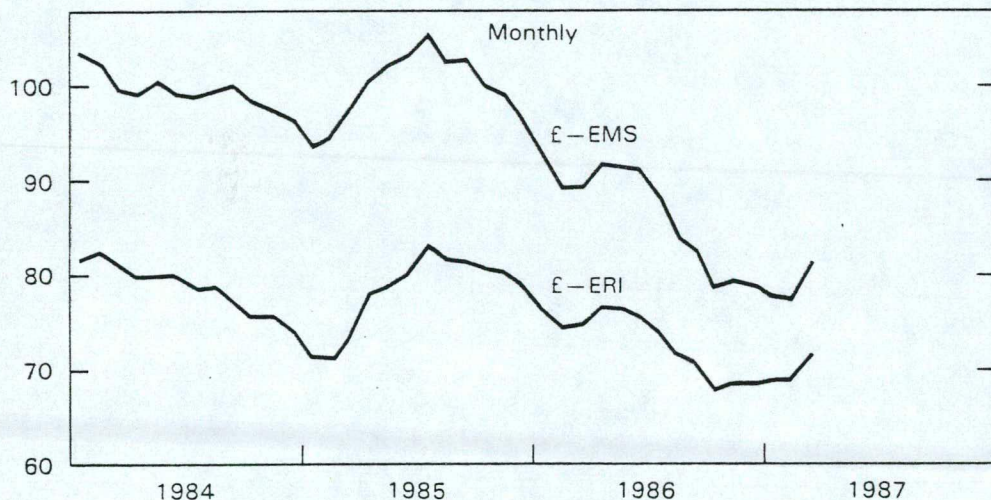
Financial developments make it increasingly difficult to read meaning into behaviour of individual counterparts.

F3 Financial markets

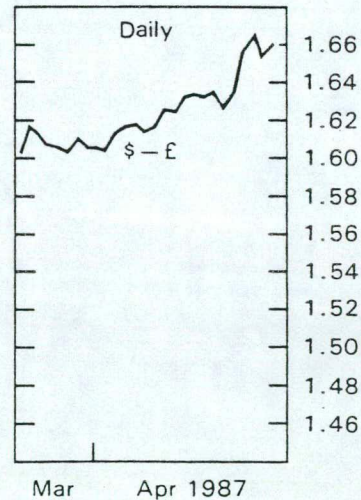
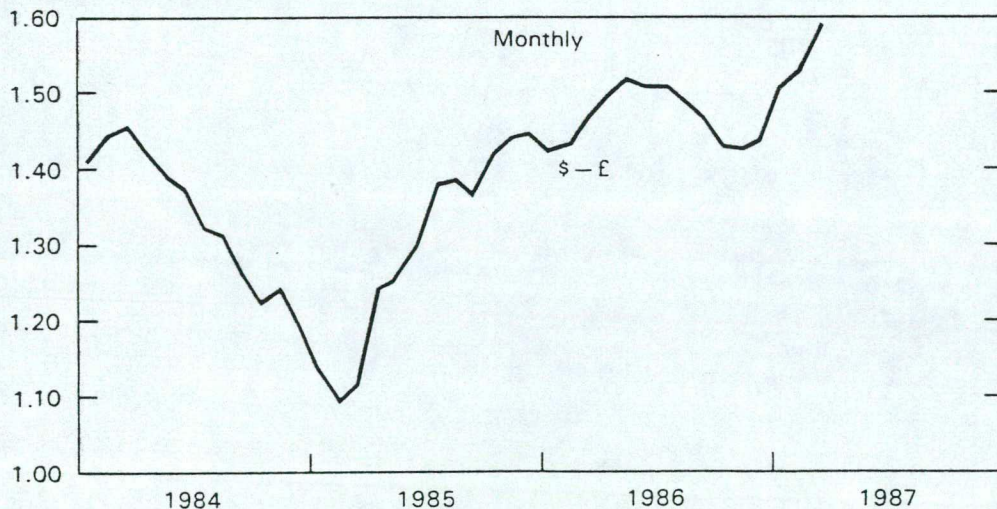
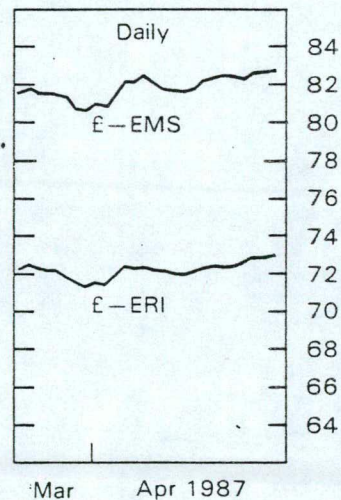
F3.1 Sterling was in strong investment demand in April, rising from around 71½ to 73 in effective terms. Market sentiment was helped by a continuing optimistic outlook for the UK economy and good opinion polls for the Conservatives. The ½ per cent cut in interest rates on 28 April had little impact.

F3.2 The dollar continued to weaken, reaching a post-war low of Yen 137.25 on 27 April. The main factors were a poor economic outlook for the US economy, threats of a trade war and the markets' perception of an inconclusive outcome to the G5/G7 meetings in Washington early in the month.

1975 = 100 Exchange rate movements

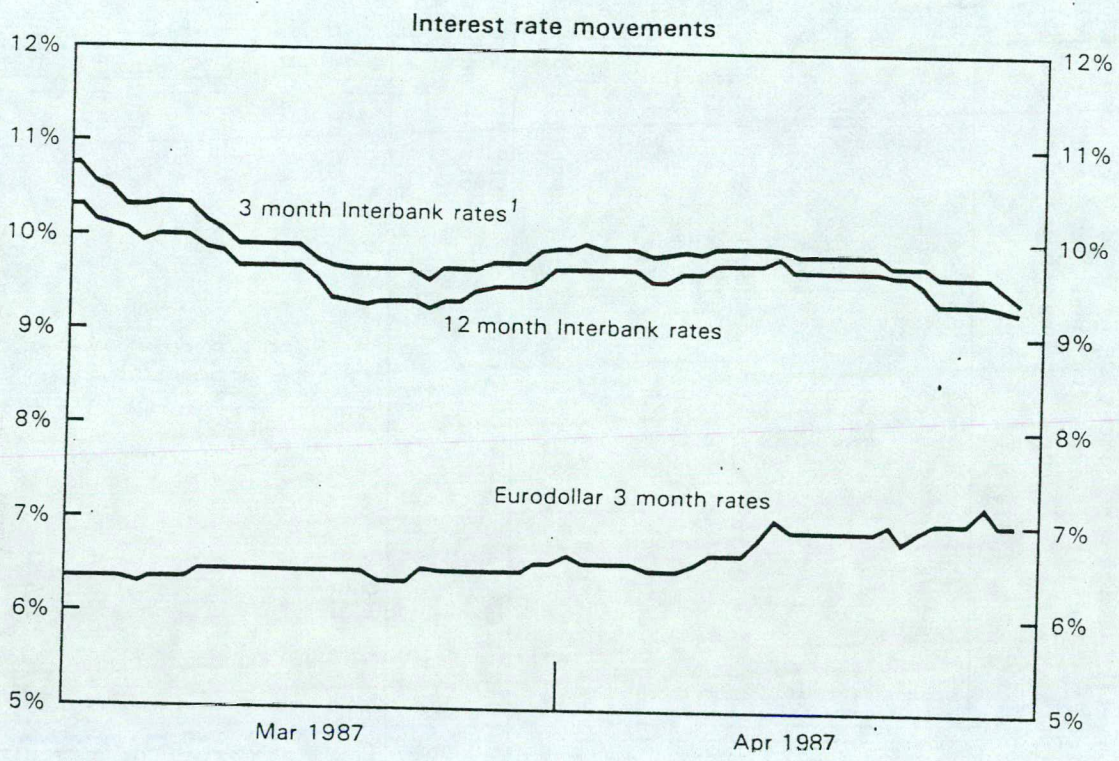


1975 = 100





F3.3 At the end of March 3 month and 12 month interbank lending rates were  $9 \frac{29}{32}$  and  $9 \frac{11}{16}$  respectively. Prior to April 28 rates moved down by about  $\frac{1}{4}$  across the maturity range. Base rates were cut by  $\frac{1}{2}$  per cent on 28 April; subsequently rates fell a little further. At close of play of 29 April the yield curve was gently downward sloping from  $9 \frac{3}{8}$  at 3 months to  $9 \frac{1}{4}$  at 12 months.



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

GROSS DOMESTIC PRODUCT: 1980 PRICES AND SEASONALLY ADJUSTED (figures in brackets are cso forecasts) (1)  
 TABLE 1  
 £bn, rounded to nearest £0.1 bn

	Consumers' expenditure	General government final consumption	Gross domestic fixed capital formation	Stock-building	Total domestic expenditure	Exports of goods and services	Imports of goods and services	Real resources for the balance of payments	Factor cost adjustment	Gross domestic product at factor cost
1985(2)	38.0	12.7	11.6	+ 0.2	62.5	18.3	17.7	+ 0.6	- 8.5	54.6
1986(2)	39.8	12.9	11.7	+ 0.1	64.5	18.8	18.7	+ 0.1	- 8.7	55.9
1985 Q2	37.6	12.8	11.2	+ 0.4	62.0	18.5	17.5	+ 1.0	- 8.4	54.6
Q3	38.3	12.7	11.6	+ 0.1	62.6	18.0	17.5	+ 0.5	- 8.6	54.5
Q4	38.6	12.8	11.5	+ 0.1	63.0	18.4	18.0	+ 0.4	- 8.6	54.8
1986 Q1	39.0	12.8	11.8	+ 0.5	64.1	18.0	17.7	+ 0.3	- 8.5	55.8
Q2	39.6	12.8	11.5	- 0.1	63.7	18.6	18.2	+ 0.5	- 8.7	55.5
Q3	40.3	13.0	11.8	- 0.3	64.8	18.8	19.2	- 0.4	- 8.8	55.6
Q4	40.3	13.0	11.5	+ 0.4	65.3	19.9	19.8	+ 0.1	- 8.9	56.4
1987 Q1	40.3	(13.0)	(11.7)	(+0.1)	(65.1)	19.8	18.6	+ 1.2	(-8.9)	(57.4)

Index numbers 1980=100

	GDP(E)	GDP(O)	GDP(I)	GDP(Average)	GDP(Average) coal strike adjusted (B)	% change same period on a year earlier (A)	(B)
1985	109.4	110.4	110.9	110.2	110.6	3.4	2.6
1986	111.9	113.6	113.8	113.1	113.1	2.6	2.2
1981 Q2(3)	98.6	97.9	97.9	98.2	98.2		
1985 Q2	109.4	110.5	111.8	110.6	110.9	4.7	3.5
Q3	109.3	110.5	111.4	110.4	110.4	3.3	1.8
Q4	109.8	111.3	111.1	110.7	110.7	2.6	1.2
1986 Q1	111.9	111.7	112.1	111.9	111.9	2.5	1.3
Q2	111.3	113.0	113.5	112.6	112.6	1.8	1.5
Q3	111.5	114.5	114.3	113.4	113.4	2.7	2.7
Q4	113.0	115.2	115.3	114.5	114.5	3.4	3.4
1987 Q1*	(115.0)	(115.5)	(116.8)	(115.8)	(115.8)	(3.5)	(3.5)

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

(2) Quarterly averages

(3) Trough of cycle

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

CONFIDENTIAL

CONFIDENTIAL

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

	Income from employment		North	Other industrial and commercial profits	Other factor incomes	GDP at factor cost (income-based)	Total final expenditure	GDP (expenditure based)	
	Total	Of which: wages and salaries and forces pay	Sea oil profits (excluding stock appreciation)					at factor cost	at market prices
1985(2)	48.9	42.5	4.6	9.9	13.0	76.4	112.6	75.6	87.9
1986(2)	52.7	46.0	2.1	11.3	14.6	80.7	118.6	79.7	93.3
1985 Q2	48.5	42.1	4.9	9.8	12.9	76.1	111.9	74.7	86.9
Q3	49.4	42.9	4.0	10.4	13.3	77.1	112.2	75.9	88.5
Q4	50.3	43.7	4.2	10.4	13.6	78.6	114.9	77.9	90.8
1986 Q1	51.2	44.6	3.2	10.5	14.1	79.0	116.4	79.2	92.2
Q2	52.3	45.6	1.6	11.2	14.6	79.8	116.3	78.5	92.0
Q3	53.1	46.3	1.6	12.0	14.7	81.3	118.9	79.5	93.5
Q4	54.3	47.5	2.0	11.6	14.9	82.9	122.7	81.5	95.7
1987 Q1	(55.1)	(48.2)	(2.6)	(12.0)	(15.0)	(84.7)	(123.7)	(83.6)	(98.0)

Index numbers 1980=100

	Money GDP (average GDP at market prices)	Implied index of total home costs
1985	153.6	138.4
1986	163.6	142.6
1985 Q2	152.3	136.9
Q3	155.1	139.2
Q4	158.9	142.2
1986 Q1	160.1	141.7
Q2	161.3	141.3
Q3	164.8	142.9
Q4	168.2	144.5
1987 Q1	(171.2)	(145.7)

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

(2) Quarterly averages

CONFIDENTIAL

CONFIDENTIAL

TABLE 3

SELECTED MONTHLY INDICATORS  
(Figures in brackets are CSO forecasts)

	Average earnings		Prices			Industrial production			Unemployment (2) (Monthly changes)	Vacancies (3)	Employees in employment in manufacturing (Monthly changes)
	Whole economy	Manufacturing	Producer		Retail sales volume	Total	Manufacturing				
			Materials and fuel purchased	Home Sales (1)							
	Jan 1980=100	1980=100	1980=100	Jan 1974=100	1980=100	1980=100		'000	'000	'000	
1985	171.7	177.6	137.7	139.4	373.2	116.4	108.1	103.8	+ 6	162	- 3
1986	185.3	191.3	126.6	145.7	385.9	122.6	110.0	104.6	- 1	189	-10
1986 Jan	179.1	185.5	131.1	142.7	379.7	118.2	108.3	102.4	+21	163	- 5
Feb	180.0	186.0	129.4	143.3	381.1	118.6	109.8	102.7	+ 8	167	-24
Mar	182.6	186.9	127.8	144.3	381.6	120.9	109.2	102.6	+38	170	- 6
Apr	185.3	191.1	126.8	145.4	385.3	120.7	110.9	104.0	+ 2	170	- 7
May	182.4	187.5	126.7	145.9	386.0	119.6	109.2	103.2	+ 5	172	-29
Jun	183.9	189.8	125.4	145.8	385.8	123.2	107.7	103.4	+14	184	-15
Jul	186.3	190.5	122.2	146.0	384.7	122.6	110.4	104.7	+ 4	193	-17
Aug	187.0	191.9	123.4	146.3	385.9	123.9	111.2	104.4	- 4	201	-12
Sep	187.1	194.0	125.0	146.7	387.8	124.5	110.7	105.2	-26	206	- 5
Oct	188.7	195.2	126.4	147.0	388.4	125.0	111.0	106.8	-26	213	- 2
Nov	190.2	197.1	127.1	147.4	391.7	127.8	111.2	107.5	-21	215	+ 2
Dec	191.3	200.0	126.6	147.9	393.0	126.7	110.5	107.9	-26	210	- 4
1987 Jan	192.8	200.1	127.2	148.9	394.5	123.6	110.8	105.3	- 1	210	-22
Feb	193.4	201.0	127.2	149.3	100.4 (4)	127.0	112.6	107.6	-45	207	- 1
Mar	(196)	(202)	127.4	149.7	100.6	125.5	(111½)	(108)	-30	211	
Apr	(196½)	(206)	(127½)	(150½)	(101½)	(127)	(112½)	(108½)			
May											
June											
	Basis for assessing the present (ie the figures in brackets)	Effect of new pay settlements and short-term factors	Detailed assessment	Underlying trend	Detailed assessments	Continuing high level	Detailed assessments				

(1) Not seasonally adjusted

(4) Rebased index, Jan 1987=100

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

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

CONFIDENTIAL

CONFIDENTIAL

TABLE 4

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

	Volume 1980=100		Value			£ billion		Exchange rate Index (1975=100)	MO (wide monetary base) £ billion (3)	Relative actual unit labour costs, including exchange rate movements (1980=100)	
	Exports of goods (excluding oil and erratics)	Imports of goods	Visible balance Excl oil and erratics	Oil inc	Total inc erratics	Invis-ible balance(2)	Current balance total				
1985	115	143	-11.0	+8.1	-2.2	+5.1	+2.9	78.2	14.4	83.9	
1986	118	151	-14.2	+4.2	-8.3	+7.2	-1.1	72.8	15.2	77.6	
1986 Jan	111	140	-0.9	+0.8	-	+0.9	+1.0	76.6	14.4	)	
Feb	114	143	-1.0	+0.7	-0.3	+0.5	+0.2	74.2	14.4	) 81.2	
Mar	112	147	-1.3	+0.4	-1.0	+0.5	-0.5	74.6	14.5	)	
Apr	113	139	-0.9	+0.3	-0.3	+0.5	+0.2	76.2	14.4	)	
May	115	147	-1.0	+0.2	-0.7	+0.5	-0.2	76.1	14.5	) 82.2	
Jun	117	149	-1.1	+0.2	-0.6	+0.5	-0.1	75.8	14.6	)	
Jul	119	151	-1.1	+0.2	-0.7	+0.6	-	74.0	14.6	)	
Aug	115	157	-1.5	+0.2	-1.4	+0.6	-0.7	71.4	14.7	) 75.2	
Sep	121	156	-1.2	+0.3	-0.8	+0.6	-0.2	70.4	14.8	)	
Oct	122	153	-1.1	+0.2	-0.7	+0.6	-0.1	67.8	14.8	)	
Nov	127	169	-1.6	+0.4	-1.0	+0.6	-0.4	68.5	15.0	) 71.6	
Dec	126	163	-1.4	+0.3	-0.9	+0.6	-0.3	68.5	15.2	)	
1987 Jan	120	148	-1.1	+0.4	-0.5	(+0.6)	(+0.1)	68.9	15.1	)	
Feb	134	154	-0.8	+0.3	-0.2	(+0.6)	(+0.4)	69.0	15.0	)	
Mar	121	148	-1.0	+0.5	-0.4	(+0.6)	(+0.2)	71.9	(15.0)	)	
Apr	(122)	(150)	(-1.0)	(+0.4)	(-0.5)	(+0.6)	(+0.2)	(72.3)		)	
May										)	
Jun										)	
Basis for assessing the present	Trend line					CSO projections		Actual data to 29 April		Recent trends in components	

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

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

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

CONFIDENTIAL

CONFIDENTIAL

QUALITY NOTE

Rebasing of the Retail Sales Index

The retail sales index has been rebased using detailed information from the 1984 retailing inquiry. New price deflators have been calculated for each kind of business, based on the pattern of trade shown by the 1984 retailing inquiry: partial adjustments have been made to the 1983 deflators to reflect the changed pattern. The seasonal adjustment factors have been re-appraised. A comparison of the annual indices for all retailers between the existing series and the rebased series is shown in the following table.

Retail sales volume indices for all retailers (1980=100)

	Existing Series	Rebased Series	Percentage difference
1981	100.2	100.2	-
1982	102.2	102.1	-
1983	107.1	107.4	+0.2
1984	110.7	111.3	+0.6
1985	115.3	116.4	+0.9
1986	121.0	122.6	+1.4

The biggest difference is for the increase in volume of sales between 1985 and 1986; on the revised series growth was 5.4 per cent compared with the earlier estimate of 4.9 per cent.

CONFIDENTIAL

A2

COPY NO.

86

RP

MONTHLY ECONOMIC BRIEF

Prepared by the CSO on 30 April 1987

Adult unemployment fell again between February and March, by 30,000, continuing the sharp downward trend. The effect of employment measures has been broadly neutral over the past two months, but Restart continues to reduce the count and the new availability tests now seem likely to be having a substantial impact. It is likely that all these various influences explain most but not all of the fall in unemployment in recent months.

The employed labour force has grown further in the fourth quarter of 1986, and the rate of growth appears to have strengthened since the first half of last year.

There was an estimated PSBR of £3.3 billion in March, which, following the PSBR close to zero for the first eleven months of 1986-87, gave a cumulative total of £3.3 billion for the financial year. The outturn is somewhat lower than the forecast for 1986-87 of £4 billion announced in the Budget.

The projection of the average measure of GDP in the first quarter of 1987 suggests a rise of nearly  $3\frac{1}{2}$  per cent compared with the first quarter of 1986. This projection is in line with our assessment of the current underlying trend in GDP which is in the range  $2\frac{1}{2}$ - $4\frac{1}{2}$  per cent per annum.

The annual rate of RPI inflation was 4.0 per cent in March - 0.1 percentage points higher than in February. Little change is expected for April compared with March. Most mortgages will not be affected by the recent reductions in mortgage interest rates until May.

In March exports were  $7\frac{1}{2}$  per cent lower than in February and imports  $4\frac{1}{2}$  per cent lower. (A fall in exports in March was expected, the figures for February having benefited from some catching up after the snow in January.) Visible trade showed a deficit of £0.4 billion in March compared with a deficit of £0.2 billion in February. The latest figures suggest that the trend in non-oil export volume may have flattened out, and that the underlying trend in non-oil import volume is below the level of the fourth quarter of 1986. There was an estimated current account surplus of £0.6 billion in the first quarter of 1987 comprising a visible deficit of £1.2 billion and a projected invisibles surplus of £1.8 billion.

CONFIDENTIAL

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

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

GDP (average measure) in the fourth quarter of 1986 was  $3\frac{1}{2}$  per cent higher than in the same period a year ago. This figure does not take account of past experience which shows that revisions to growth rates for the initial published estimates of GDP were on average, upwards, though not uniformly so. The assessment of current underlying trend for the first quarter of 1987 is that the rate of increase lies in the range  $2\frac{1}{2}$ - $4\frac{1}{2}$  per cent per annum.

Industrial production in the three months to February 1987 was  $2\frac{1}{2}$  per cent higher than in the same period a year ago; manufacturing output was 4 per cent higher. The assessment of current underlying trend for industrial production is that the rate of change currently lies in the range 2-5 per cent per annum. The current underlying trend in manufacturing output is in the range 3-6 per cent per annum.

Retail prices rose by 4 per cent in the twelve months to March 1987. It is only possible to provide a useful indicator of trend for about 70 per cent of the RPI, mainly that covering private sector prices and excluding eg mortgage interest, rent, rates, products produced by nationalised industries, seasonal food and petrol. The current trend for this series is around 4 per cent per annum. In the twelve months to March 1987 this series rose a little over  $3\frac{1}{2}$  per cent (not published).

Producer input prices showed a small increase of 0.2 per cent in seasonally adjusted terms in March after having remained unchanged between January and February. Little change is expected in April.

Average earnings (underlying) in the twelve months to February 1987 rose by  $7\frac{1}{2}$  per cent. The current trend is estimated to be 7-8 per cent per annum.

Unit wage costs in manufacturing in the three months to February 1987 rose by 2 per cent compared with the same period a year ago. The current underlying trend is estimated to be in the range 1-4 per cent per annum.

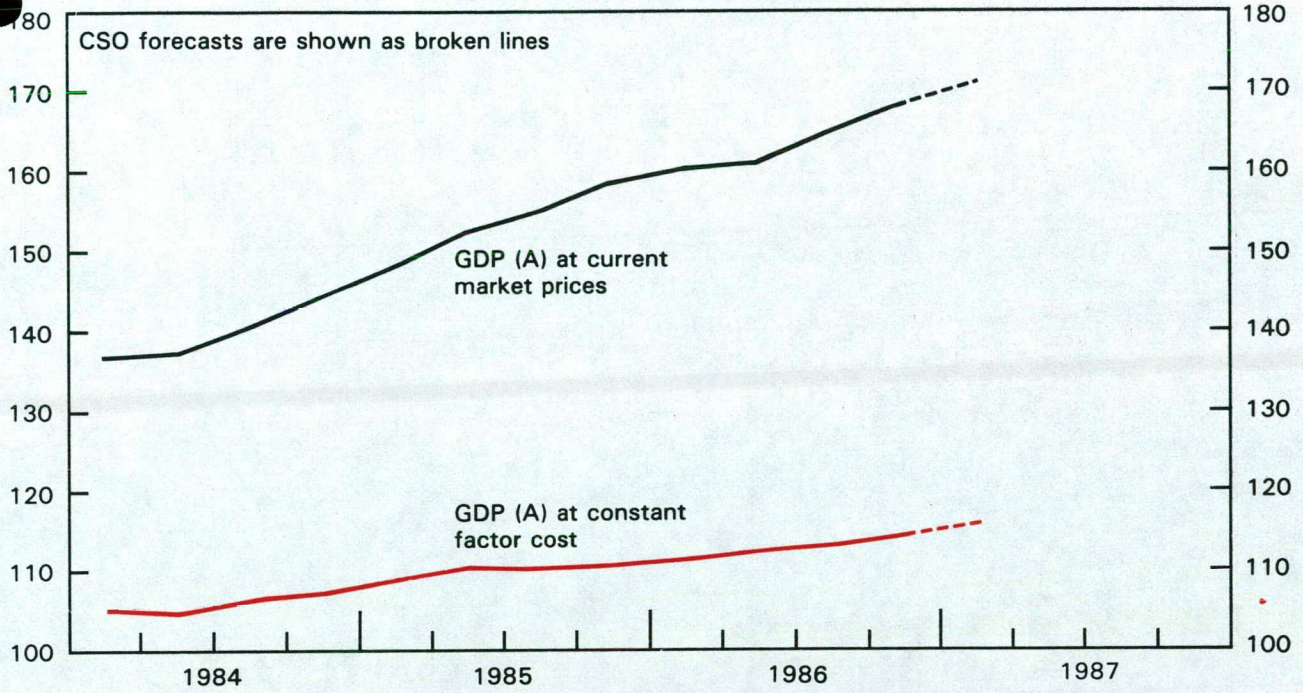
Unemployment (excluding school leavers) in the twelve months to March has fallen on average by 13,000 per month. Over the past 6 months there has been an average fall of 25,000 per month.

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



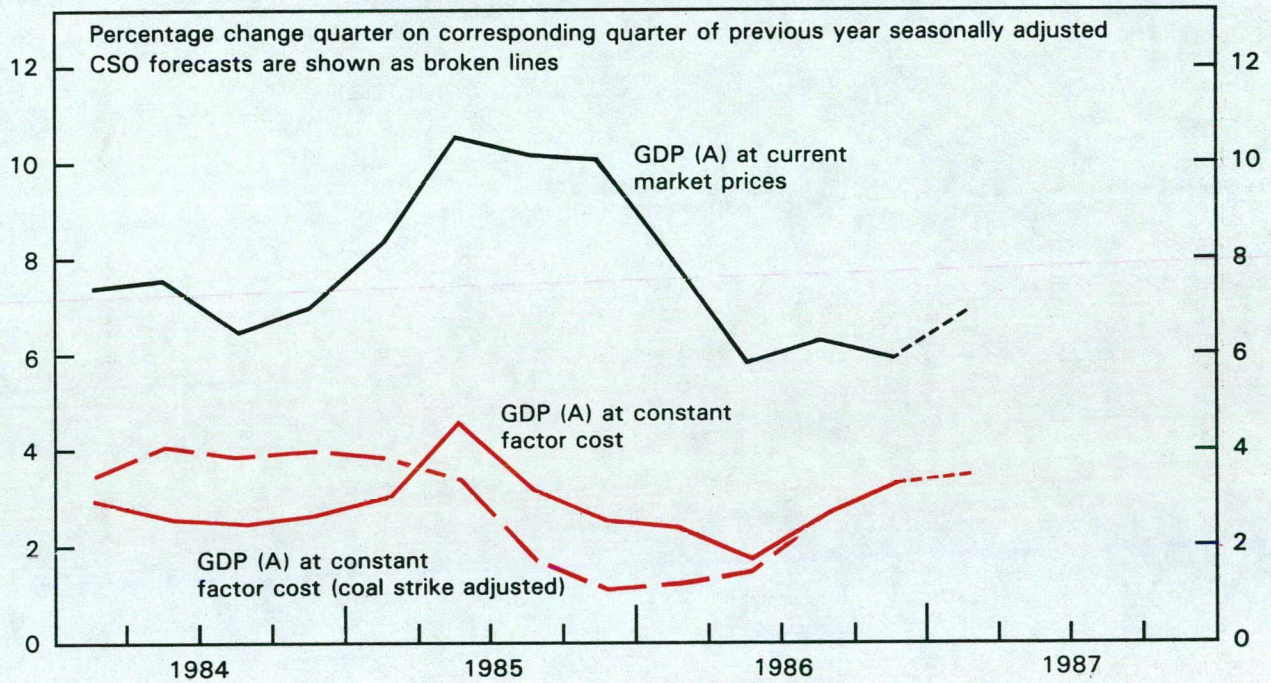
Gross domestic product (average measure)

1980 = 100, seasonally adjusted

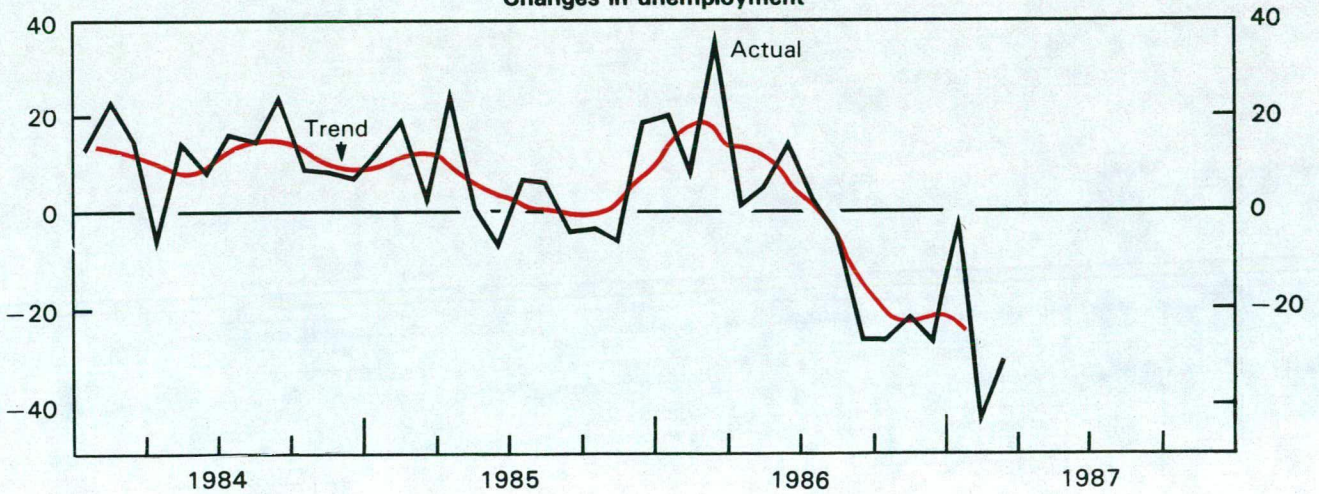


Gross domestic product (average measure)

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

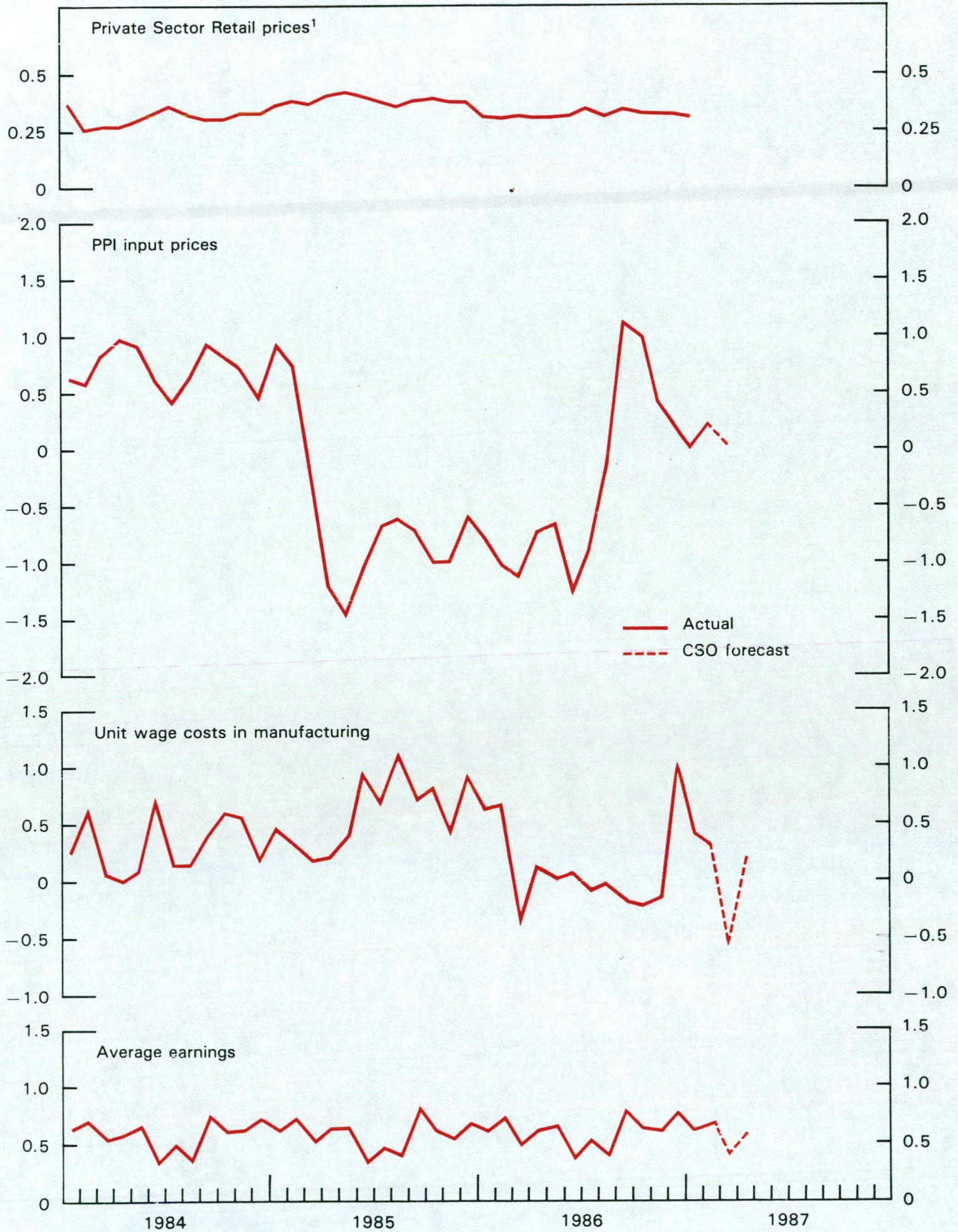


Changes in unemployment



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

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



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

CHART 4

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

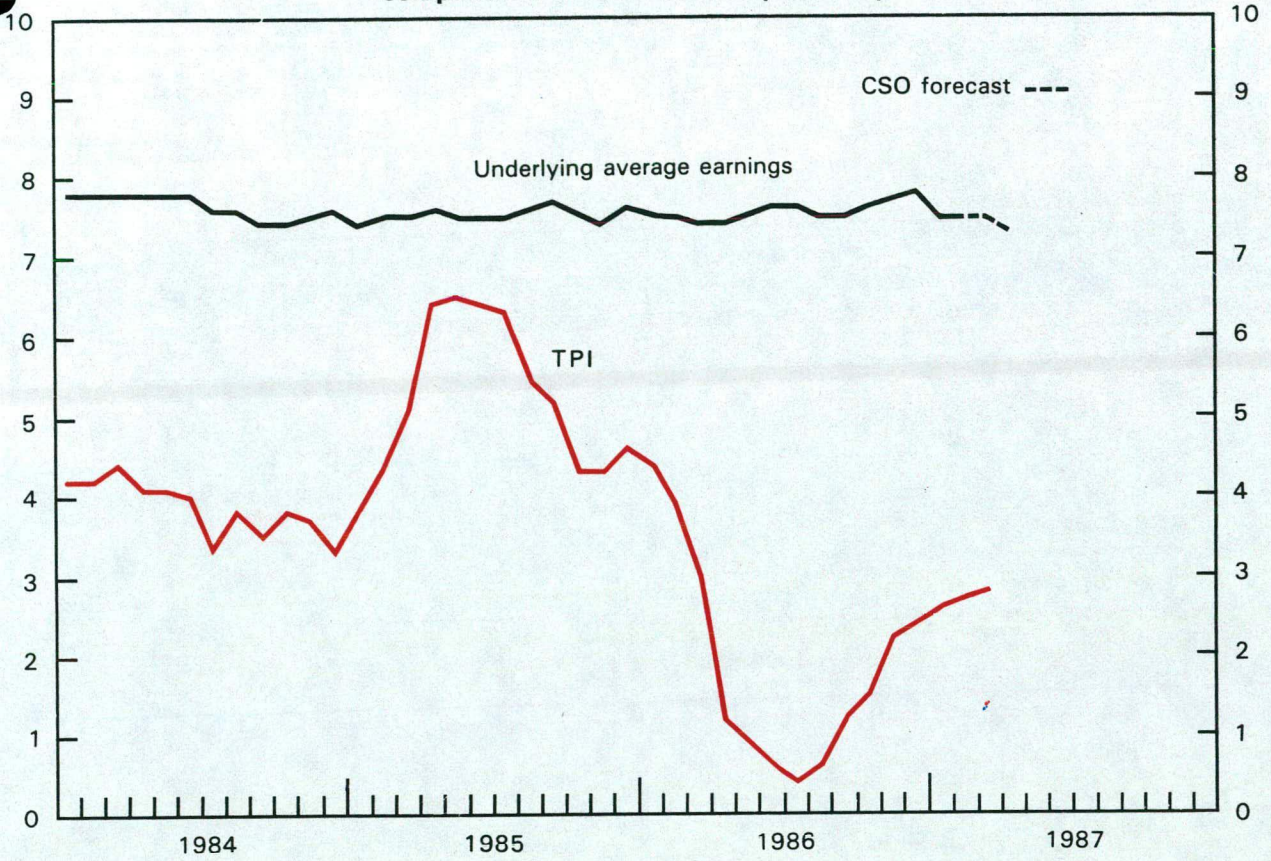
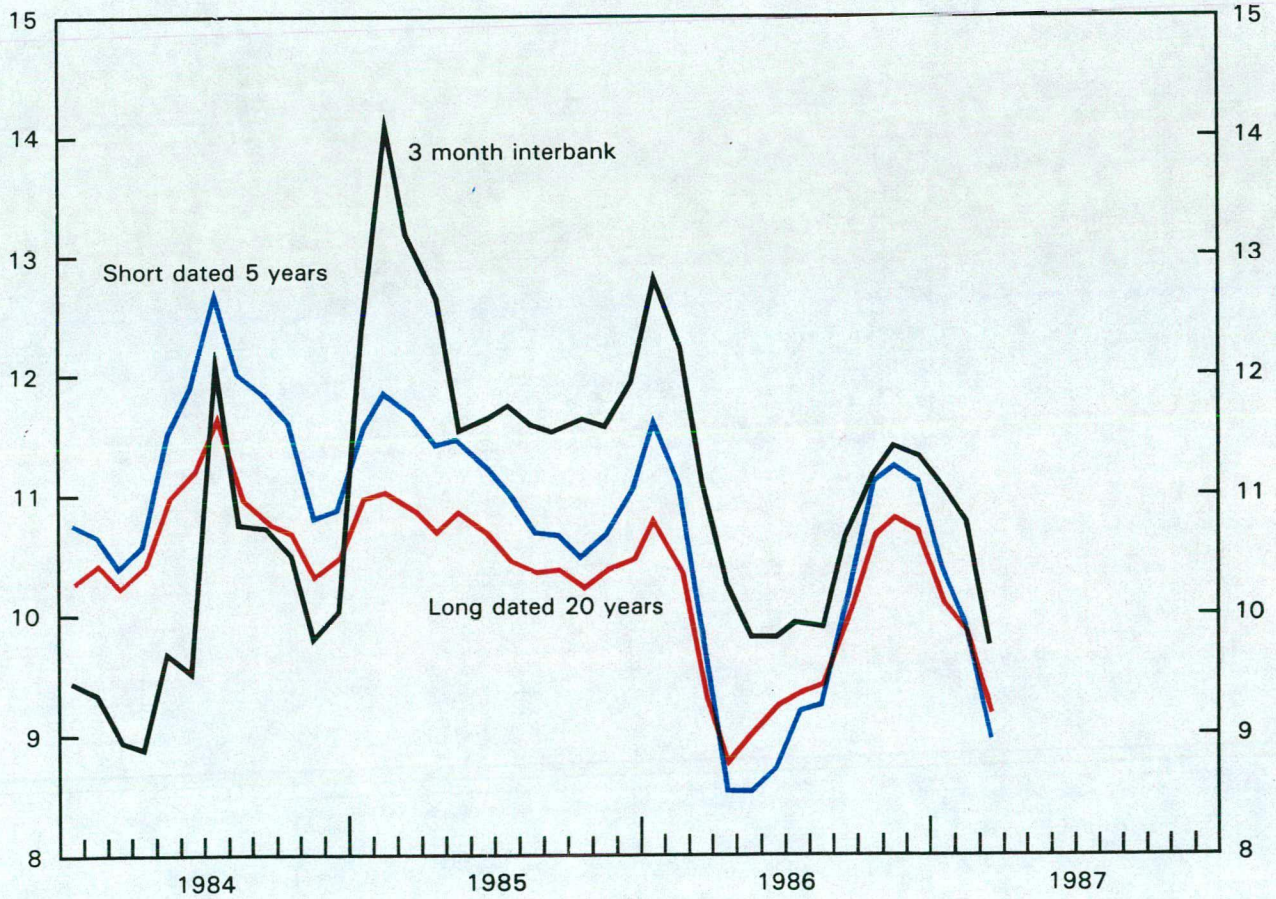


CHART 5

Interest rates



**Monetary aggregates**

Percentage Change on previous 12 months (not seasonally adjusted)

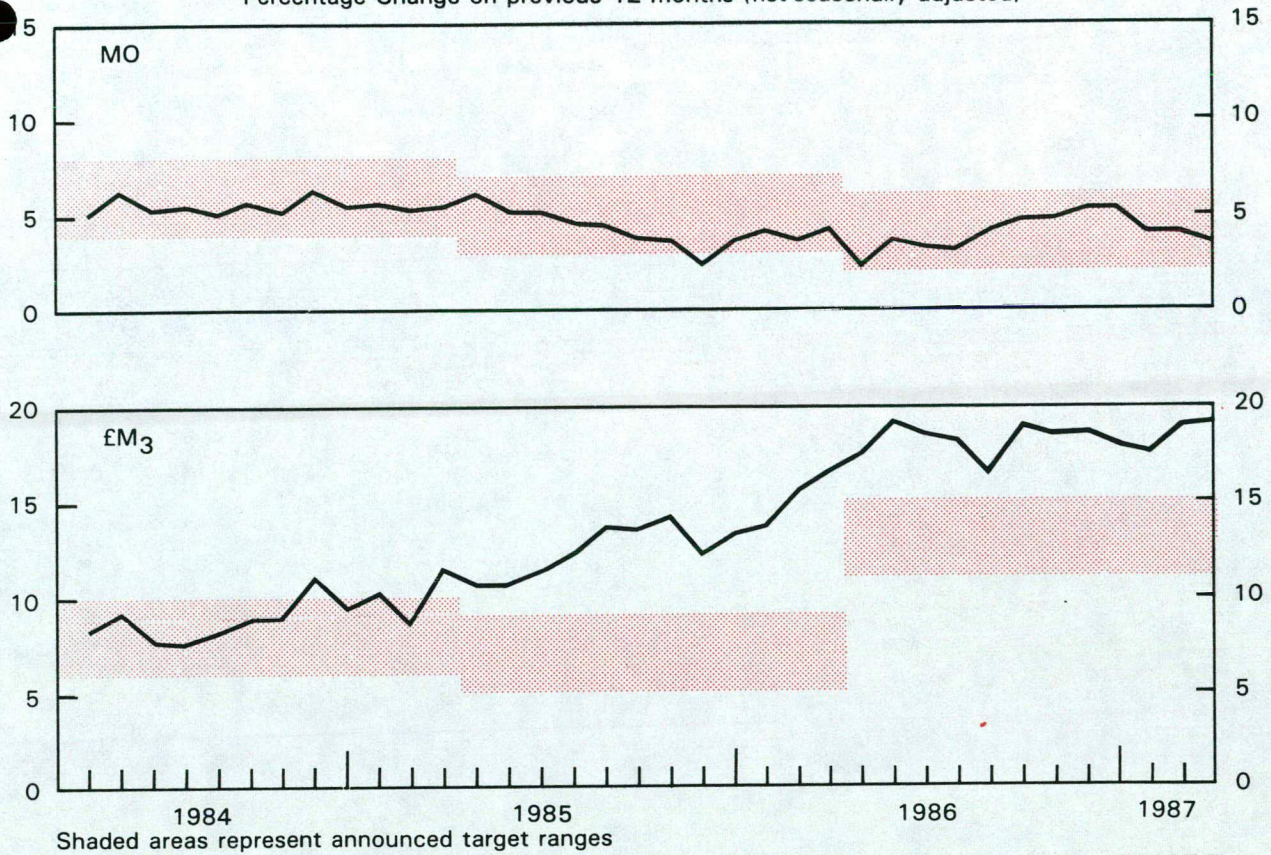
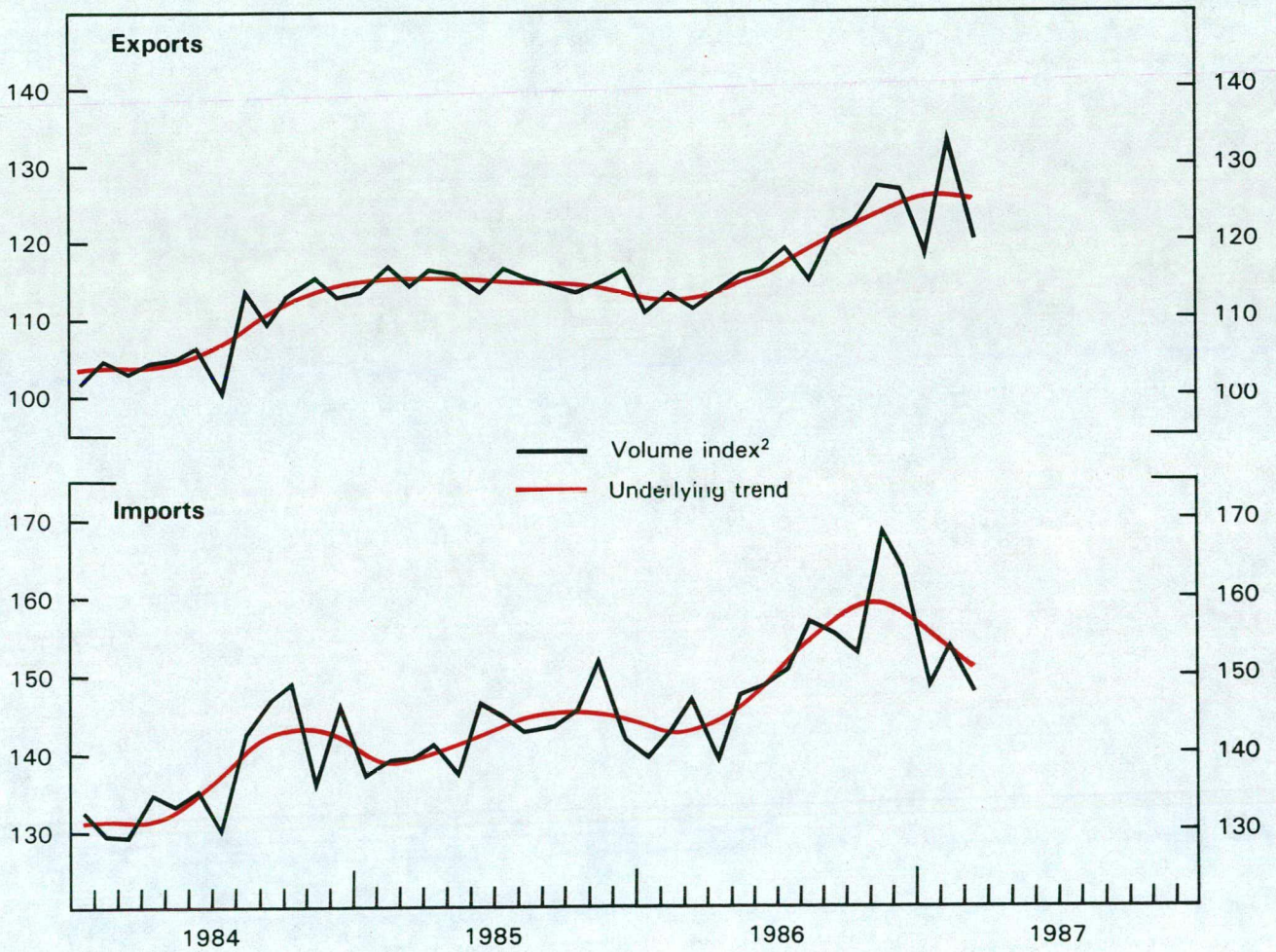


CHART 7

**Exports and Imports (excluding oil and erratics<sup>1</sup>)**

Index 1980 = 100



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

Reference

*n*

To:

SECRETARY OF STATE

(Circulation list attached)

From:

PETER RICHARDSON  
S2C  
Room 242  
Sanctuary Buildings  
215 6265

8 May 1987

**CREDIT BUSINESS IN MARCH**

A Press Notice giving details of credit business in March 1987 is attached for information. This will be issued at 11.30 am on Monday, May 11. As usual, the contents should be treated as confidential until then.

*P H Richardson*

P H RICHARDSON

*✓*

# DTI Press Notice

CONFIDENTIAL  
UNTIL 11.30 HOURS  
ON DAY OF RELEASE

Department of Trade and Industry

1 Victoria Street SW1H 0ET

Press Office: 01-215 4471/4475

No: 87/274

Out of hours: 01-215 7877

11 May 1987

## CREDIT BUSINESS IN MARCH

During March £3.2 billion of new credit was advanced by finance houses, other specialist credit grantors, retailers and on bank credit cards. This was a record level of credit due to very high lending both by finance houses and other specialist credit grantors and on bank credit cards. A large proportion of bank credit card lending is repaid before it begins to attract interest.

Total advances in the latest three months, January to March, were 9 per cent higher than in the previous three months. Lending by finance houses and other specialist credit grantors also increased by 9 per cent between the two periods. Within this total, lending to consumers increased by 10 per cent and lending to businesses increased by 4 per cent. Advances on bank credit cards increased by 11 per cent between the two periods. Retailers advanced 1 per cent more in the latest three months than in the previous three months.

There was an increase of £0.5 billion in amounts outstanding to finance houses, other specialist credit grantors, retailers and on bank credit cards between end-February and end-March. The total amount outstanding at end-March was £24.9 billion, 5 per cent more than the total three months earlier.

## Notes to Editors

1 All figures are quoted after seasonal adjustment.

2 Table 1 covers the credit business of finance houses, other specialist credit grantors and building societies, retailers and on bank credit cards. Table 2 covers the business of finance houses, other specialist credit grantors and building societies only, but provides an analysis of new credit advanced to consumers and businesses. The credit advances shown in Table 1 for retailers and bank credit cards are mainly to consumers. A high proportion of credit advances in certain types of agreement, notably on bank credit cards and by mail order houses, is repaid within a month, reflecting the use of such agreements as a method of payment rather than as a means of obtaining credit.

3 From January 1986 the statistics include new credit advances by finance houses and other specialist credit grantors on running account agreements on which information was not collected previously. Lending on bank credit cards is also included for the first time in the January 1986 statistics. Unsecured loans by building societies, which are advanced under the provisions of the Building Societies Act 1986, are included from January 1987. Lending by banks, other than on bank credit cards, and by companies where the group specialises in lending to other companies only are excluded from the statistics in this Press Notice.

4 Charges for credit and deposits or downpayments are excluded from the figures of new credit advanced which thus represent the amount of credit advanced during the period. Figures for retailers are estimated from the value of their self-financed credit sales, which include both charges and deposits. The figures for retailers' credit sales include sales on budget and other running-account agreements and exclude credit sales financed by banks, finance houses, and other specialist credit grantors.

5 Amounts outstanding are the amounts owed, excluding unearned charges, on credit agreements of all types at the end of the period, irrespective of the period in which credit was advanced. Unearned credit charges are those charges, mainly interest, included at the outset of a fixed-sum credit agreement on the assumption that the agreement lasts its full term.

6 Further definitions are given at the foot of the tables accompanying this Press Notice.

7 Full results of the inquiries which collect the monthly information on credit are published by HM Stationery Office in Business Monitor SDM6 - Credit business of finance houses and other specialist credit grantors - and in Business Monitor SDM8 - Credit business of retailers. Both may be obtained on subscription (£17.50 each title per annum) from HM Stationery Office PO Box 569, London SE1 9NH. Individual copies are available, price £3.20 each from:

The Library, Business Statistics Office, Government Buildings, Cardiff Road, Newport GWENT. Telephone: Newport (0633) 222973.

8 Non-press calls to 01-215 6400.

TABLE 1

TOTAL CREDIT BUSINESS OF FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS AND  
BUILDING SOCIETIES, RETAILERS AND ON BANK CREDIT CARDS (SEASONALLY ADJUSTED)

		NEW CREDIT ADVANCED				TOTAL AMOUNT OUTSTANDING (a)		
		TOTAL	FINANCE HOUSES AND OTHER SPECIALIST CREDIT GRANTORS (b)		BANK CREDIT CARDS	RETAILERS	CHANGE	AMOUNT AT END OF PERIOD
		(c)	FIXED SUM (d)	RUNNING ACCOUNT		(e)		
1983		10,524	6,840			3,684	2,246	12,199
1984		11,507	7,662			3,845	2,159	14,358
1985		12,996	8,727			4,269	2,586	16,944
1986		31,515	10,720	3,045	12,916	4,834	2,952	23,772
1985	2nd Qtr	3,083	2,030			1,053	533	15,477
	3rd Qtr	3,374	2,293			1,081	745	16,222
	4th Qtr	3,436	2,336			1,100	722	16,944
1986	1st Qtr	7,375	2,655	648	2,926	1,146	980	21,800
	2nd Qtr	7,739	2,640	793	3,115	1,191	418	22,218
	3rd Qtr	8,223	2,722	839	3,395	1,267	968	23,186
	4th Qtr	8,178	2,703	765	3,480	1,230	586	23,772
1987	1st Qtr	8,881	3,021	745	3,874	1,241	1,117	24,889
1986	MAR	2,372	802	238	954	378	325	21,800
	APR	2,717	969	251	1,093	404	120	21,920
	MAY	2,409	819	263	942	385	117	22,037
	JUN	2,613	852	279	1,080	402	181	22,218
	JUL	2,685	885	278	1,107	415	219	22,437
	AUG	2,668	890	289	1,068	421	302	22,739
	SEP	2,870	947	272	1,220	431	447	23,186
	OCT	2,759	925	269	1,152	413	247	23,433
	NOV	2,635	843	243	1,129	420	18	23,451
	DEC	2,784	935	253	1,199	397	321	23,772
1987	JAN	2,695	870	237	1,177	411	320	24,092
	FEB	2,948	1,032	225	1,276	415	322R	24,414R
	MAR	3,238	1,119	283	1,421	415	475	24,889
1986	OCT-DEC	8,178	3,468		3,480	1,230	586	23,772
1987	JAN-MAR	8,881	3,766		3,874	1,241	1,117	24,889
Percentage increase over previous quarter		9		9	11	1	91	5

— indicates a break in the series

R = revised

- NOTES (a) Until December 1985 excluding amounts outstanding on Bank Credit Cards and block discounted agreements.
- (b) Including Building Societies. See Table 2 for an analysis into agreements with consumers and agreements with businesses
- (c) Until December 1985 includes only direct fixed-sum business of Finance Houses and other specialist Credit Grantors and advances by Retailers.
- (d) From January 1986 including new credit on block discounted agreements.
- (e) Self-financed credit advanced by clothing retailers, household goods retailers, mixed retail businesses (other than Co-operative Societies) and general mail-order houses only.



TABLE 2

TOTAL CREDIT BUSINESS OF FINANCE HOUSES, OTHER SPECIALIST  
CREDIT GRANTORS AND BUILDING SOCIETIES (SEASONALLY ADJUSTED)

£ Million

	NEW CREDIT ADVANCED				TOTAL AMOUNTS OUTSTANDING		
	AGREEMENTS WITH CONSUMERS (b)		AGREEMENTS WITH BUSINESSES (c)		FIXED SUM AGREEMENTS (a)	RUNNING ACCOUNT AGREEMENTS	DEALER STOCK FUNDING LOANS (d)
	FIXED SUM CREDIT	RUNNING ACCOUNT CREDIT	FIXED SUM CREDIT (a)	RUNNING ACCOUNT CREDIT			
1983	4,470		2,370		9,378	995	652
1984	5,092		2,570		11,183	1,233	789
1985	6,168		2,559		13,165	1,642	939
1986	7,251	3,025	3,469	20	14,778	2,082	1,019
1985 2nd Qtr	1,401		629		12,074	1,403	908
3rd Qtr	1,661		632		12,660	1,503	971
4th Qtr	1,725		611		13,165	1,642	939
1986 1st Qtr	1,833	644	822	4	13,858	1,755	1,027
2nd Qtr	1,781	788	859	5	13,959	1,856	989
3rd Qtr	1,852	835	870	4	14,363	1,957	1,006
4th Qtr	1,785	758	918	7	14,778	2,082	1,019
1987 1st Qtr	2,061	742	960	3	15,461	2,200	964
1986 MAR	539	237	263	1	13,858	1,755	1,027
APR	650	250	319	1	13,892	1,787	987
MAY	558	262	261	1	13,942	1,810	982
JUN	573	276	279	3	13,959	1,856	989
JUL	612	277	273	1	14,032	1,894	1,026
AUG	606	288	284	1	14,190	1,922	989
SEP	634	270	313	2	14,363	1,957	1,006
OCT	607	265	318	4	14,549	2,013	1,080
NOV	570	241	273	2	14,637	2,044	1,024
DEC	608	252	327	1	14,778	2,082	1,019
1987 JAN	593	236	277	1	15,016	2,141	939
FEB	702R	224	330R	1	15,190R	2,165R	936R
MAR	766	282	353	1	15,461	2,200	964
1986 OCT-DEC	2,543		925		14,778	2,082	1,019
1987 JAN-MAR	2,803		963		15,461	2,200	964

Percentage increase over previous quarter

10

4

5

6

-5

— indicates a break in the series

R = revised

- NOTES:
- (a) From January 1986 including block discounted agreements.
  - (b) Until December 1985 figures are for consumer credit agreements regulated under the Consumer Credit Act 1974. These comprise non-exempt agreements involving the provision of credit not exceeding £15,000 (£5,000 before 20 May 1985) to individuals.
  - (c) Until December 1985 figures are for credit agreements not regulated under the Consumer Credit Act 1974, entered into by companies which also enter into regulated credit agreements.
  - (d) Figures in this column are excluded from amounts outstanding in Table 1.

CIRCULATION LIST

Mr Alan Clark  
Mr Geoffrey Pattie  
Mr Giles Shaw  
Lord Lucas  
Mr Michael Howard  
Mr John Butcher  
Sir Brian Hayes  
Mr Liesner  
Mr Treadgold  
Mr Whiting  
Mr Healey  
Mr Stibbard  
Mr Miner  
Mr Norton  
Miss Marson  
Mr Mattock  
Miss Lea  
Mr Mann  
Mr Parsons

Prime Minister's Office

✓Chancellor's Office

Sir Terence Burns	-	Treasury
Mr P Sedgwick	-	"
Mr P Allum	-	"
Miss M O'Mara	-	"
Mr P Hall	-	"
Mr G Pike	-	"
Mr M J Dicks	-	Bank of England
Mr J Exeter	-	" " "
Miss S Carter	-	CSO
Mr E Lomas	-	"
Mr C Bryant	-	"
Mr D Sterling	-	"
Mr J Alexander	-	"



CONFIDENTIAL

The VAT small business package in this year's Budget is a good example of (i). The Revenue at the same time announced a package of administrative measures to help small firms and the self employed (and are of course continuing to contribute to the deregulation exercise).

5. A number of measures in category (ii) have been considered but rejected for reasons which we still think hold good. An example is the proposed tax relief for domestic servants/construction work in the home.

6. Under (iii) the main measure has been the allocation of more Revenue staff to pursuing "moonlighters" and "ghosts". The extra Inland Revenue staff deployed on this are 380 by April this year (rising from 209 by April 1985 and 266 by April 1986). So far as VAT is concerned, Customs do not regard chasing "moonlighters" as particularly cost-effective - they concentrate their available resources on the largest, high-yield traders.

7. One possibility recommended by the Keith Committee is the wider distribution of tax returns, on the premise that many of those who do not go out of their way to tell the Revenue about new sources of income would nevertheless come clean if required to respond to a direct request for details of their income. A pilot exercise involving 44 tax offices is currently in progress to test this idea. The Revenue would require additional staff if the scheme were to be introduced countrywide.

8. It is possible that advances in technology may at some stage in the future allow the Revenue authorities to make more cost effective use of information about income. Interest on bank and building society accounts is the obvious example. At present it is simply too staff-intensive to follow up such information.

9. You will also recall that consideration has been given to the idea of a tax amnesty to encourage people to come out of the black economy. This idea was rejected at the end of 1985 primarily because, to be effective, an amnesty must be backed up with a

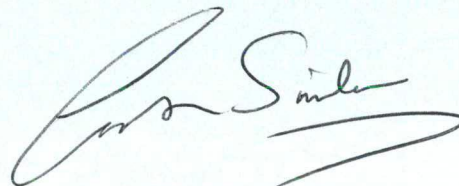
CONFIDENTIAL

real threat of crackdown on those who do not declare themselves and emerge into the white economy within the period of grace. The Inland Revenue advised you at that time that they did not have the powers, sanctions - some of which were recommended by Keith and are currently the subject of consultation with representative bodies - or staff resources to make such a threat credible. In the light of this, the idea was not pursued further. The position has not changed.

Non-tax policy changes

10. I have not attempted to cover non-tax policy changes in this note. But of course measures are being pursued in other areas which should help to "whiten" the black economy. An example are the policies being developed by DE and DHSS to reduce the number of people on the unemployment count who are not available for work. This covers those working and signing as well as those resting on the register. The policies include increased fraud staff, Restart and tougher initial testing of availability for work. DE are considering ways of developing these policies further.

11. Other policy changes have gone in the opposite direction. Requiring employers to administer both statutory sick pay and now maternity pay are additional chores for the employer which, together with other tasks, may have increased the incentive to employ people "off the books".



CAROLYN SINCLAIR

Andrew you asked  
to see these.

0. Thanks.

AMH



*fray*

FROM: N G FRAY

DATE: 20 May 1987

MR P F L ALLUM

**GDP (OUTPUT MEASURE) IN FIRST QUARTER 1987**

The Chancellor has seen and was grateful for your minute of 19 May.

*Nigel Fray*  
N G FRAY

U \_\_\_\_\_

FROM: N G FRAY  
DATE: 20 MAY 1987

MR P F L ALLUM

GDP (OUTPUT MEASURE) IN FIRST QUARTER 1987

The Chancellor has seen and was grateful for  
your minute of 19 May.

N G FRAY



CONFIDENTIAL  
until 11.30 a.m. on WEDNESDAY 20 MAY  
then RESTRICTED

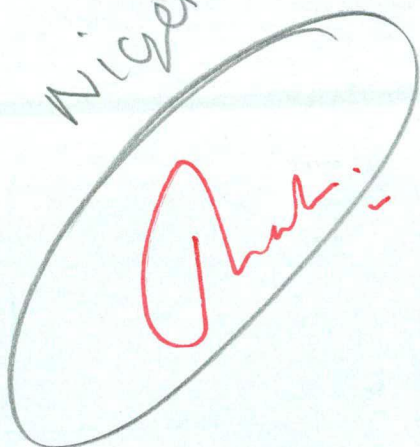
FROM: P F L ALLUM  
DATE: 19 MAY 1987

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

cc : Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir Peter Middleton  
Sir Terence Burns  
Mr Cassell  
Mr Monck  
Mr Burgner  
Mr Scholar  
Mr Odling-Smee  
Mr Sedgwick  
Mr Culpin  
Miss O'Mara  
Mr Patterson  
Mr Pickering  
Mr Dyer (+ 1 for NO 10)  
Mr Cropper  
Mr Ross Goobey  
Mr Tyre

Mr Stirling - CSO  
Mr Clary - "  
Mr Lang - "

*Nigel*



### GDP (OUTPUT MEASURE) IN FIRST QUARTER 1987

1. The CSO will publish the preliminary estimate for GDP(O) on 20 May.

### First Quarter Figures

2. GDP(O) is estimated to have increased by about  $\frac{1}{2}$  per cent between the fourth quarter of 1986 and the first quarter of 1987, following an increase of just over  $\frac{1}{2}$  per cent between the third and fourth quarters of 1986. GDP(O) is estimated to have increased by  $3\frac{1}{2}$  per cent in the year to 1987Q1.

3. GDP(O) excluding oil and gas extraction rose only marginally between the fourth quarter of 1986 and first quarter of 1987, but  $3\frac{3}{4}$  per cent in the year to 1987Q1.

4. The contribution of changes in the individual components of GDP(O) are tabled below:

Contribution to percentage  
changes in GDP(O) on  
1987Q1 on 1986Q4

Industry

1. Agriculture, forestry and fishing	0.0	
2. Construction	- 0.3**	
3. Services	0.2	
4. Industrial production of which	0.6	
- oil and gas extraction		0.4
- other energy and water supply		0.2
- manufacturing		- 0.1
5. GDP(O)*	0.5	

\* sum of rows 1-4

\*\* not for use

5. The  $\frac{1}{2}$  per cent increase in output in Q1 reflected a  $5\frac{1}{4}$  per cent increase in oil and gas extraction - in part representing recovery from the pipeline leak in 1986Q4 - partially offset by a  $\frac{1}{4}$  per cent fall in manufacturing output and a very preliminary estimate of a sharp decline in construction activity.

6. The expenditure, income and output measures of GDP can move differently from each other between quarters. The output measure, generally regarded as the best indicator of short run movements in growth, showed strong growth through 1986 after allowance was made for erratic movements in oil and gas extraction. The flattening off in non-oil output in the first quarter of 1987 (up just 0.1 per cent from 1986Q4) undoubtedly reflects, in part, the effects of the bad weather in January. Furthermore, in view of the history of upward revisions to the manufacturing production index, including last month's large upward revision to the fourth quarter 1986 estimates, and given the evidence from CBI surveys it is quite likely that the latest figures understate recent activity in the manufacturing sector.

P F L ALLUM

FROM: S J DAVIES  
DATE: 27 MAY 1987

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir P Middleton  
Sir T Burns  
Mr F E R Butler  
Mr Byatt  
Mr Cassell  
Mr Kemp  
Mr Monck  
Mr Evans  
Mr Odling-Smee  
Mr Peretz  
Mr Scholar  
Mr Sedgwick  
Mr Turnbull  
Mr Bottrill  
Mr Culpin  
Mr Melliss  
Mr Mowl  
Miss O'Mara  
Mr Riley  
Mr Pickford

*Chab:*

*cc Mr Tynia.*

**NATIONAL INSTITUTE ECONOMIC REVIEW**

The May issue of the National Institute Economic Review comes out at 9 pm on Wednesday 27 May. The main features of the forecast it contains are:

- GDP growth of 2.9 per cent this year (3.3 per cent non-oil), followed by 1.9 per cent in 1988 (2.2 per cent non-oil).
- UK adult unemployment down to 2.9 million by the end of 1987, with little further change during 1988.
- RPI inflation at 3.7 per cent in 1987 Q4, rising slightly to 4.1 per cent in 1988 Q4.
- the current account virtually in balance this year (a deficit of just £0.3 billion) but deteriorating in 1988 when the deficit is forecast at £3.7 billion.

- PSBR of £5.6 billion in 1987-88 and £4 billion in 1988-89.

The forecast shows a generally more favourable prospect for 1987 than the Institute was suggesting three months ago (in particular 1 per cent less inflation, a £2.3 billion smaller current account deficit and a £3 billion lower PSBR). The Institute expects a slowdown in growth next year and a worse performance on the current account, partly because of the rise in the sterling exchange rate during 1987 so far.

### The Medium Term

The Institute sees 1988 as marking the start of a period of slower growth. The Review includes two projections for the UK economy up to 1991 under alternative exchange rate assumptions:

- (a) roughly constant real exchange rate
- (b) 10% real depreciation in 1989.

On the policy assumptions adopted growth is about 2 per cent a year in case (a), but more than  $\frac{1}{2}$  per cent faster than this in case (b). Current account deficits of  $1\frac{1}{2}$ -2 per cent of GDP persist in both cases. Inflation falls to around 3 per cent in case (a), but rises to over 7 per cent in case (b).

### The Institute's Appraisal

The Appraisal section of the Review sets out the case that the Institute sees for the UK becoming a full member of the EMS. The Institute believes that the fluctuations in sterling in recent years have been "damaging and disruptive to industry" and that investment has probably suffered as a consequence. The "EMS provides the context for achieving...low inflation despite adverse trends in the balance of payments".

### Review Articles

Other articles in this edition of the Review include a further article in the series comparing training and education in the UK with other

countries (the latest article compares vocational training for office work in France and Britain).

An article by A D Smith attempts to derive a measure of the capital stock in UK industry using company accounts as an alternative to the CSO's often criticised estimates of the capital stock. Smith's conclusions are that the CSO's estimates overstate the stock of equipment in industry by around a quarter, and by more than this (about a third) in manufacturing industry.

An article by George Ray sets out an international comparison of labour costs in manufacturing industry. He estimates that hourly labour costs in the UK in 1986 were well below those in almost all other major industrial countries (US labour costs were 60 per cent higher than UK labour costs, Japanese labour costs 30 per cent higher, German labour costs over 70 per cent higher). But UK productivity remains so far below that in other countries that UK labour costs per unit of output were in 1986 generally higher than competitors' unit labour costs.



S J DAVIES

**COMPARISON OF NIESR AND FSBR FORECASTS**

	NIESR MAY FORECAST		FSBR FORECAST	
	<u>1987</u>	<u>1988</u>	<u>1987</u>	<u>1988*</u>
per cent changes on previous year				
Gross domestic product	2.9	1.9	3	2½
Consumers' expenditure	3.5	3.9	4	3½
Total fixed investment	3.6	4.1	4	3
General government consumption	1.7	1.0	1	1
Change in stockbuilding (contribution to GDP)	0.4	-0.2	½	0
Exports of goods and services	3.1	0.3	4	2
Imports of goods and services	3.8	4.1	6	2½
Manufacturing output	3.7	2.0	4	3
World trade	4.4	3.7	3½**	4**
RPI in Q4	3.7	4.1	4	4
Current account (£ billion)	-0.3	-3.7	-2½	-2
PSBR (£ billion financial year)	5.6	4.0	4	4***

\* FSBR Forecast for 1988 relates to first half of the year. RPI figure is for 1988 Q2.

\*\* Developed countries' exports of manufactures weighted by UK markets.

\*\*\* MTFS projection

## MONTHLY ECONOMIC BRIEF

Prepared by the CSO on 29 May 1987

The preliminary estimate of the output based measure of GDP for the first quarter of 1987 shows a rise of about  $\frac{1}{2}$  per cent on the fourth quarter of 1986 and  $3\frac{1}{2}$  per cent over its level for the same period a year ago. The projected rise for GDP, average measure, in the first quarter of 1987 is now also  $3\frac{1}{2}$  per cent on a year earlier. The output of the production industries has similarly shown an increase, of 3 per cent, compared to the same period a year ago. These rises are consistent with our assessment of the current underlying trend in GDP which is estimated to be in the range  $2\frac{1}{2}$  to  $4\frac{1}{2}$  per cent per annum.

Adult unemployment fell again between March and April, by 20,000, continuing the downward trend. The revised test of availability for work continued to contribute to the fall whilst other special influences had a broadly neutral effect on the April figure. Without revised availability testing and the other influences it is likely that unemployment would still have fallen marginally over recent months.

The annual rate of inflation as measured by the RPI was 4.2 per cent in April - 0.2 percentage points higher than in March. The May figure is likely to fall back to between  $3\frac{3}{4}$  and 4 per cent, largely reflecting lower mortgage interest rates.

The unadjusted price index for materials and fuel purchased by manufacturing industry has shown a sustained growth since July 1986 and it is now higher compared to the position 12 months ago for the first time since June 1985. It is still  $10\frac{1}{2}$  per cent below its peak of March 1985.

Manufacturing productivity in the first quarter of 1987 showed a continued rise, following improved productivity in 1986, whilst the underlying increase in average earnings in the year to March was 8 per cent, resulting in a rise in unit wage costs of 1 per cent. For the whole economy in the year to March the underlying increase in average earnings was  $7\frac{1}{2}$  per cent, similar to that experienced for the past four years.

Sterling traded in the range  $73\frac{1}{2}$  to 74 in effective terms for most of May, but then weakened, closing at 72.5 on 28 May. Bank base rates were cut by  $\frac{1}{2}$  per cent on 11 May.

Preliminary information suggests that in the 12 months to April 1987, before seasonal adjustment M0 rose by  $5\frac{1}{4}$  per cent and M3 (formerly called £M3) by about  $20\frac{1}{2}$  per cent.

In April exports were 2 per cent higher than in March and imports  $3\frac{1}{2}$  per cent higher. Visible trade showed a deficit of £0.5 billion in April compared with a deficit of £0.4 billion in March. The underlying level of non-oil export volume appears recently to have been slightly below the high level reached at the end of last year. The underlying level of non-oil import volume has fallen in recent months away from the high level at the end of last year. The current account is estimated to have been in surplus by £0.8 billion in the first four months of 1987.

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

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

**GDP (average measure)** in the fourth quarter of 1986 was  $3\frac{1}{2}$  per cent higher than in the same period a year ago. This figure does not take account of past experience which shows that revisions to growth rates for the initial published estimates of GDP were on average, upwards, though not uniformly so. The assessment of current underlying trend for the first quarter of 1987 is that the rate of increase lies in the range  $2\frac{1}{2}$ - $4\frac{1}{2}$  per cent per annum.

**Industrial production** in the first quarter of 1987 was 3 per cent higher than in the same period a year ago; manufacturing output was  $4\frac{1}{2}$  per cent higher. The assessment of current underlying trend for industrial production is that the rate of change lies in the range 2-5 per cent per annum at present. The current underlying trend in manufacturing output is in the range 3-6 per cent per annum.

**Retail prices** rose by a little over 4 per cent in the twelve months to April 1987. It is only possible to provide a useful indicator of trend for about 70 per cent of the RPI, mainly that covering private sector prices and excluding eg mortgage interest, rent, rates, products produced by nationalised industries, seasonal food and petrol. The current trend for this series is around 4 per cent per annum. In the twelve months to April 1987 this series rose just over  $3\frac{1}{2}$  per cent (not published).

**Producer input prices** showed an increase of 0.8 per cent in seasonally adjusted terms in April. Although they are now  $1\frac{1}{2}$  per cent higher than at the same time last year, they remain  $10\frac{1}{2}$  per cent below their peak in March 1985. Little change is expected in April.

**Average earnings (underlying)** in the twelve months to March 1987 rose by  $7\frac{1}{2}$  per cent. The current trend is estimated to be 7-8 per cent per annum.

**Unit wage costs in manufacturing** in the first quarter of 1987 rose by 1 per cent compared with the same period a year ago. The current underlying trend is estimated to be in the range 1-4 per cent per annum.

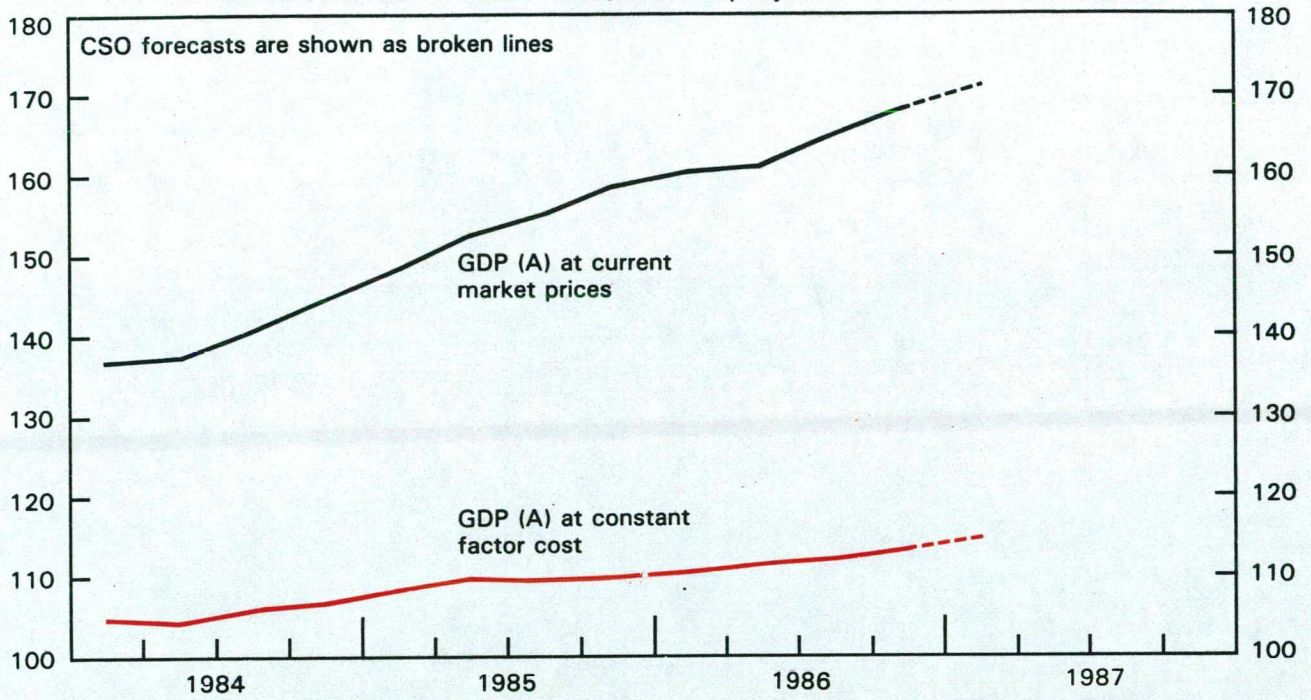
**Unemployment (excluding school leavers)** in the twelve months to April has fallen on average by 15,000 per month. Over the past 6 months there has been an average fall of 23,000 per month.

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



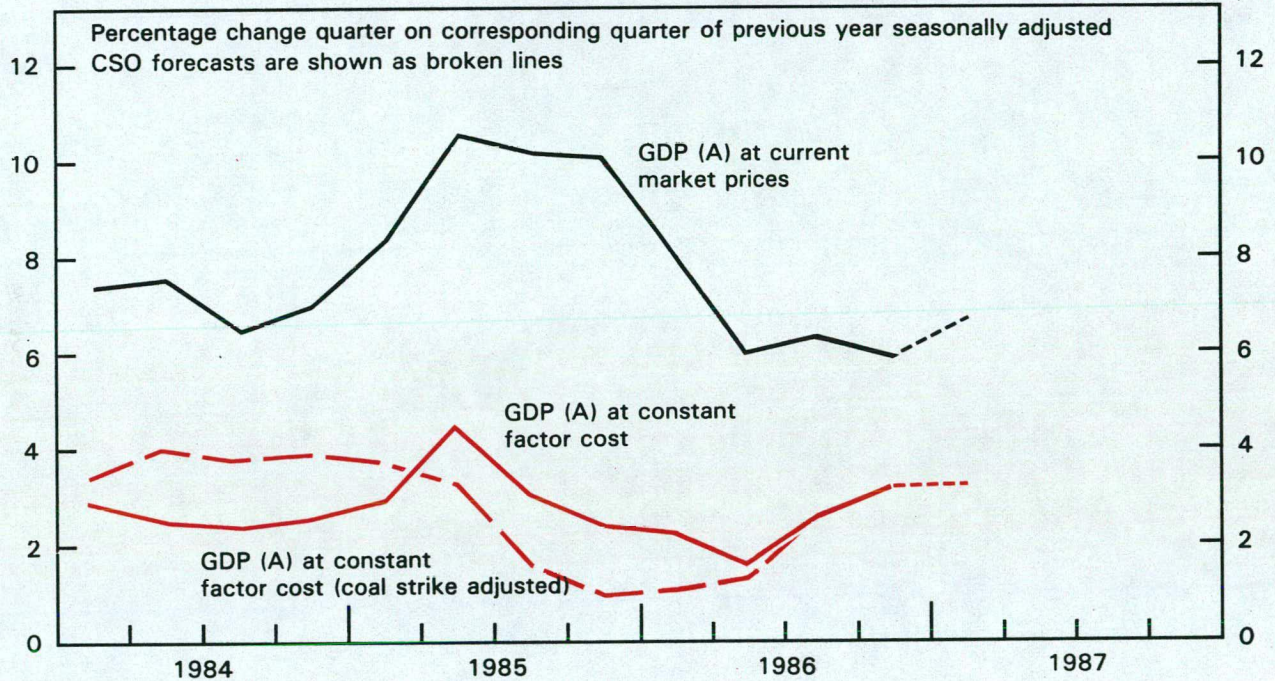
Gross domestic product (average measure)

1980 = 100, seasonally adjusted



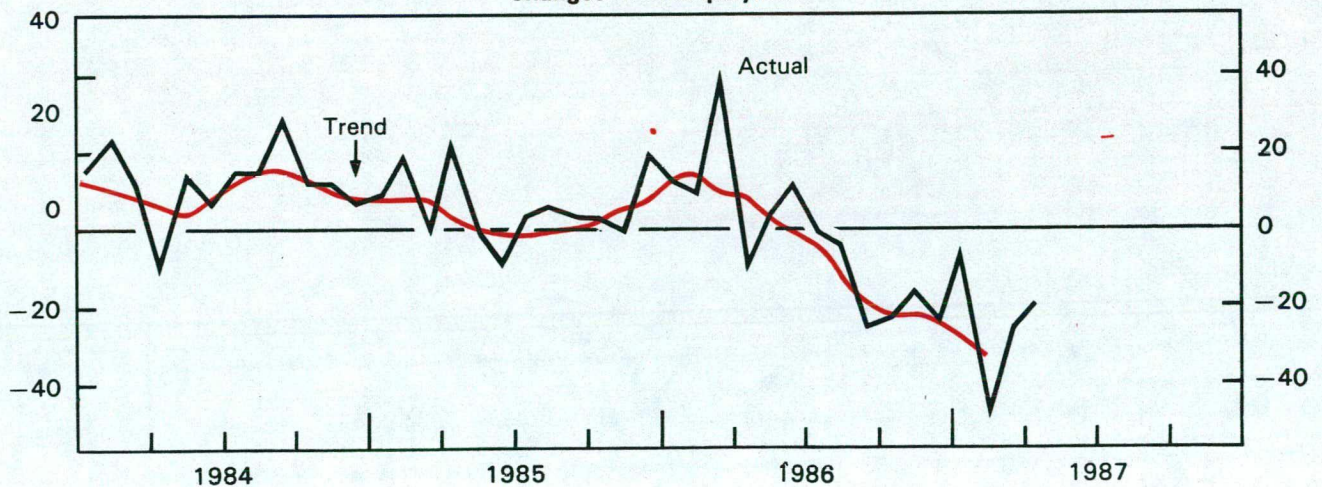
Gross domestic product (average measure)

CHART 1B



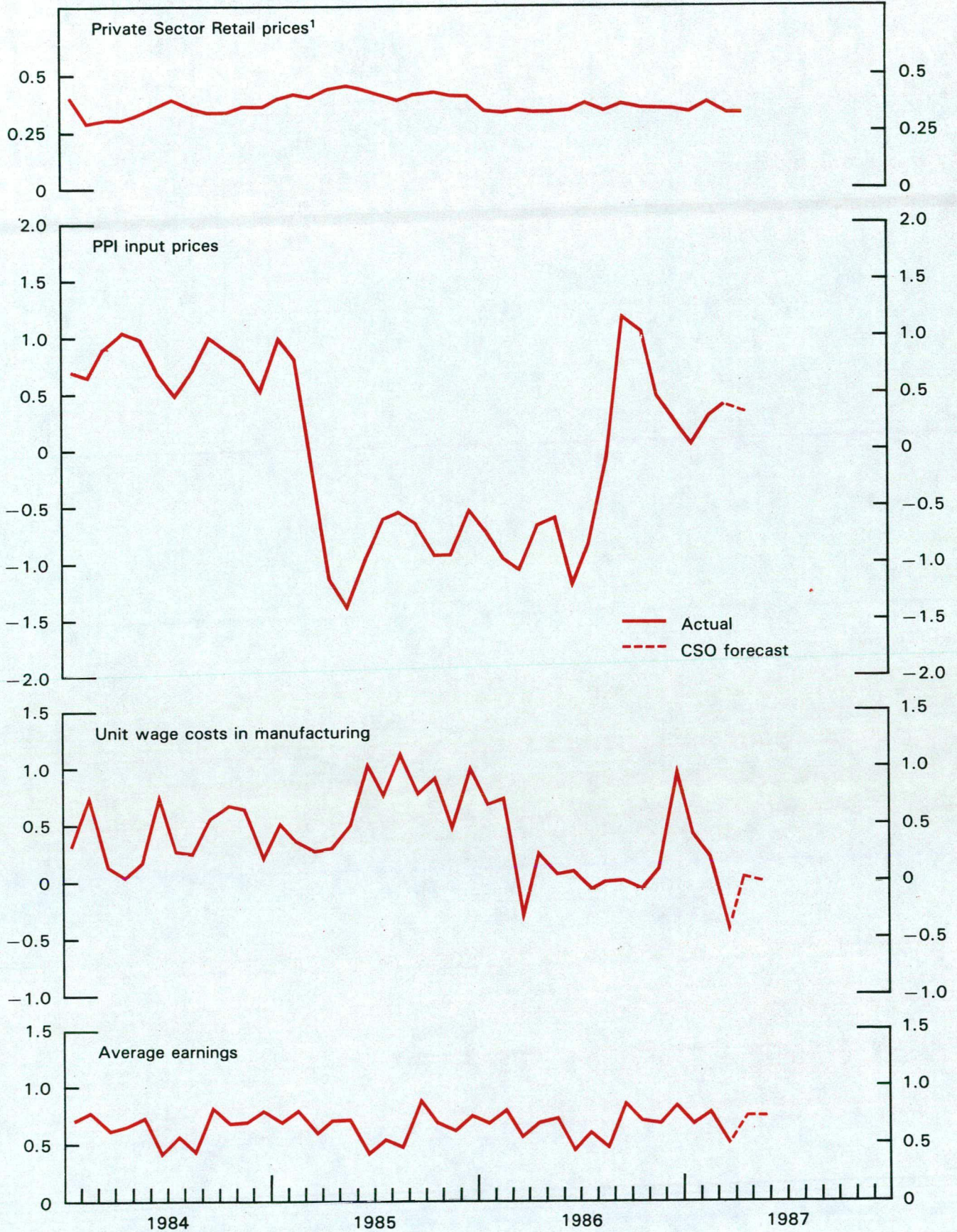
Changes in unemployment

CHART 2



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

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



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

CHART 4

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

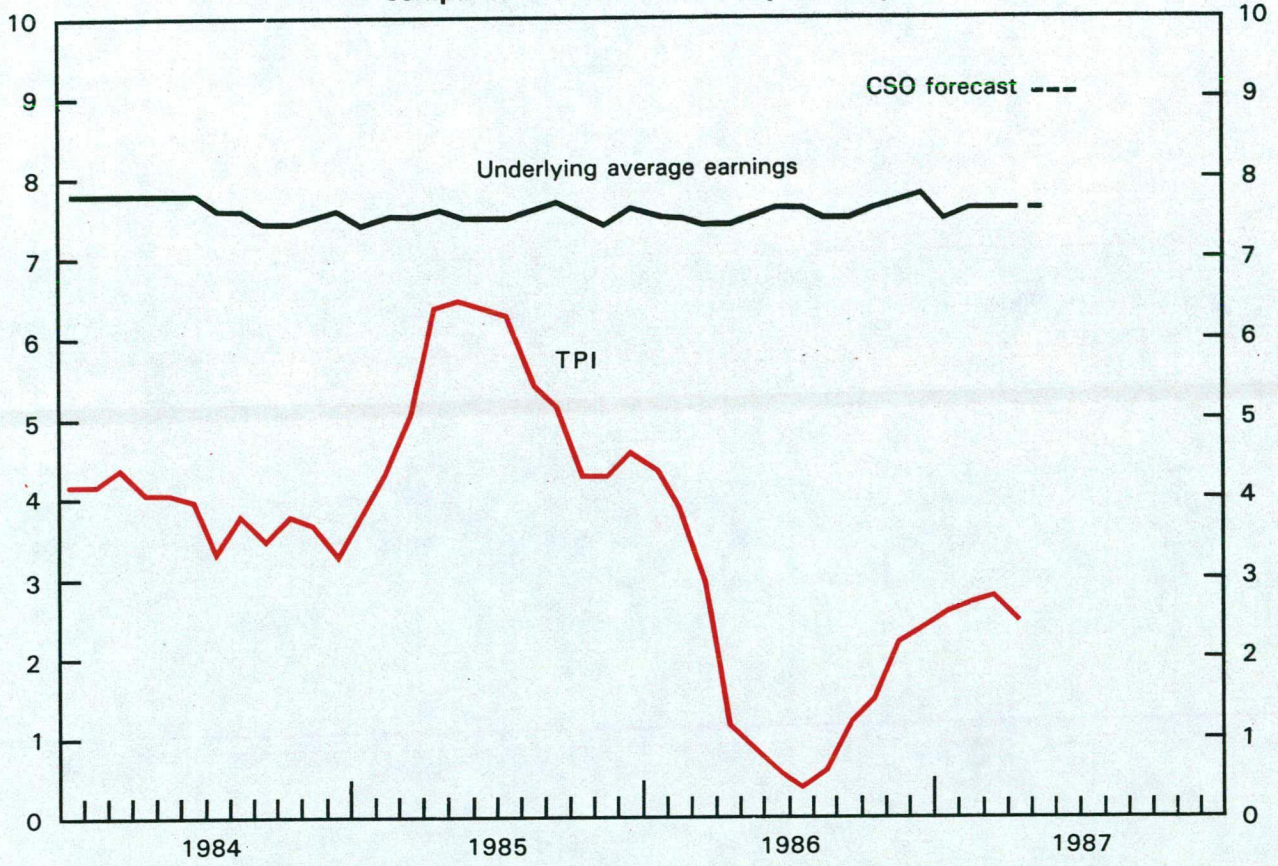
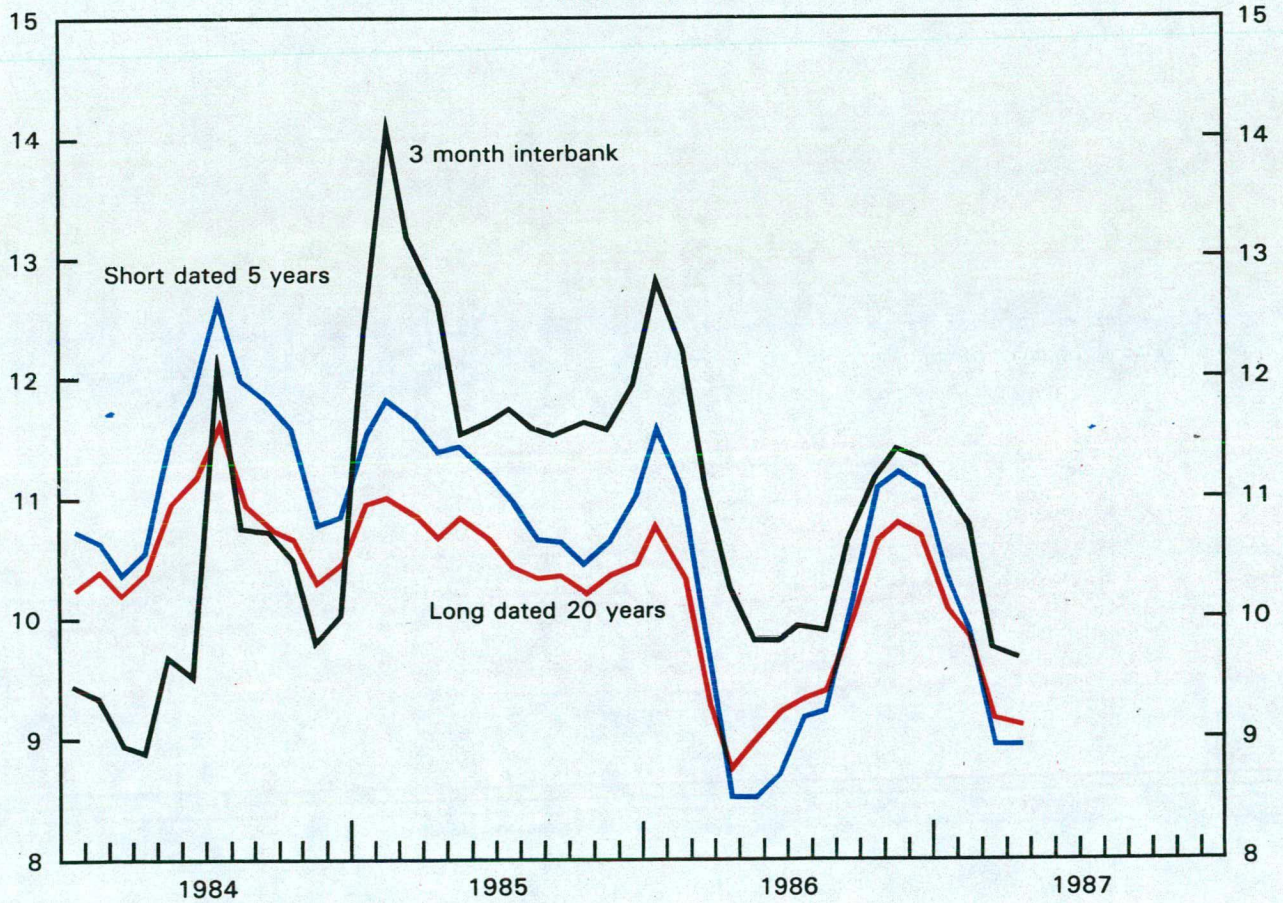


CHART 5

Interest rates



**Monetary aggregates**

Percentage change on previous 12 months (not seasonally adjusted)

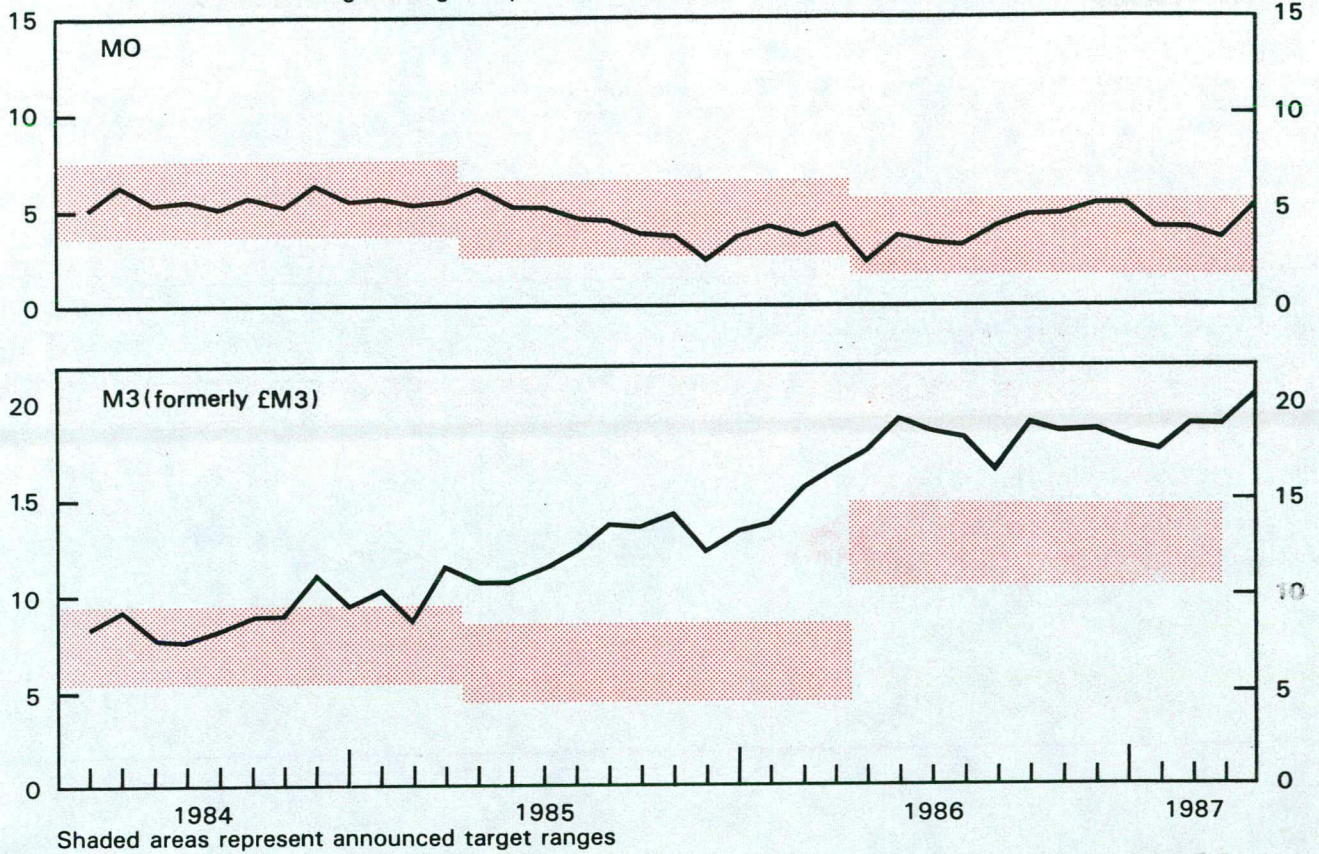
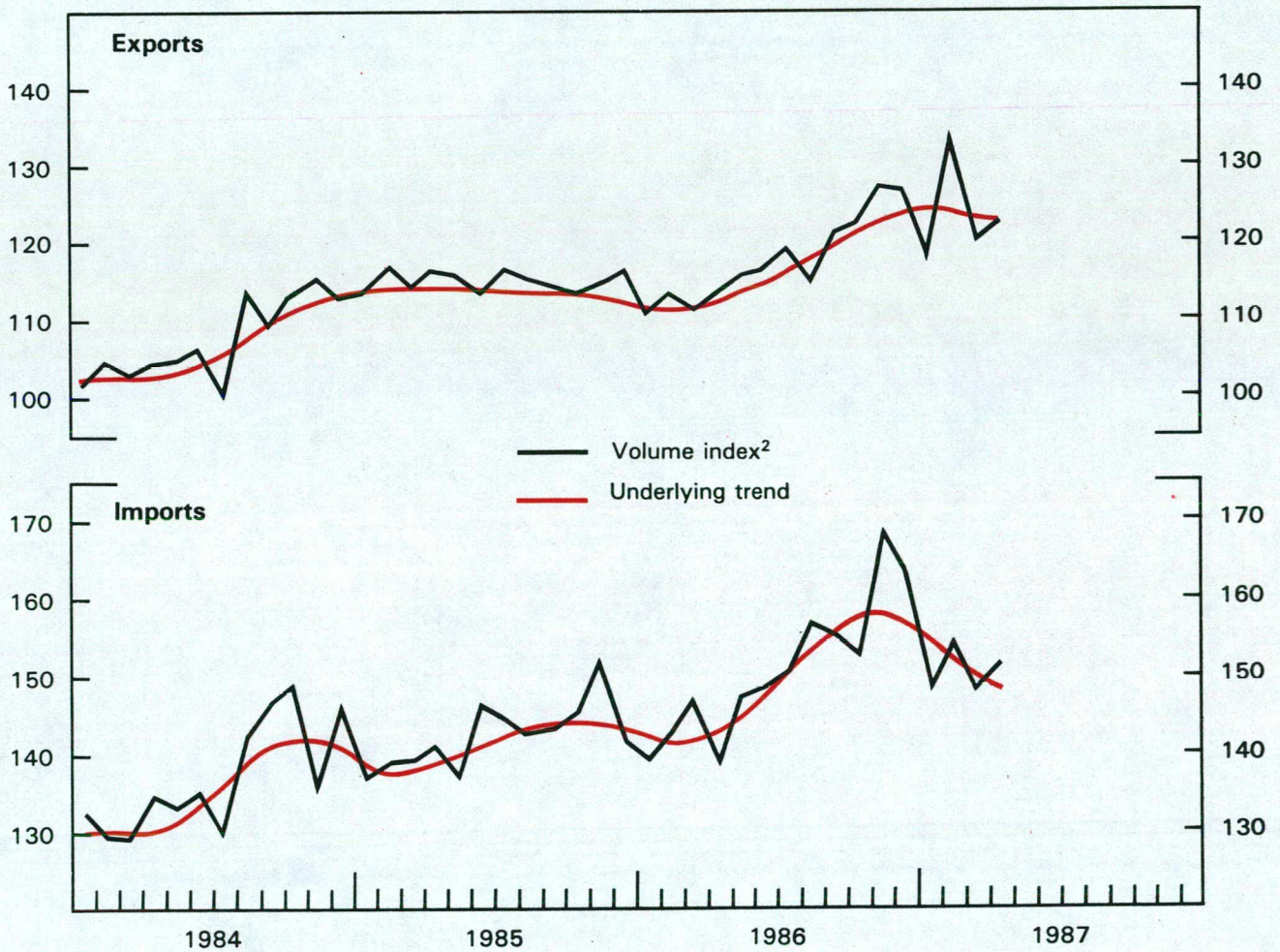


CHART 7

**Exports and Imports (excluding oil and erratics<sup>1</sup>)**

Index 1980 = 100



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

MONTHLY ECONOMIC BRIEF  
DETAILED ASSESSMENTS SUPPLEMENT

<u>Sections</u>	<u>Contents</u>	<u>Page</u>
A	ECONOMIC ACTIVITY	8
A1	Total gross domestic product (in real terms)	8
A2	Money GDP	9
A3	Output measures	9
A4	Cyclical indicators	11
B	THE LABOUR MARKET	12
B1	Unemployment and vacancies	12
B2	Employment and hours	14
B3	Redundancies	17
C	PAY, PRICES AND REAL DISPOSABLE INCOME	18
C1	Average earnings	18
C2	Unit wage costs and competitiveness	19
C3	Producer prices	20
C4	Retail prices	21
C5	Real personal disposable income (RPDI)	22
D	COMPONENTS OF DOMESTIC EXPENDITURE	23
D1	Consumers' expenditure	23
D2	General government final consumption	23
D3	Gross domestic fixed capital formation	24
D4	Stockbuilding	24
E	OVERSEAS TRADE AND CURRENT BALANCE	25
F	FINANCIAL	26
F1	PSBR	26
F2	Monetary growth	27
F3	Financial markets	28
-	TABLES	30
-	QUALITY OF LATEST INFORMATION AVAILABLE	34

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

A1.1 The current estimate for the fourth quarter of 1986 suggests that the average measure of GDP, GDP(A), was 1 per cent higher than the previous quarter and  $3\frac{1}{2}$  per cent higher than the fourth quarter of 1985. Between the years 1985 and 1986 the growth in GDP(A) was just over  $2\frac{1}{2}$  per cent (or slightly under  $2\frac{1}{2}$  per cent if allowance is made for the effects of the coal dispute in 1985).

A1.2 The three measures of GDP at constant factor cost show somewhat different quarterly profiles through 1986 but there is much closer correspondence between their growth rates in the year-on-year comparison: all three measures indicate a growth in the region of  $2\frac{1}{2}$ -3 per cent between the two years (or  $\frac{1}{2}$  per cent less after allowing for the coal dispute).

A1.3 Published estimates of GDP(O) for the first quarter of 1987 show a modest rise over the previous quarter (see paragraph A3 for further details). Projections show GDP(E) moving forward by just under 2 per cent compared with the fourth quarter due to a very marked improvement in the trade balance (because of a fall in imports); GDP(I) is projected to rise 1 per cent between the same two quarters, mainly reflecting a further recovery in North Sea profits.

A1.4 Combining these measures, the first quarter 1987 projection for GDP(A) suggests a rise of 1 per cent over the fourth quarter level and a rise of  $3\frac{1}{2}$  per cent compared with the first quarter of 1986. Our best assessment of the current underlying trend in GDP(A) is that it lies in the range of  $2\frac{1}{2}$ - $4\frac{1}{2}$  per cent per annum.

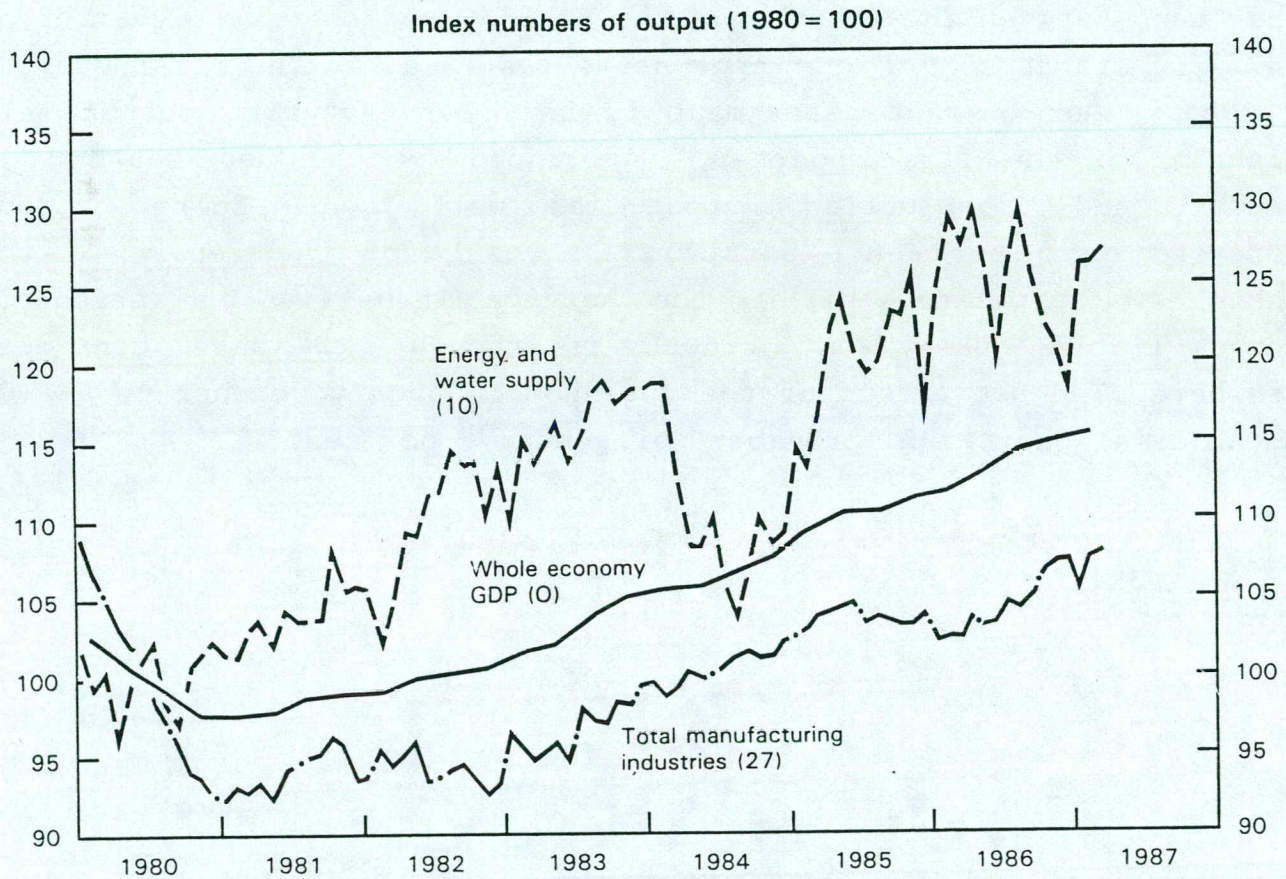
2

Money GDP

A2.1 The current projection of money GDP for the first quarter of 1987 suggests growth of 1½ per cent compared with the previous quarter and a little over 6½ per cent compared with the first quarter of 1986. Between 1985 and 1986, it increased by 6½ per cent, or 6 per cent if broad allowance is made for the effect of the coal strike in 1985.

A3 Output measures

A3.1 Manufacturing output reached a temporary peak in the second quarter of 1985 and then declined 2 per cent by the first quarter of 1986. However, output had recovered this lost ground by the third quarter of 1986 and then showed further significant growth into the fourth quarter. In the fourth quarter output was 2 per cent higher than the third quarter and 2½ per cent higher than the second quarter of 1985. Although the first quarter of 1987 was marginally lower, this largely reflects the severe weather in January and the provisional figures for February and March suggest continued growth.



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

CONFIDENTIAL

A3.2 Trends in the energy sector are more difficult to determine. Output in the last quarter of 1986 showed a decline due, particularly, to reduced oil extraction after a pipeline leak but fully recovered in the first quarter of 1987.

A3.3 The underlying output of all production industries in the second half of 1985 was approximately 1 per cent below the level reached in the first half, but since then underlying output has increased steadily - mainly reflecting the improvement in manufacturing output. Published figures were little changed between the third and fourth quarters of 1986, a reduction in energy output (mainly lower oil extraction) being offset by an increase in manufacturing. In the first quarter of 1987 output increased again reflecting the recovery in the energy sector. The index for April is expected to be around 113 (March was 113.1), with a reduction from the high level of electricity and gas supply in March offsetting a further increase in manufacturing. The index for May is expected to be around 113½.

A3.4 The output measure of GDP is thought to have increased by about ½ per cent between the fourth quarter of 1986 and the first quarter of 1987. It stands some 3½ per cent above its level in the first quarter of 1986. Our current assessment is that manufacturing output fell slightly in the first quarter, influenced by the bad weather in January, and construction output was well down. Energy output increased by 5 per cent, partly as a result of the repair of the leaking oil pipeline. Within the service industries, distribution showed little change but growth is thought to have continued elsewhere. The net effect of the unseasonal January weather on GDP(O) in the first quarter is probably well under ½ per cent.

CONFIDENTIAL



A4 Cyclical indicators

A4.1 The cyclical indicators continue to give no clear view of the direction of the business cycle over the last year. The coincident index was little changed during 1986, though it has shown a rise in March and April of 1987, largely because of previous movements below trend in retail sales. The longer leading index rose strongly between December and March reflecting the sharp rise in share prices and the shorter leading index showed a similar rise in the first three months of 1987. The lagging index has shown a sustained increase since November, after some months of little change.

A4.2 Since the trough in 1981, the main economic series which are used to "define" the business cycle (ie. the three measures of GDP, industrial production and retail sales) have not as a whole exhibited the sharp swings in growth rate seen in previous cycles. One interpretation of this is that the effect of the business cycle on the economy has been diminished. It would therefore be unsurprising that the indicator system has failed to reveal any clear cycle in recent years and a matter of some note that the major economic time series are now exhibiting no significant cyclical behaviour.

**B**     THE LABOUR MARKETB1     Unemployment and vacancies

B1.1 UK unemployment (seasonally adjusted, excluding school leavers) fell sharply again between March and April by 20,000 to 3.020 million (10.9 per cent).

B1.2 In the 6 months since October there has been a fall of 140,000 or 23,000 per month. Unemployment has now fallen by over 190,000 in the ten months since last June (but see also Quality Section). The current trend is probably close to the six monthly average.

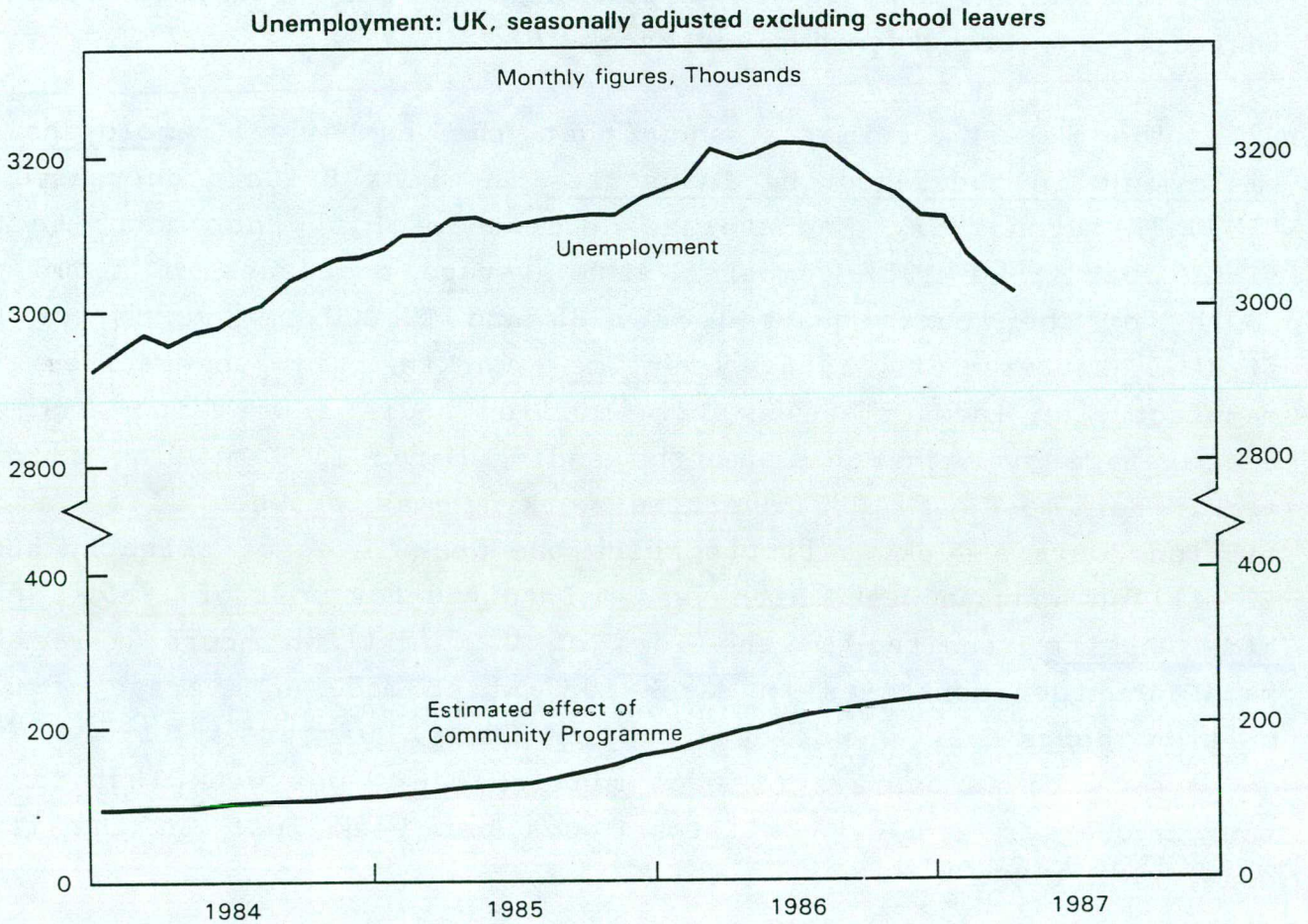
B1.3 Availability tests are again likely to have had a substantial effect, contributing to the downward trend; but Restart has had only a small effect on the change in the figures in April, reflecting a temporary lull in interviews before the start of the 6-monthly programme. Various other factors have together had a broadly neutral influence on the change between March and April. The most important of these were the Civil Service dispute which had some upward effect on the April count, and a one-off effect through extra efforts to identify men over 60 who need not sign on. These both amounted to up to around 5,000 and tended to cancel each other out.

B1.4 All regions except Scotland and Northern Ireland had a fall in unemployment in April. Over the past six months only Scotland has had an increase and this was marginal. Over the past year, the unemployment rate has fallen fastest in Wales and the only regions to experience a rise were Scotland and Northern Ireland.

B1.5 The headline claimant total (unadjusted, including school leavers) fell by 36,000 in April to 3.107 million, 11.2 per cent of the working population. There was a fall of nearly 31,000 among adults and nearly 6,000 among school leavers. The overall total was 218,000 lower than a year ago, the largest 12 month fall since December 1973, and the school leaver total, at 67,000, was 46,000 lower than in April last year. These comparisons are affected by the later Easter this year, with Easter school leavers joining the count in May rather than in April as they did last year.

B1.6 The number of claimants unemployed for more than a year fell further between January and April by 39,000, in a quarter when seasonal influences are only slightly downward. The total of 1.295 million was 61,000 lower than a year ago.

B1.7 The stock of vacancies at jobcentres (seasonally adjusted and excluding Community Programme) increased by 3,000 to 214,000 in April, almost back to the previous peak level of last November. The total was 26 per cent higher than a year ago. However, inflows of notified vacancies, outflows and placings fell back in April, although the inflows in particular remained relatively high.



B2 Employment and hours

B2.1 The latest whole economy estimates of the number of employees in employment and the employed labour force relate to December 1986. The slight revisions to these estimates, to take account of new data for the service sector since estimates were first published in April, do not change the pattern shown by the series. The employed labour force in Great Britain - which includes the self-employed and HM Forces as well as employees in employment - is estimated to have increased by 90,000 in the last quarter of 1986 following an increase of 54,000 in the third quarter. This continues the upward trend which started in March 1983, since when the employed labour force is estimated to have increased by 1,133,000. The increase of 179,000 in 1986 is less than the increase of 236,000 in 1985. However the estimated rate of increase has strengthened since March 1986.

B2.2 The latest estimates show that the number of employees in employment in manufacturing industries in Great Britain decreased by 5,000 in March 1987. The average decrease of 9,000 per month in the first quarter of 1987 compares with average decreases of 1,000 per month for the fourth quarter of 1986 and 12,000 per month for the first quarter of 1986. Overtime working by operatives in manufacturing industries was 12.4 million hours a week in March and the average over the three months ending March 11.9 million hours a week. For most of 1986 overtime working was between 11.5 and 12 million hours a week, a little below the peak level of slightly above 12 million hours a week which was maintained for most of 1985. Short time working resulted in the loss of 0.35 million hours a week in manufacturing industries in March 1987 which made an average of 0.46 million hours per week lost in the first quarter of 1987. This compares with an average of 0.61 million hours per week lost in the fourth quarter and 0.43 million hours per week lost in the first quarter of 1986.

B2.3 The index of average weekly hours worked by operatives in manufacturing industries (which takes account of hours of overtime and short time as well as normal basic hours) was estimated at 103.4 in March 1987. This gave an average of 102.9 in the first quarter of 1987 which compares with 102.9 in the fourth quarter of 1986 and 103.3 for the first quarter of 1986.

**CONFIDENTIAL**

The Employed Labour Force in Great Britain      Thousand: Seasonally adjusted

		Employees in employment				Self-Employed Persons	Employed Labour Force
		Manufacturing Industries	Service Industries	Other Industries	All Industries and Services		
<b>Levels</b>							
1985	Jun	5,282	13,799	1,922	21,003	2,550	23,879
	Sep	5,279	13,865	1,893	21,037	2,554	23,917
	Dec	5,261	13,932	1,876	21,069	2,558	23,951
1986	Mar	5,226	13,997	1,854	21,077	2,563	23,962
	Jun	5,175	14,075	1,848	21,098	2,567	23,986
	Sep	5,141	14,153	1,831	21,125	(2,592)	24,040
	Dec	5,137	14,225	1,830	21,192	(2,618)	24,130
1987	Mar	5,110					
<b>Changes</b>							
1985	Q2	- 6	+ 73	- 17	+ 49	+ 28	+ 77
	Q3	- 3	+ 66	- 29	+ 34	+ 4	+ 38
	Q4	- 18	+ 67	- 17	+ 32	+ 4	+ 34
1986	Q1	- 35	+ 65	- 22	+ 8	+ 5	+ 11
	Q2	- 51	+ 78	- 6	+ 21	+ 4	+ 24
	Q3	- 34	+ 70	- 17	+ 27	(+ 25)	+ 54
	Q4	- 4	+ 72	- 1	+ 67	(+ 26)	+ 90
1987	Q1	- 27					
1985	Oct	- 3					
	Nov	- 13					
	Dec	- 2					
1986	Jan	- 5					
	Feb	- 24					
	Mar	- 6					
	Apr	- 7					
	May	- 29					
	Jun	- 15					
	Jul	- 17					
	Aug	- 12					
	Sep	- 5					
	Oct	- 2					
	Nov	+ 2					
	Dec	- 4					
1987	Jan	- 22					
	Feb	0					
	Mar	- 5					

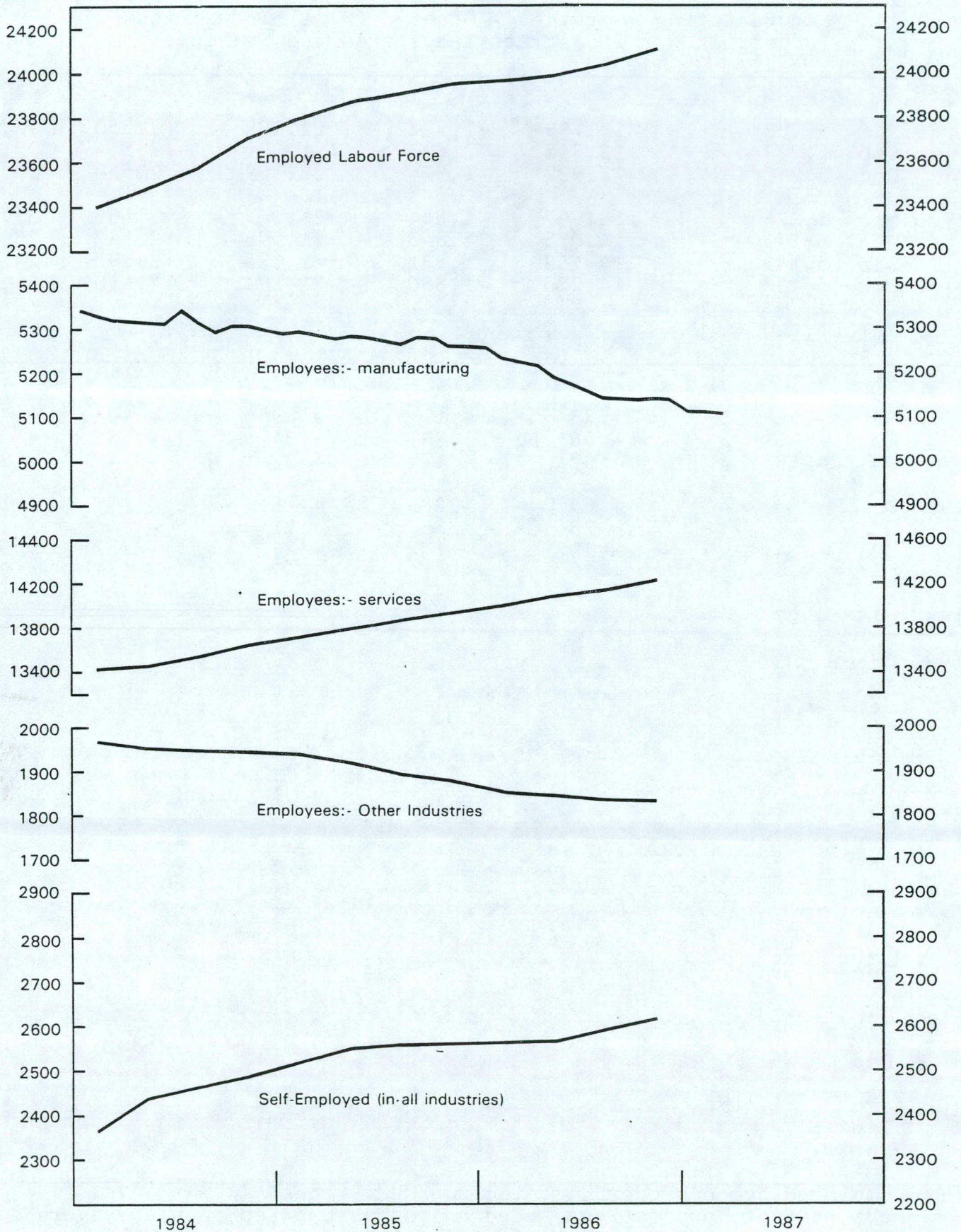
NB: Employed Labour Force also includes HM Forces

Brackets indicate projections based on the assumption that the average rate of increase between 1981 and 1986 is continuing.

**CONFIDENTIAL**

**CONFIDENTIAL**

Employment  
Thousands



**CONFIDENTIAL**

B3 Redundancies

B3.1 The underlying trend in the number of redundancies confirmed as due to occur (measured by a seven month ended average) rose slightly in March, after falling since mid-1986; this could well be the result of a seasonal "blip" in March itself. The decline over recent months has arisen partly because of improving economic conditions, but is affected to an uncertain extent by the consequences of changes in the Redundancy Fund rules, including erosion of the quality of reporting in recent months. The trend in confirmed redundancies in the manufacturing sector, in which most redundancies occur, has followed a similar pattern to total redundancies since mid-1986 and for similar reasons. The trend in the energy and water supply sector which fell from May 1986 to December 1986, rose significantly in March as a result of increased redundancies in the coal industry, for which non-compliance with reporting rules is unlikely to be a problem. The trend of redundancies for other industries and services, which rose steadily from October 1985 to July 1986, has fallen since then, with some acceleration in the first three months of 1987.

B3.2 The number of confirmed redundancies in the three months ending March 1987 is expected to average just over 16,000 a month, compared with about 25,000 a month recorded during the corresponding period of a year ago.

CONFIDENTIAL

C PRICES AND REAL DISPOSABLE INCOME

C1 Average earnings

C1.1 The underlying increase in average weekly earnings in the year to March was about  $7\frac{1}{2}$  per cent, similar to the increase in the year to February. The actual increase, 6.7 per cent, was below the underlying increase because back pay in March this year was lower than in the same month last year.

C1.2 The effect on average earnings of the recent increase in overtime working is estimated to be between  $\frac{1}{4}$  and  $\frac{1}{2}$  per cent for the whole economy index. Thus higher overtime payments have been offsetting the effect of lower pay settlements, leaving the underlying average earnings increase unchanged. In April and May it is likely that this situation will continue. The actual increases are expected to be affected by changes in back pay levels; in April the increase will be depressed by the high level of back pay last year; in May the increase will be inflated by back pay for teachers.

CONFIDENTIAL



C2 Unit wage costs and competitiveness

C2.1 Unit wage costs in the whole economy rose by over 2 per cent between the third and fourth quarters of 1986. In the first quarter of 1987 the rise is expected to have been over 1 per cent, with total wage costs rising by nearly  $1\frac{1}{2}$  per cent and GDP(0) rising by nearly  $\frac{1}{2}$  per cent; this would give a rise in unit wage costs of over  $4\frac{1}{2}$  per cent since the first quarter of 1986.

C2.2 In the first quarter of 1987 manufacturing average earnings and unit wage costs both increased by  $1\frac{1}{2}$  per cent compared with the previous quarter. The increase in productivity was less than  $\frac{1}{2}$  per cent. (However the low productivity increase is due to a weather affected output figure for January and consequently the calculated increase in unit wage costs is above the underlying trend.) Unit wage costs in the first quarter were 1 per cent higher than a year earlier, an increase of 8 per cent in average earnings being largely offset by an increase of over  $6\frac{1}{2}$  per cent in productivity.

C2.3 UK competitiveness (as measured by relative actual unit labour costs in manufacturing) improved by around 17 per cent in the year to the fourth quarter of 1986. Following the sharp deterioration in competitiveness during 1985, the UK's competitive position by the end of 1986 had returned roughly to what it was at the end of 1984. The fall in the exchange rate during 1986 was almost entirely reflected in improved competitiveness because UK unit labour costs grew only a little faster than those elsewhere - a marked improvement on previous trends but in part a reflection of divergent cyclical movements in manufacturing productivity in the UK and other 'G5' countries. Since the fourth quarter of 1986, sterling has appreciated by nearly 6 per cent. Much of the appreciation has occurred since the middle of the first quarter and is not therefore fully reflected in the average relative unit labour costs in the first quarter. It is probable that since the fourth quarter of 1986 competitiveness has deteriorated by perhaps some 5-6 per cent as a result of the firmer exchange rate and the fact that unit labour costs in the UK are increasing at much the same rate as our competitors.

C3 Producer prices

C3.1 The unadjusted price index for materials and fuel purchased by manufacturing industry rose by 1.4 per cent in the twelve months ended April after having fallen by 0.5 per cent in the twelve months ended March. April was the first month since June 1985 in which the movement in the index measured over a twelve-month period has been upward. Between March and April the index showed a small increase of 0.2 per cent, mainly because of a rise in prices of home-produced food manufacturing materials. The seasonally adjusted index rose by 0.8 per cent in April. Although it is now about  $1\frac{1}{2}$  per cent higher than at the same time last year, it is still  $10\frac{1}{2}$  per cent below its peak in March 1985. The seasonally adjusted index is expected to show little change in May and to remain about  $1\frac{1}{2}$  per cent higher than in the same month last year.

C3.2 The increase in the price index for home sales of manufactured products measured over a twelve months period fell to 3.5 per cent in April from 3.7 per cent in March and around  $4\frac{1}{4}$  per cent in the preceding five months. The falls in April and March were, however, wholly due to a slowing in the twelve-monthly rate growth of the index for the food, drink and tobacco sector, which mainly reflected the fact that tobacco duties were increased in last year's Budget but not in this. The index for manufacturing industry other than the food, drink and tobacco sector continued to increase at a twelve-monthly rate of around  $4\frac{1}{4}$  per cent. The index for all manufacturing industry is expected to rise by only about 0.2 per cent in May and to remain about  $3\frac{1}{2}$  per cent higher than at the same time in 1986.

C4 Retail prices

C4.1 The annual rate of inflation, as measured by the 12-month change in the retail prices index, rose to 4.2 per cent in April from the 4.0 per cent recorded for March.

C4.2 The overall level of prices increased by 1.2 per cent between March and April. There were increases in local authority rates and rents and in mortgage interest payments, following the reduction in income tax rates - the effect of the recently announced reductions in mortgage interest rates will come through in the index for May. Higher prices were also recorded for some seasonal foods, motor vehicles and motor insurance.

C4.3 By comparison between March and April last year prices rose by 1.0 per cent. The duty payable on cigarettes was increased in the Budget and there were mortgage interest rate reductions.

C4.4 In May the 12-month rate is expected to fall to between 3 3/4-4 per cent, largely reflecting lower mortgage interest rates.

C5 Real personal disposable income (RPDI)

C5.1 Between the fourth quarter of 1986 and the first quarter of 1987 total wages and salaries are estimated to have risen by about 1½ per cent to reach a level about 8 per cent higher than in the first quarter of 1986.

C5.2 Personal disposable income is estimated to have risen by around 1½ per cent between the fourth quarter of 1986 and the first quarter of 1987. With prices, as measured by the consumers' expenditure deflator, rising by about ½ per cent in the same period, RPDI is tentatively estimated as rising by about 1 per cent.

	RPDI 1980 prices £bn	Consumers' expenditure 1980 prices £bn	Saving ratio per cent
1984	41.7*	36.7*	12
1985	42.9*	38.0*	11½
1986	44.7*	39.9*	11
1984 Q1	41.1	36.3	12
Q2	41.3	36.8	11
Q3	41.4	36.5	11½
Q4	43.2	37.1	14
1985 Q1	42.2	37.4	11½
Q2	42.7	37.6	12
Q3	42.8	38.3	10½
Q4	43.8	38.6	12
1986 Q1	44.0	39.0	11½
Q2	44.7	39.6	11½
Q3	44.8	40.3	10
Q4	45.3	40.3	11
1987 Q1	(45.7)	40.4	(11½)

\*Quarterly average

**D**      COMPONENTS OF DOMESTIC EXPENDITURED1      Consumers' expenditure at constant prices

D1.1 Consumers' expenditure in the fourth quarter of 1986 was unchanged from the third quarter but nearly 4½ per cent higher than in the same period of 1985. This estimate reflects continued growth in most categories of retail goods but with falls in vehicles, food and energy.

D1.2 Preliminary estimates suggest that in the first quarter of 1987 consumers' expenditure was little changed from the level of the fourth quarter of 1986. Expenditure on retail sales goods fell between the two quarters but this was offset by increased spending on vehicles and energy products and the general upward trend in services.

D1.3 The provisional index of retail sales volume for April at 130.3 is the highest recorded following rather weak sales in the first quarter averaging 125.4. There may be some erratic element in the April figure, perhaps in adjusting for the effects of Easter, and the March/April average of 127.6 is considered a sounder measure of current levels. An index between 128 and 129 is forecast for May.

D2      General government final consumption at constant prices

D2.1 General government consumption is estimated to have been £13.0 billion in the first quarter of 1987. This is in line with the forecast shown in the Financial Statement and Budget Report 1987-88 (Table 3.14).

D3 Gross domestic fixed capital formation at constant prices

D3.1 Total fixed investment was £11.5 billion in the fourth quarter of 1986 taking the annual total to £46.6 billion, representing an increase of  $\frac{1}{2}$  per cent on 1985. The acceleration of investment caused by the announcement of reduced capital allowances in the 1984 Budget, although difficult to quantify, is believed to have increased fixed investment more in 1985 than 1986 reducing the increase in fixed investment between the two years. Fixed capital formation is expected to have been about £11.7 billion in the first quarter of 1987. (See Quality Note.)

D3.2 Provisional estimates indicate that fixed investment by the manufacturing industries (including leased assets) was 8 per cent lower in the first quarter of 1987 compared with a year earlier. Over this same period fixed investment by the construction, distribution and financial industries (excluding assets leased to manufacturers) was broadly unchanged.

D3.3 First quarter 1987 estimates are not yet available for industries other than manufacturing, construction, distribution and financial industries. Between 1985 and 1986 there were reductions in fixed investment by the agriculture, oil and gas extraction and transport industries. On the other hand, there were increases in fixed capital formation by general government and in private sector dwellings.

D4 Stockbuilding at constant prices

D4.1 Stocks rose £0.4 billion in the fourth quarter of 1986, taking the increase for 1986 as a whole to £0.6 billion which was the same as 1985. Stocks are expected to have increased by about £0.3 billion in the first quarter of 1987.

D4.2 During 1986 the most notable feature was the increase in retail stocks amounting to £0.6 billion. Elsewhere in the economy the main features were an increase of £0.25 billion in construction stocks and a similar decrease in manufacturing stocks.

OVERSEAS TRADE AND CURRENT BALANCE

E.1 Visible trade showed a deficit of £0.5 billion in April with exports valued at £6.6 billion and imports at £7.1 billion. The surplus on invisibles for April is projected at £0.6 billion giving a surplus of £0.1 billion on the current account.

E1.2 In the three months ended April visible trade showed a deficit of £1.1 billion, an improvement of £1.3 billion on the previous three months. The surplus on oil increased by £0.2 billion and the deficit on non-oil trade was reduced by £1.1 billion.

E1.3 By value total exports increased by  $3\frac{1}{2}$  per cent in the latest three months while imports decreased by  $2\frac{1}{2}$  per cent. Excluding oil and the erratic items, export volume increased by  $1\frac{1}{2}$  per cent in the latest three months and import volume decreased by  $5\frac{1}{2}$  per cent.

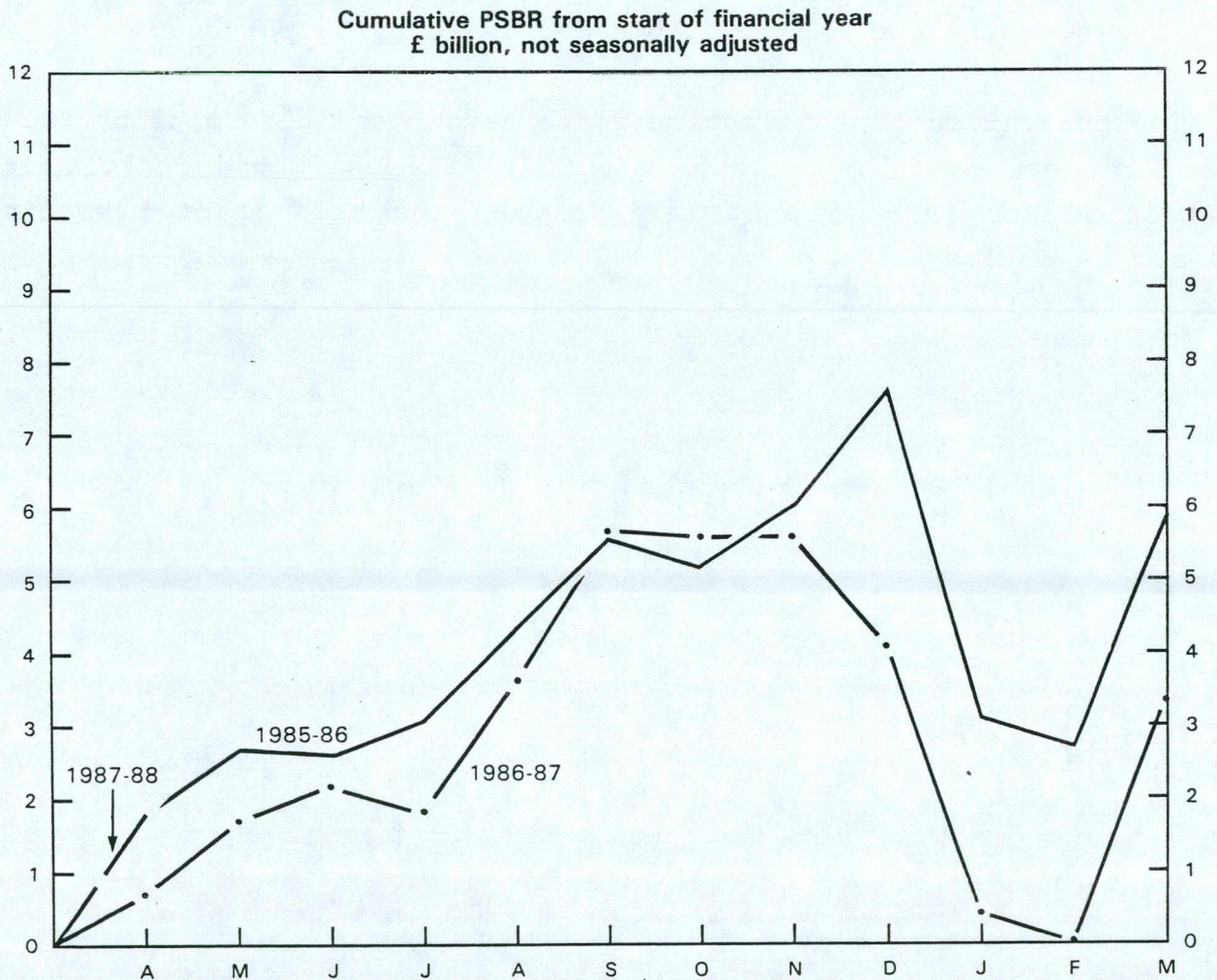
E1.4 The current account is estimated to have been in surplus by £0.8 billion in the first four months of 1987. The estimated deficit of £1.1 billion for 1986 will be revised when the balance of payments press notice is issued on 4 June.

F FINANCIAL

F1 PSBR

F1.1 There was an estimated PSBR of £1.8 billion in April. In 1986-87 as a whole the PSBR was £3.3 billion.

F1.2 The April PSBR is £1.1 billion higher than in April 1986, mainly due to lower privatisation proceeds. The Budget forecast for the PSBR in 1987-88 is £3.9 billion.



Note: The seasonal pattern can differ from year to year



F1.3 The PSBR and its components in April were:

(£ billion, not seasonally adjusted)

		Comprising		
	PSBR	CGBR(O)	LABR	PCBR
Outturns				
April	1.8	1.9	0.4	-0.5

F2 Monetary growth

(All figures are unadjusted unless specified otherwise).

F2.1 Preliminary information suggests that in the 12 months to end-April, M0 rose by about 5 1/4 per cent and M3 (formerly £M3) rose by about 20½ per cent. In April, before seasonal adjustment, M0 rose by about 2 1/4 per cent (about ½ per cent seasonally adjusted) and M3 rose by about 2 per cent (an increase of 1 3/4 to 2 per cent seasonally adjusted). April figures for growth of M4 and M5 are not yet available but will be released on 1 June. (See Quality Note.)

F2.2 M3 rose by about £3.2 billion in April. Provisional counterparts to the change in M3 are as follows:

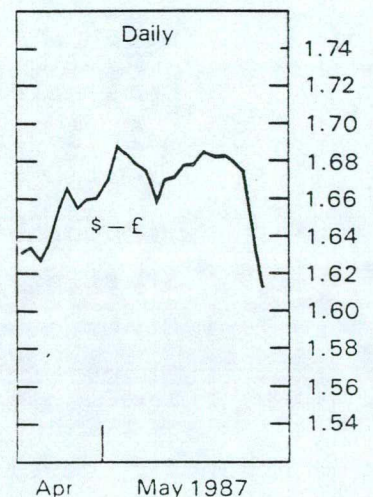
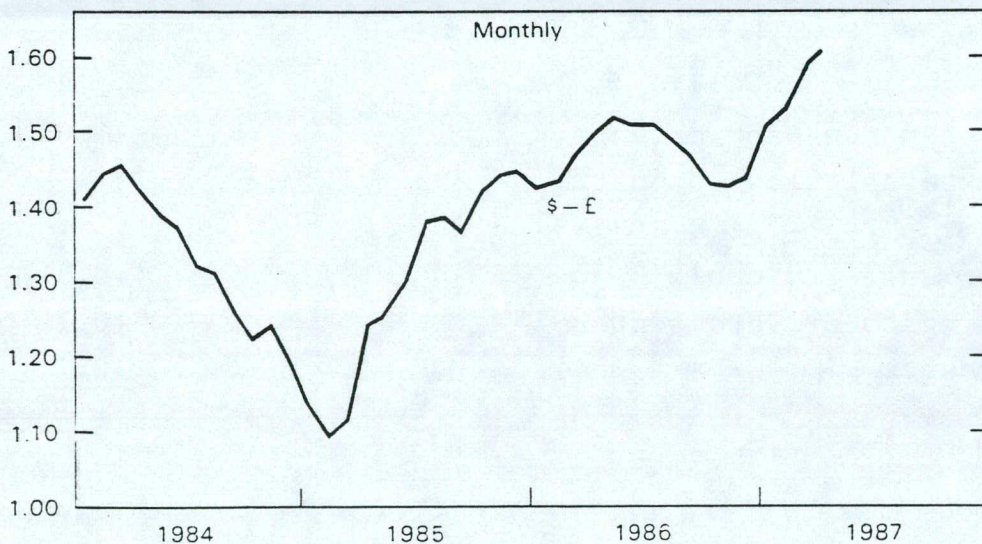
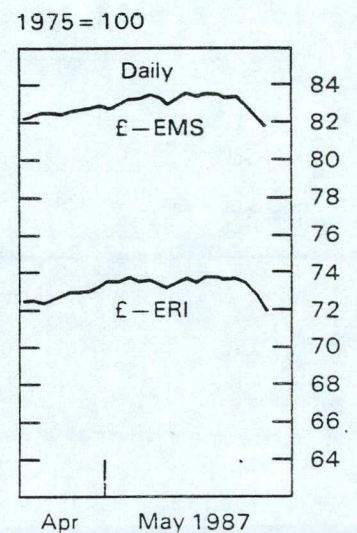
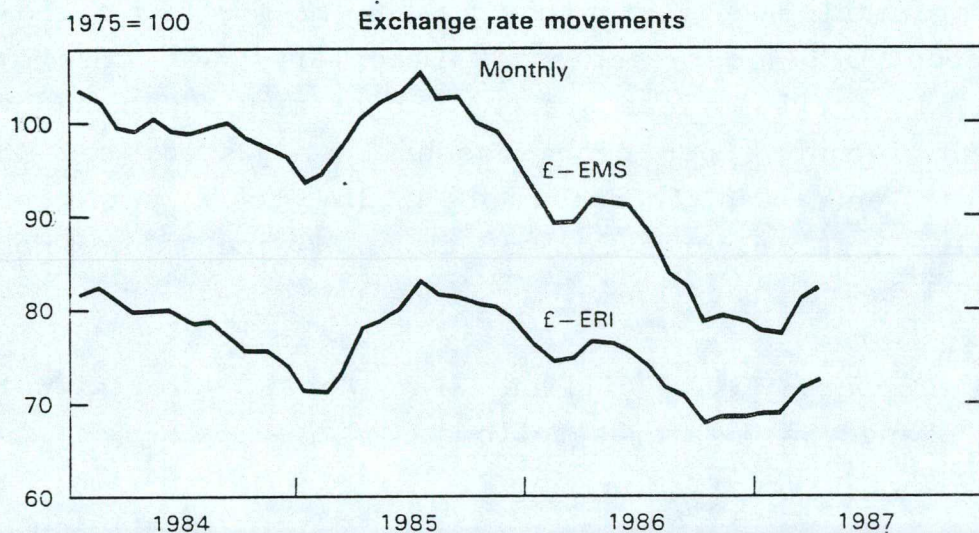
	<u>£ million</u>
PSBR	+1.8
Debt sales to the non-bank private sector and external flow to public sector	+1.4
(of which debt sales to nbps)	(+0.3)
Sterling lending to private sector	+0.7
Other counterparts	-0.7
Change in M3	+3.2

Financial developments make it increasingly difficult to read meaning into behaviour of individual counterparts.

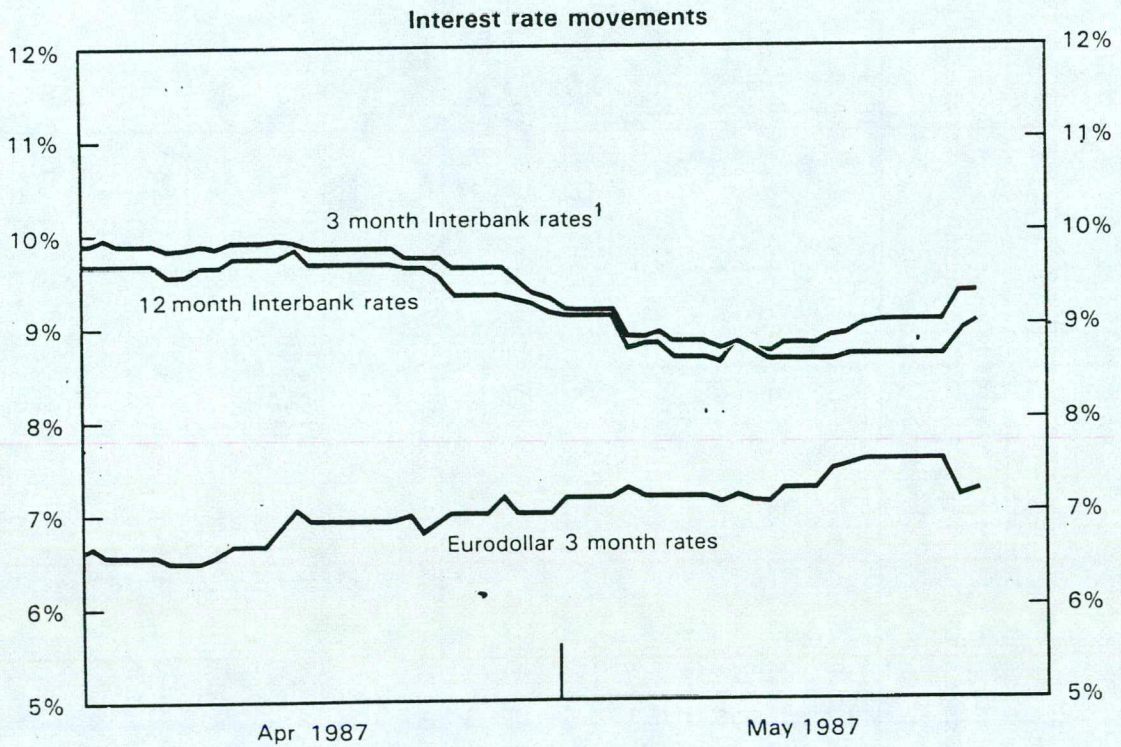
F3 Financial markets

F3.1 Sterling strengthened during May, trading in the range 73½ to 74 in effective terms. Market sentiment was boosted by good results for the Conservatives in the local elections and firmer oil prices. The ½ per cent cut in base rates on 8 May had little impact. However, towards the end of the month sterling traded off its high's mainly due to the publication of better opinion polls for Labour.

F3.2 The dollar began the month nervously following disappointment over the inconclusive outcome to the Reagan/Nakasone meetings on trade issues. It rose later on expectations of an announcement of concerted interest rate cuts. Towards the end of the month it rose further to Yen 144½ and DM 1.8275 on hopes of a US discount rate rise and on release of a reasonable set of economic indicators.



F3.3 At the end of April 3 month and 12 month interbank lending rates were  $9 \frac{5}{16}$  and  $9 \frac{3}{16}$  respectively. During early May rates moved down by about  $\frac{3}{8}$  across the maturity range. Base rates were cut by  $\frac{1}{2}$  per cent on 11 May and subsequently 3 month rates remained fairly steady while 12 month rates hardened slightly. At close of play on 26 May the yield curve was firmly upward sloping from  $8 \frac{15}{16}$  at 3 months to  $9 \frac{3}{8}$  at twelve months.



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

GROSS DOMESTIC PRODUCT: 1980 PRICES AND SEASONALLY ADJUSTED (figures in brackets are CSO forecasts) (1)  
TABLE 1  
£bn, rounded to nearest £0.1 bn

	Consumers' expenditure	General government final consumption	Gross domestic fixed capital formation	Stock-building	Total domestic expenditure	Exports of goods and services	Imports of goods and services	Real resources for the balance of payments	Factor cost adjustment	Gross domestic product at factor cost
1985(2)	38.0	12.7	11.6	+ 0.2	62.5	18.3	17.7	+ 0.6	- 8.5	54.6
1986(2)	39.8	12.9	11.7	+ 0.1	64.5	18.8	18.7	+ 0.1	- 8.7	55.9
1985 Q2	37.6	12.8	11.2	+ 0.4	62.0	18.5	17.5	+ 1.0	- 8.4	54.6
Q3	38.3	12.7	11.6	+ 0.1	62.6	18.0	17.5	+ 0.5	- 8.6	54.5
Q4	38.6	12.8	11.5	+ 0.1	63.0	18.4	18.0	+ 0.4	- 8.6	54.8
1986 Q1	39.0	12.8	11.8	+ 0.5	64.1	18.0	17.7	+ 0.3	- 8.5	55.9
Q2	39.6	12.8	11.5	- 0.1	63.8	18.6	18.2	+ 0.5	- 8.7	55.6
Q3	40.3	13.0	11.8	- 0.3	64.8	18.8	19.2	- 0.4	- 8.8	55.7
Q4	40.3	13.0	11.5	+ 0.4	65.3	19.9	19.8	+ 0.1	- 8.9	56.4
1987 Q1	40.4	(13.0)	(11.7) <sup>4</sup>	(+0.3)	(65.4)	19.7	18.6	+ 1.1	(-8.9)	(57.5)
Index numbers 1980=100										
	GDP(E)	GDP(O)	GDP(I)	GDP(Average)	GDP(Average) coal strike adjusted (B)	% change same period on a year earlier (A) (B)				
1985	109.4	110.4	110.9	110.2	110.6	3.4	2.6			
1986	112.0	113.5	113.8	113.1	113.1	2.6	2.3			
1981 Q2(3)	98.6	97.9	97.9	98.2	98.2					
1985 Q2	109.4	110.5	111.8	110.6	110.9	4.7	3.5			
Q3	109.3	110.6	111.4	110.4	110.4	3.3	1.8			
Q4	109.8	111.3	111.1	110.7	110.7	2.6	1.2			
1986 Q1	112.0	111.7	112.1	111.9	111.9	2.5	1.3			
Q2	111.4	113.0	113.5	112.6	112.6	1.8	1.5			
Q3	111.5	114.5	114.4	113.5	113.5	2.8	2.8			
Q4	113.1	115.2	115.3	114.5	114.5	3.4	3.4			
1987 Q1*	(115.2)	115.7	(116.6)	(115.8)	(115.8)	(3.5)	(3.5)			

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

(2) Quarterly averages

(3) Trough of cycle

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

CONFIDENTIAL

CONFIDENTIAL

GROSS DOMESTIC PRODUCT: CURRENT PRICES AND SEASONALLY ADJUSTED (figures in brackets are CSO forecasts)(1)  
 TABLE 2 fbn, rounded to nearest f0.1 bn

	Income from employment		North	Other industrial and commercial profits	Other factor incomes	GDP at factor cost (income-based)	Total final expenditure	GDP (expenditure based)	
	Total	Of which: wages and salaries and forces pay	Sea oil profits (excluding stock appreciation)	and profits	factor incomes	(income-based)	at factor cost	at market prices	
1985(2)	48.9	42.5	4.6	9.9	13.0	76.4	112.6	75.6	87.9
1986(2)	52.7	46.0	2.1	11.3	14.6	80.7	118.6	79.7	93.4
1985 Q2	48.5	42.1	4.9	9.8	12.9	76.1	111.9	74.7	86.9
Q3	49.4	42.9	4.0	10.4	13.3	77.1	112.2	75.9	88.5
Q4	50.3	43.7	4.2	10.4	13.6	78.6	114.9	77.9	90.8
1986 Q1	51.2	44.6	3.2	10.5	14.1	79.0	116.4	79.2	92.2
Q2	52.3	45.6	1.6	11.2	14.6	79.8	116.3	78.5	92.0
Q3	53.1	46.3	1.6	12.0	14.7	81.3	118.9	79.5	93.5
Q4	54.3	47.5	2.0	11.6	14.9	82.9	122.8	81.6	95.8
1987 Q1	(55.1)	(48.2)	(2.6)	(11.7)	(15.0)	(84.3)	(123.7)	(83.6)	(97.9)

Index numbers 1980=100

	Money GDP (average GDP at market prices)	Implied index of total home costs
1985	153.6	138.5
1986	163.6	142.6
1985 Q2	152.3	136.9
Q3	155.1	139.2
Q4	158.9	142.3
1986 Q1	160.1	141.7
Q2	161.4	141.3
Q3	164.8	142.9
Q4	168.2	144.5
1987 Q1	(170.9)	(145.4)

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

(2) Quarterly averages

31

CONFIDENTIAL

CONFIDENTIAL

TABLE 3

SELECTED MONTHLY INDICATORS  
(Figures in brackets are CSO forecasts)

	Average earnings		Prices			Industrial production			Unemploy- ment(2) (Monthly changes)	Vacan- cies(3)	Employees in employ- ment in manu- facturing (Monthly changes)
	Whole economy	Manufac- turing	Producer		Retail sales volume	Total	Manufac- turing				
			Materials and fuel purchased	Home Sales (1)							
	Jan 1980=100	1980=100	1980=100	Jan 1974=100	1980=100	1980=100	1980=100	'000	'000	'000	
1985	171.7	177.6	137.7	139.4	373.2	116.4	108.1	103.7	+ 6	162	- 3
1986	185.3	191.3	126.6	145.7	385.9	122.6	110.0	104.5	- 3	189	-10
1986 Jan	179.1	185.5	131.1	142.7	379.7	118.2	108.3	102.4	+13	163	- 5
Feb	180.0	186.0	129.4	143.3	381.1	118.6	109.9	102.7	+ 9	167	-24
Mar	182.6	186.9	127.8	144.3	381.6	120.9	109.2	102.6	+42	170	- 6
Apr	185.3	191.1	126.8	145.4	385.3	120.7	110.8	103.9	-10	170	- 7
May	182.4	187.5	126.7	145.9	386.0	119.6	109.2	103.1	+ 4	172	-29
Jun	183.9	189.8	125.4	145.8	385.8	123.2	107.7	103.4	+12	184	-15
Jul	186.3	190.5	122.2	146.0	384.7	122.6	110.5	104.8	-	193	-17
Aug	187.0	191.9	123.4	146.3	385.9	123.9	111.2	104.4	- 3	201	-12
Sep	187.1	194.0	125.0	146.7	387.8	124.5	110.8	105.3	-26	206	- 5
Oct	188.7	195.2	126.4	147.0	388.4	125.0	110.9	106.6	-24	213	- 2
Nov	190.2	197.1	127.1	147.4	391.7	127.8	111.0	107.2	-16	215	+ 2
Dec	191.3	200.0	126.6	147.9	393.0	126.7	110.2	107.4	-24	210	- 4
1987 Jan	192.8	200.1	127.2	148.9	394.5	123.6	110.9	105.3	- 5	210	-22
Feb	193.4	201.0	127.2	149.3	100.4 (4)	127.0	112.6	107.6	-49	207	-
Mar	194.8	201.3	127.6	149.7	100.6	125.5	113.1	107.9	-26	211	- 5
Apr	(197)	(206)	128.6	150.5	101.8	130.3	(113)	(108½)	-20	214	
May	(198)	(202)	(128½)	(151)	(101½)	(128½)	(113½)	(108½)			
June											

Basis for assess- Effect of new pay Detailed Under- Detailed Continuing Detailed  
ing the present settlements and assessment lying assessments high level assess-  
(ie the figures short-term trend ments  
in brackets) factors

(1) Not seasonally adjusted

(4) Rebased index, Jan 1987=100

(2) Excluding school leavers under 18 and adjusted for changes in coverage of the count.

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

CONFIDENTIAL

CONFIDENTIAL

TABLE 4

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

	Volume 1980=100		Value				£ billion		M0 (wide monetary base) £ bil- lion (3)	Relative actual unit labour costs, inclu- ding exchange rate movements (1980=100)
	Exports of goods (excluding oil and erratics)	Imports of goods	Visible balance		Invis- ible balance(2)	Current balance total	Exchange Rate Index (1975=100)			
			Excl oil and erratics	Oil inc erratics				Total		
1985	115	143	-11.0	+8.1	-2.2	+5.1	+2.9	78.2	14.4	83.9
1986	118	151	-14.2	+4.2	-8.3	+7.2	-1.1	72.8	15.2	77.6
1986 Jan	111	140	-0.9	+0.8	-	+0.9	+1.0	76.6	14.4	)
Feb	114	143	-1.0	+0.7	-0.3	+0.5	+0.2	74.2	14.4	) 81.2
Mar	112	147	-1.3	+0.4	-1.0	+0.5	-0.5	74.6	14.5	)
Apr	113	139	-0.9	+0.3	-0.3	+0.5	+0.2	76.2	14.4	)
May	115	147	-1.0	+0.2	-0.7	+0.5	-0.2	76.1	14.5	) 82.2
Jun	117	149	-1.1	+0.2	-0.6	+0.5	-0.1	75.8	14.6	)
Jul	119	151	-1.1	+0.2	-0.7	+0.6	-	74.0	14.6	)
Aug	115	157	-1.5	+0.2	-1.4	+0.6	-0.7	71.4	14.7	) 75.2
Sep	121	156	-1.2	+0.3	-0.8	+0.6	-0.2	70.4	14.8	)
Oct	122	153	-1.1	+0.2	-0.7	+0.6	-0.1	67.8	14.8	)
Nov	127	169	-1.6	+0.4	-1.0	+0.6	-0.4	68.5	15.0	) 71.6
Dec	126	163	-1.4	+0.3	-0.9	+0.6	-0.3	68.5	15.2	)
1987 Jan	119	149	-1.1	+0.4	-0.5	(+0.6)	(+0.1)	68.9	15.1	)
Feb	134	154	-0.8	+0.3	-0.2	(+0.6)	(+0.4)	69.0	15.0	) (72.5)
Mar	120	148	-1.0	+0.5	-0.4	(+0.6)	(+0.2)	71.9	15.0	)
Apr	123	152	-1.0	+0.4	-0.5	(+0.6)	(+0.1)	72.3	(15.1)	)
May	(124)	(150)	(-0.9)	(+0.4)	(-0.4)	(+0.6)	(+0.2)	(73.5)		)
Jun										)
Basis for assessing the present	Trend line						CSO projections	Actual data to 28 May	Recent trends in components'	

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

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

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

CONFIDENTIAL

33

CONFIDENTIAL

QUALITY OF LATEST INFORMATION AVAILABLE

Unemployment

The seasonally adjusted series (excluding school leavers) have been revised back to January 1983 to take account of the usual annual update of the seasonal adjustment factors. This has affected, for example, the estimate of change in June 1986, in that a small rise in UK unemployment has been revised to a small fall, giving ten successive monthly falls to April 1987 compared with eight falls recorded in March 1987.

In addition, revised denominators have been introduced, incorporating the latest information on the employed labour force, including results from the 1984 Census of Employment.

Vacancies

The variable timing of Easter has a marked effect on vacancy flows (inflows, outflows and placings). It is difficult to take this into account by standard seasonal adjustment and it has been our usual practice to average the vacancy flows for April and May before seasonal adjustment. The April 1987 figures quoted are, therefore, provisional and subject to revision when the May figures become available.

Balance of payments - invisibles

Revised figures will be published on 4 June. The estimated balance for the first quarter of 1987 is likely to be as shown in this document but there will be changes to earlier periods. These will mainly result from changes to the estimates for interest, profits and dividends, so there is likely to be little effect on the assessment of the trend in GDP(E).

Investment

The accelerated investment during 1985 and 1986 caused by the reduced capital allowances announced in the 1984 Budget was heavily concentrated in the first quarter of those two years and this may have affected the derivation of seasonal factors, with the result that the estimate of fixed investment in Q1 87 may be slightly underestimated.



Monetary Aggregates

£M3 has been renamed M3 and what was M3 will now be called M3c; the "c" indicates that M3c includes non-sterling currency assets. PSL2 has been renamed M5. The new measure, M4 includes only sterling denominated assets, like M3 and M5. M4 is defined as follows:

M4 equals

M3 (previously £M3)

plus

private sector holdings of building society shares  
and deposits and sterling certificates of deposit

less

building society holdings of bank deposits and  
bank certificates of deposit, and notes and coins.

Full details are given in the May edition of the Bank of England Quarterly Bulletin.

## MONTHLY ECONOMIC BRIEF

Prepared by the CSO on 29 May 1987

The preliminary estimate of the output based measure of GDP for the first quarter of 1987 shows a rise of about  $\frac{1}{2}$  per cent on the fourth quarter of 1986 and  $3\frac{1}{2}$  per cent over its level for the same period a year ago. The projected rise for GDP, average measure, in the first quarter of 1987 is now also  $3\frac{1}{2}$  per cent on a year earlier. The output of the production industries has similarly shown an increase, of 3 per cent, compared to the same period a year ago. These rises are consistent with our assessment of the current underlying trend in GDP which is estimated to be in the range  $2\frac{1}{2}$  to  $4\frac{1}{2}$  per cent per annum.

Adult unemployment fell again between March and April, by 20,000, continuing the downward trend. The revised test of availability for work continued to contribute to the fall whilst other special influences had a broadly neutral effect on the April figure. Without revised availability testing and the other influences it is likely that unemployment would still have fallen marginally over recent months.

The annual rate of inflation as measured by the RPI was 4.2 per cent in April - 0.2 percentage points higher than in March. The May figure is likely to fall back to between  $3\frac{3}{4}$  and 4 per cent, largely reflecting lower mortgage interest rates.

The unadjusted price index for materials and fuel purchased by manufacturing industry has shown a sustained growth since July 1986 and it is now higher compared to the position 12 months ago for the first time since June 1985. It is still  $10\frac{1}{2}$  per cent below its peak of March 1985.

Manufacturing productivity in the first quarter of 1987 showed a continued rise, following improved productivity in 1986, whilst the underlying increase in average earnings in the year to March was 8 per cent, resulting in a rise in unit wage costs of 1 per cent. For the whole economy in the year to March the underlying increase in average earnings was  $7\frac{1}{2}$  per cent, similar to that experienced for the past four years.

Sterling traded in the range  $73\frac{1}{2}$  to 74 in effective terms for most of May, but then weakened, closing at 72.5 on 28 May. Bank base rates were cut by  $\frac{1}{2}$  per cent on 11 May.

Preliminary information suggests that in the 12 months to April 1987, before seasonal adjustment M0 rose by  $5\frac{1}{4}$  per cent and M3 (formerly called £M3) by about  $20\frac{1}{2}$  per cent.

In April exports were 2 per cent higher than in March and imports  $3\frac{1}{2}$  per cent higher. Visible trade showed a deficit of £0.5 billion in April compared with a deficit of £0.4 billion in March. The underlying level of non-oil export volume appears recently to have been slightly below the high level reached at the end of last year. The underlying level of non-oil import volume has fallen in recent months away from the high level at the end of last year. The current account is estimated to have been in surplus by £0.8 billion in the first four months of 1987.

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

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

**GDP (average measure)** in the fourth quarter of 1986 was  $3\frac{1}{2}$  per cent higher than in the same period a year ago. This figure does not take account of past experience which shows that revisions to growth rates for the initial published estimates of GDP were on average, upwards, though not uniformly so. The assessment of current underlying trend for the first quarter of 1987 is that the rate of increase lies in the range  $2\frac{1}{2}$ - $4\frac{1}{2}$  per cent per annum.

**Industrial production** in the first quarter of 1987 was 3 per cent higher than in the same period a year ago; manufacturing output was  $4\frac{1}{2}$  per cent higher. The assessment of current underlying trend for industrial production is that the rate of change lies in the range 2-5 per cent per annum at present. The current underlying trend in manufacturing output is in the range 3-6 per cent per annum.

**Retail prices** rose by a little over 4 per cent in the twelve months to April 1987. It is only possible to provide a useful indicator of trend for about 70 per cent of the RPI, mainly that covering private sector prices and excluding eg mortgage interest, rent, rates, products produced by nationalised industries, seasonal food and petrol. The current trend for this series is around 4 per cent per annum. In the twelve months to April 1987 this series rose just over  $3\frac{1}{2}$  per cent (not published).

**Producer input prices** showed an increase of 0.8 per cent in seasonally adjusted terms in April. Although they are now  $1\frac{1}{2}$  per cent higher than at the same time last year, they remain  $10\frac{1}{2}$  per cent below their peak in March 1985. Little change is expected in April.

**Average earnings (underlying)** in the twelve months to March 1987 rose by  $7\frac{1}{2}$  per cent. The current trend is estimated to be 7-8 per cent per annum.

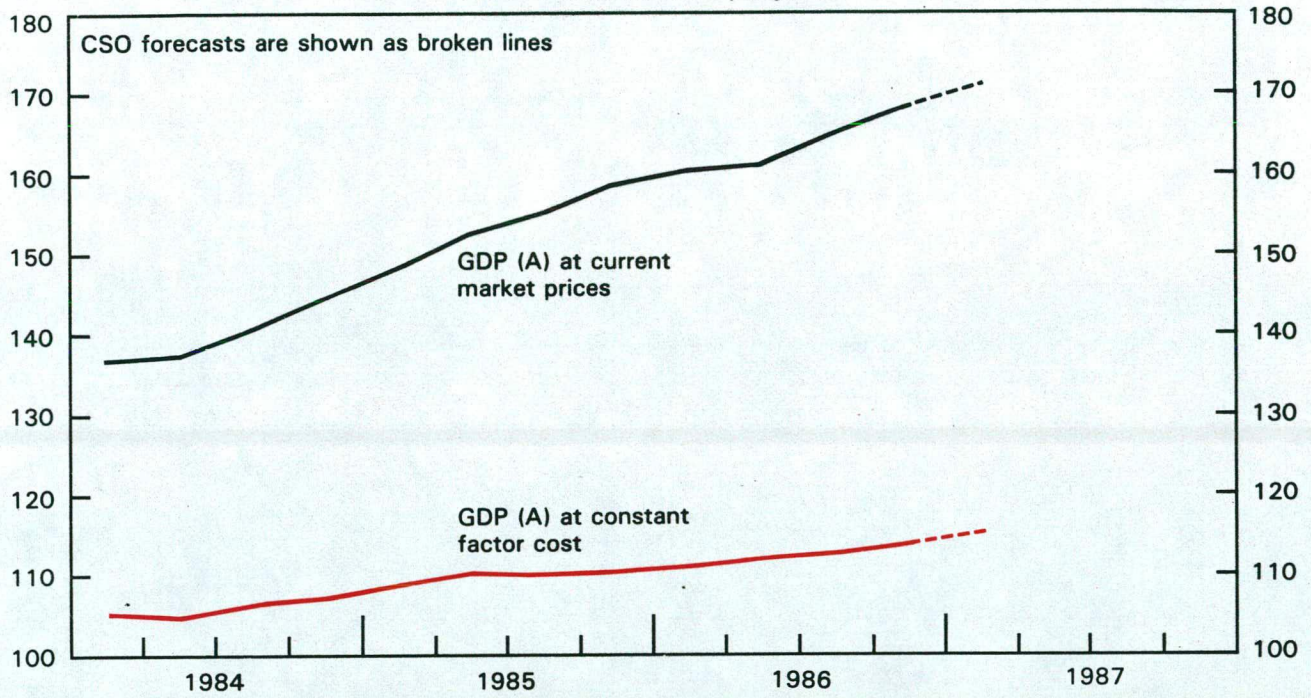
**Unit wage costs in manufacturing** in the first quarter of 1987 rose by 1 per cent compared with the same period a year ago. The current underlying trend is estimated to be in the range 1-4 per cent per annum.

**Unemployment (excluding school leavers)** in the twelve months to April has fallen on average by 15,000 per month. Over the past 6 months there has been an average fall of 23,000 per month.

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

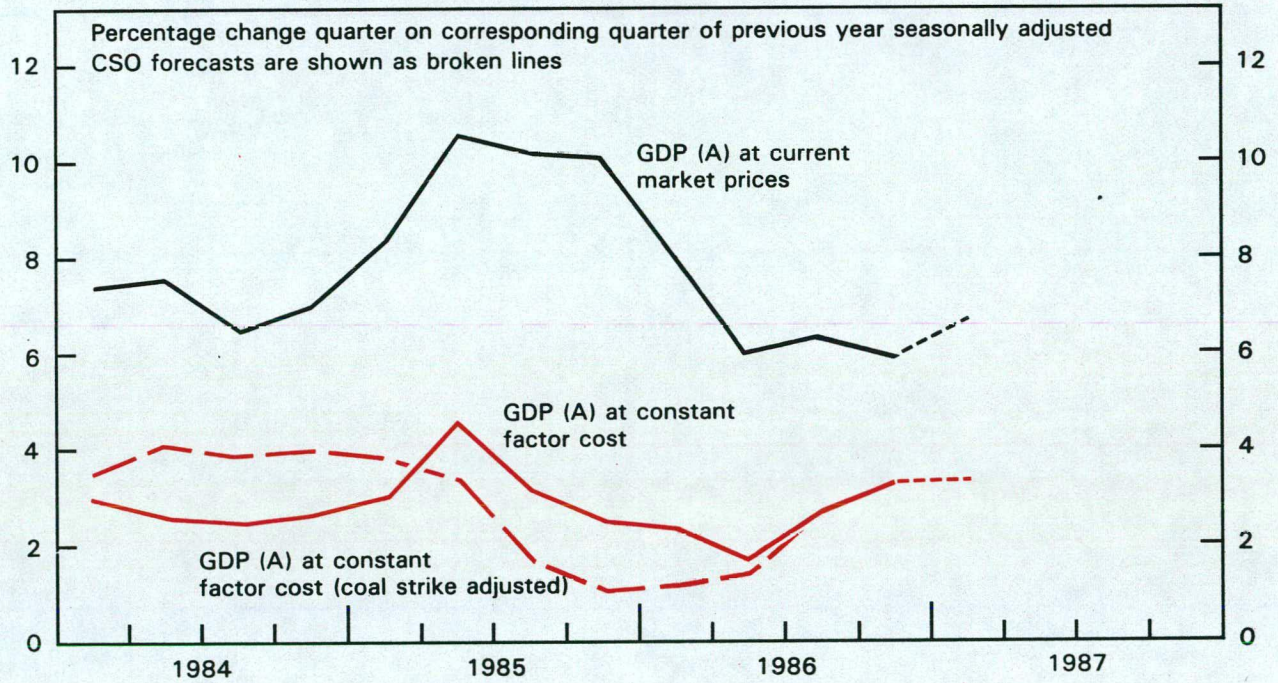
Gross domestic product (average measure)

1980 = 100, seasonally adjusted



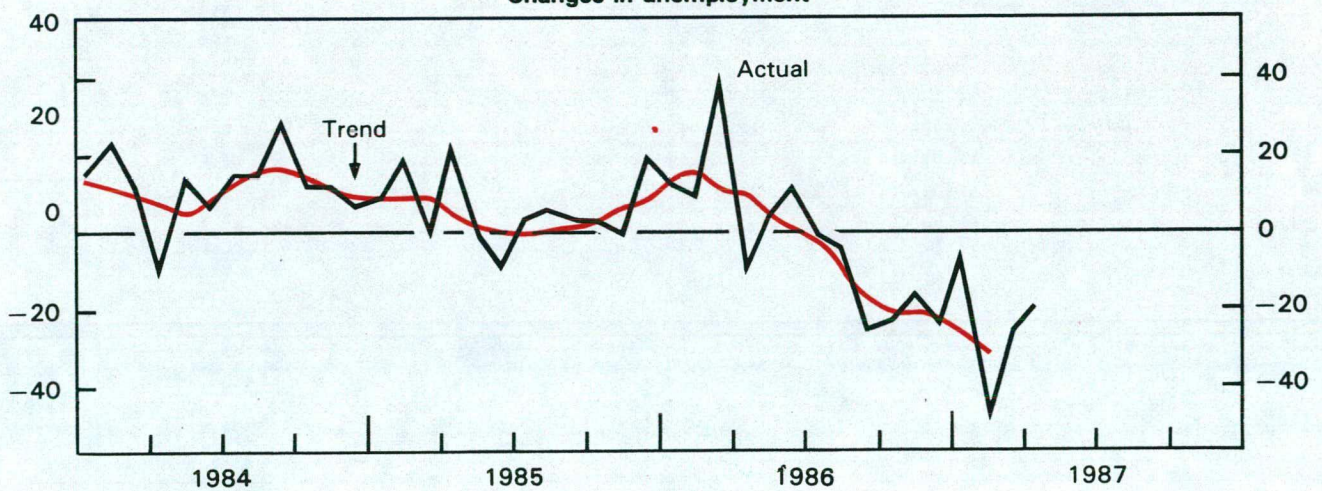
Gross domestic product (average measure)

CHART 1B



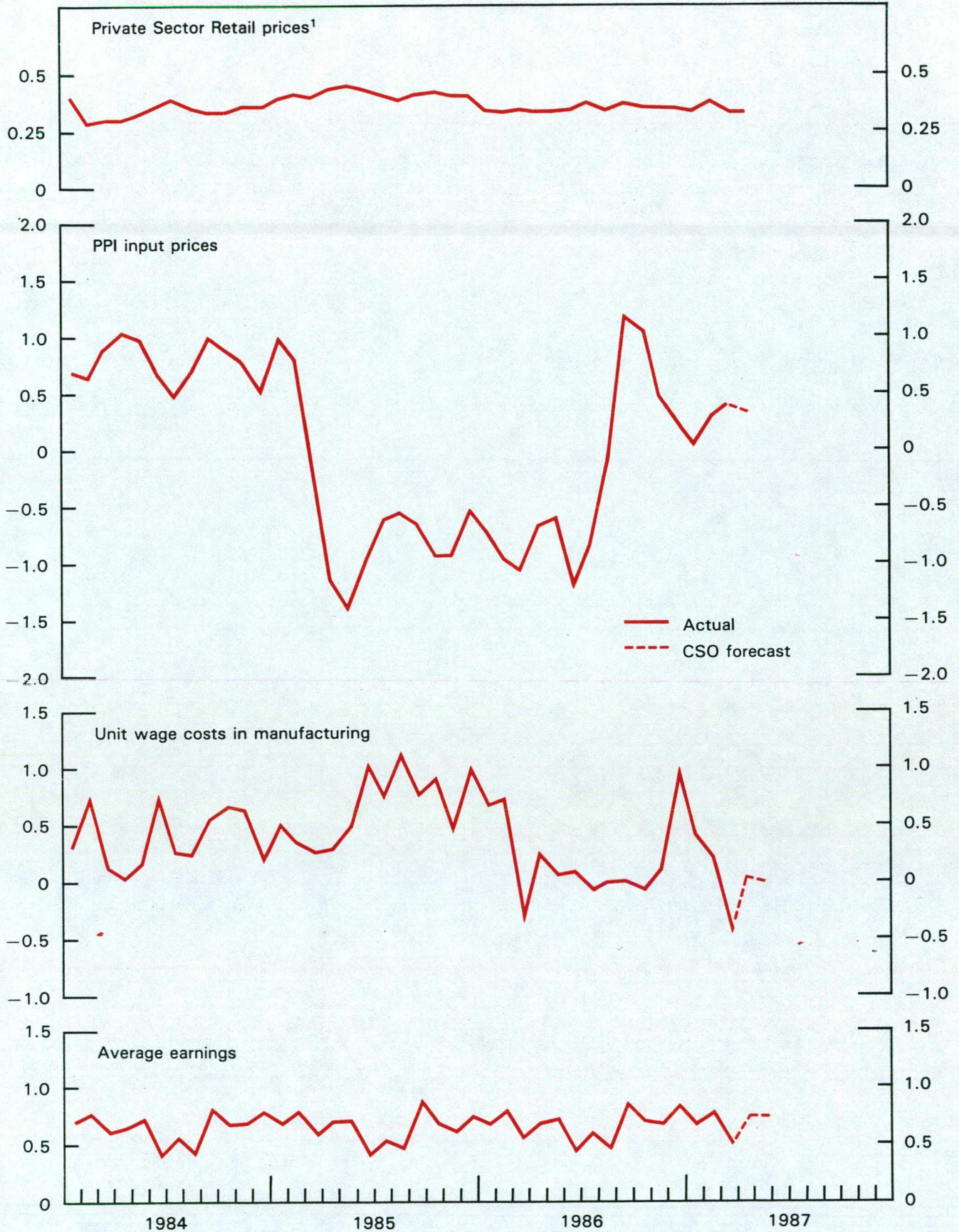
Changes in unemployment

CHART 2



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

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



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

CHART 4

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

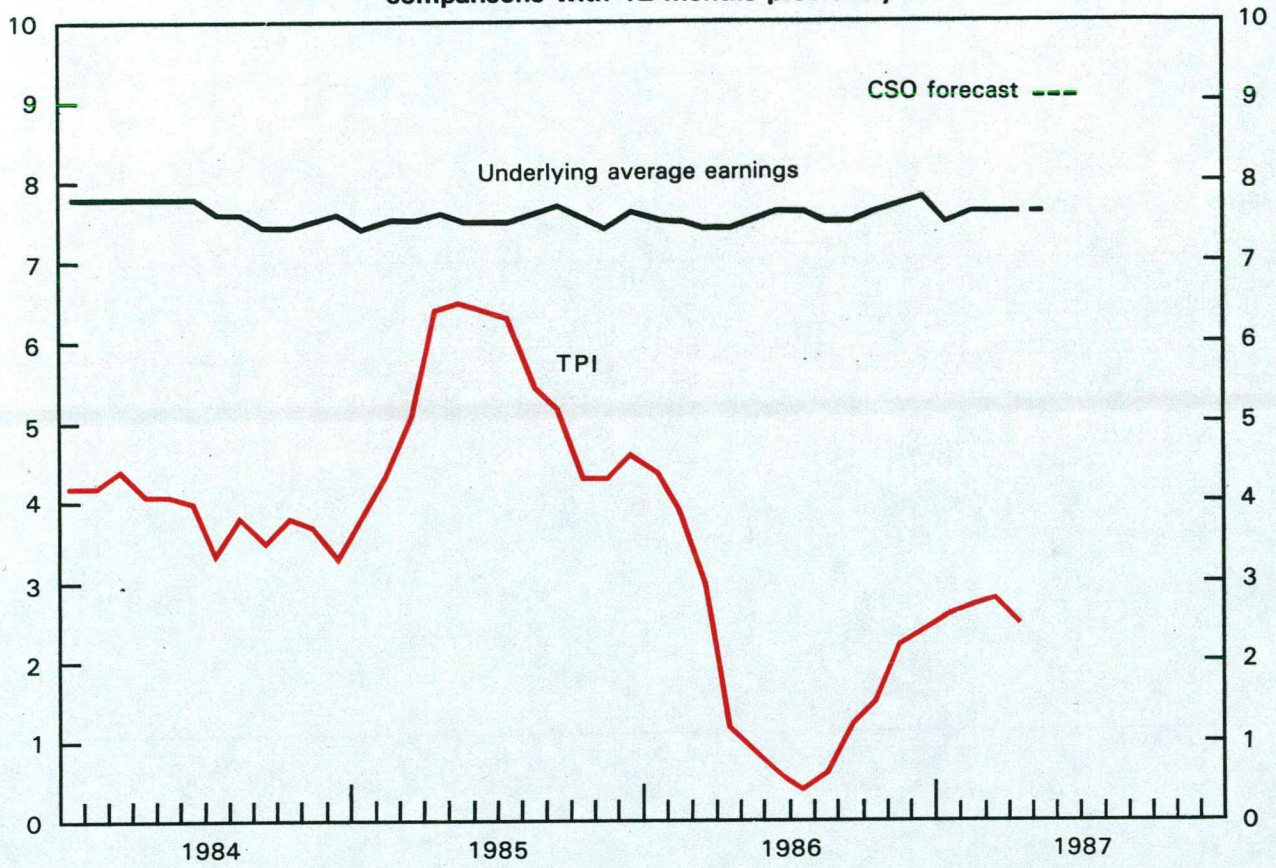
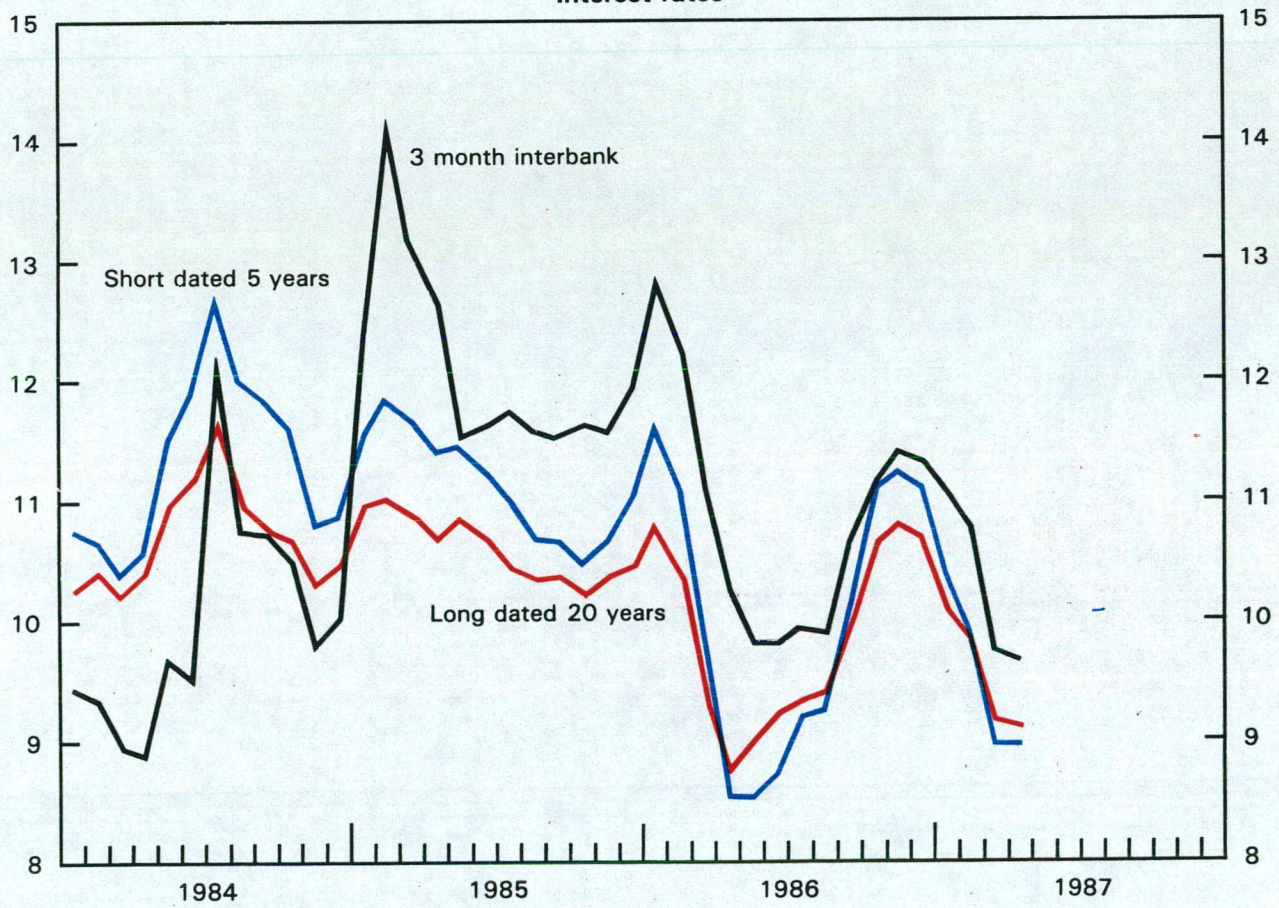


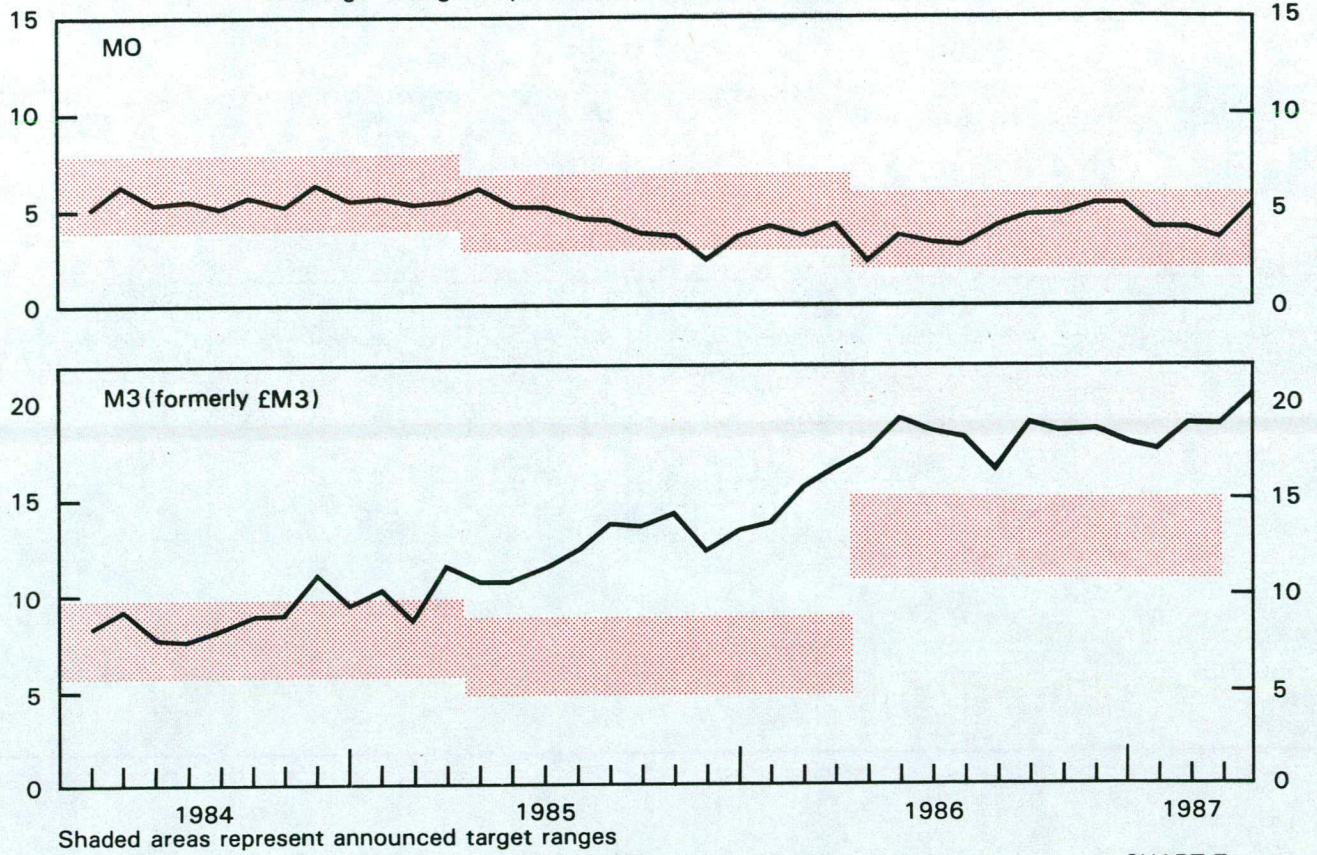
CHART 5

Interest rates



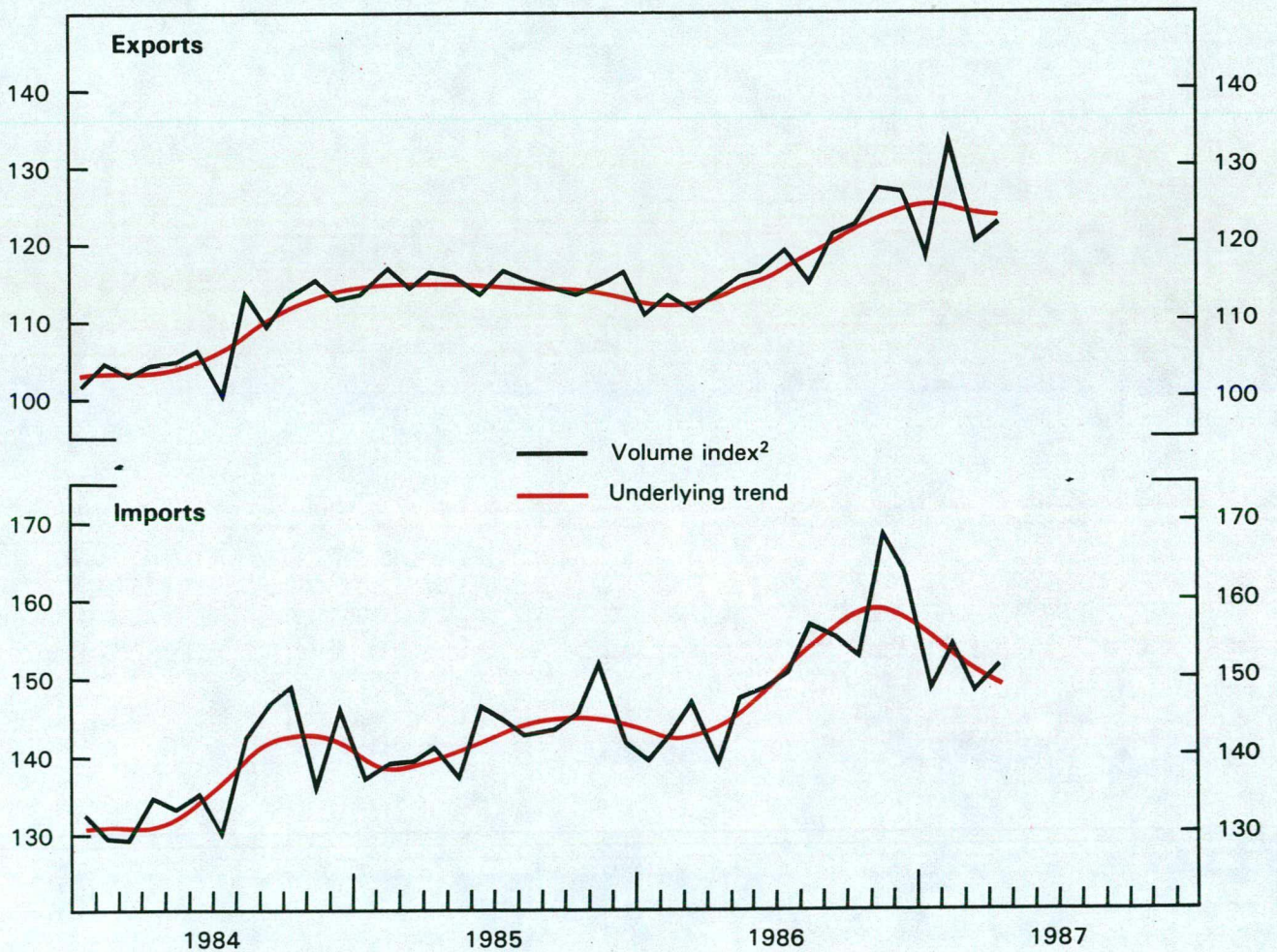
**Monetary aggregates**

Percentage change on previous 12 months (not seasonally adjusted)



**Exports and Imports (excluding oil and erratics<sup>1</sup>)**

Index 1980 = 100



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

RD11.38



FROM: N G FRAY  
DATE: 29 May 1987

*Fr*

MR S J DAVIES

**NATIONAL INSTITUTE ECONOMIC REVIEW**

The Chancellor has seen and was grateful for your minute of 27 May 1987.

*Nigel Fray*  
N G FRAY



Reference .....

*NS*

To:

SECRETARY OF STATE

From:

(Circulation list attached)

Peter Richardson  
S2C  
Room 242  
Sanctuary Buildings  
215 6265

5 June 1987

**CREDIT BUSINESS IN APRIL**

A Press Notice giving details of credit business in April is attached for information. This will be issued at 11.30 am on Monday 8 June. As usual, the contents should be treated as confidential until then.

*P H Richardson*

P H RICHARDSON

# DTI Press Notice

CONFIDENTIAL  
UNTIL 11.30 HOURS  
ON DAY OF RELEASE

Department of Trade and Industry

1 Victoria Street SW1H 0ET

Press Office: 01-215 4471/4475

Out of hours: 01-215 7877

No: 87/320

8 June 1987

## CREDIT BUSINESS IN APRIL

During April £3.1 billion of new credit was advanced by finance houses, other specialist credit grantors, retailers and on bank credit cards. Although this was a slight fall from the level of credit advances in March, there are uncertainties in the seasonal adjustment for the months of March and April due to the variation in the timing of Easter from year to year. (In 1986 Easter fell in March and lower credit advances were recorded then. In 1987 Easter occurred in April and a corresponding pattern was shown for that month.) Taking March and April together to smooth out the effect of Easter, the average level of advances was £3.2 billion, suggesting that the underlying trend in lending continued to rise.

Total advances in the latest three months, February to April, were 14 per cent higher than in the previous three months. Lending by finance houses and other specialist credit grantors increased by 20 per cent between the two periods. Within this total, lending to consumers increased by 22 per cent and lending to businesses increased by 13 per cent. Advances on bank credit cards increased by 14 per cent between the two periods. Retailers advanced 1 per cent more in the latest three months than in the previous three months. These three month comparisons are affected by the inclusion in the first period of January when new credit advanced was depressed because of bad weather.

There was an increase of £0.5 billion in amounts outstanding to finance houses, other specialist credit grantors, retailers and on bank credit cards between end-March and end-April. The total amount outstanding at end-April was £25.3 billion, 5 per cent more than the total three months earlier.

## Notes to Editors

- 1 All figures are quoted after seasonal adjustment.
- 2 Table 1 covers the credit business of finance houses, other specialist credit grantors and building societies, retailers and on bank credit cards. Table 2 covers the business of finance houses, other specialist credit grantors and building societies only, but provides an analysis of new credit advanced to consumers and businesses. The credit advances shown in Table 1 for retailers and bank credit cards are mainly to consumers. A high proportion of credit advances in certain types of agreement, notably on bank credit cards and by mail order houses, is repaid within a month, reflecting the use of such agreements as a method of payment rather than as a means of obtaining credit.
- 3 From January 1986 the statistics include new credit advances by finance houses and other specialist credit grantors on running account agreements on which information was not collected previously. Lending on bank credit cards is also included for the first time in the January 1986 statistics. Unsecured loans by building societies, which are advanced under the provisions of the Building Societies Act 1986, are included from January 1987. Lending by banks, other than on bank credit cards, and by companies where the group specialises in lending to other companies only are excluded from the statistics in this Press Notice.
- 4 Charges for credit and deposits or downpayments are excluded from the figures of new credit advanced which thus represent the amount of credit advanced during the period. Figures for retailers are estimated from the value of their self-financed credit sales, which include both charges and deposits. The figures for retailers' credit sales include sales on budget and other running-account agreements and exclude credit sales financed by banks, finance houses, and other specialist credit grantors.
- 5 Amounts outstanding are the amounts owed, excluding unearned charges, on credit agreements of all types at the end of the period, irrespective of the period in which credit was advanced. Unearned credit charges are those charges, mainly interest, included at the outset of a fixed-sum credit agreement on the assumption that the agreement lasts its full term.
- 6 Further definitions are given at the foot of the tables accompanying this Press Notice.
- 7 Full results of the inquiries which collect the monthly information on credit are published by HM Stationery Office in Business Monitor SDM6 - Credit business of finance houses and other specialist credit grantors - and in Business Monitor SDM8 - Credit business of retailers. Both may be obtained on subscription (£17.50 each title per annum) from HM Stationery Office PO Box 569, London SE1 9NH. Individual copies are available, price £3.20 each from:  
The Library, Business Statistics Office, Government Buildings, Cardiff Road, Newport GWENT. Telephone: Newport (0633) 222973.
- 8 Non-press calls to 01-215 6400.

TABLE 1

TOTAL CREDIT BUSINESS OF FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS AND  
BUILDING SOCIETIES, RETAILERS AND ON BANK CREDIT CARDS (SEASONALLY ADJUSTED)

£ Million

	NEW CREDIT ADVANCED				TOTAL AMOUNT OUTSTANDING (a)		
	TOTAL (c)	FINANCE HOUSES AND OTHER SPECIALIST CREDIT GRANTORS (b)		BANK CREDIT CARDS	RETAILERS (e)	CHANGE	AMOUNT AT END OF PERIOD
		FIXED SUM (d)	RUNNING ACCOUNT				
1983	10,524	6,840			3,684	2,246	12,199
1984	11,507	7,662			3,845	2,159	14,358
1985	12,996	8,727			4,269	2,586	16,944
1986	31,515	10,720	3,045	12,916	4,834	2,952	23,772
1985 2nd Qtr	3,083	2,030			1,053	533	15,477
3rd Qtr	3,374	2,293			1,081	745	16,222
4th Qtr	3,436	2,336			1,100	722	16,944
1986 1st Qtr	7,375	2,655	648	2,926	1,146	980	21,800
2nd Qtr	7,739	2,640	793	3,115	1,191	418	22,218
3rd Qtr	8,223	2,722	839	3,395	1,267	968	23,186
4th Qtr	8,178	2,703	765	3,480	1,230	586	23,772
1987 1st Qtr	8,881	3,021	745	3,874	1,241	1,012R	24,784R
1986 MAR	2,372	802	238	954	378	325	21,800
APR	2,717	969	251	1,093	404	120	21,920
MAY	2,409	819	263	942	385	117	22,037
JUN	2,613	852	279	1,080	402	181	22,218
JUL	2,685	885	278	1,107	415	219	22,437
AUG	2,668	890	289	1,068	421	302	22,739
SEP	2,870	947	272	1,220	431	447	23,186
OCT	2,759	925	269	1,152	413	247	23,433
NOV	2,635	843	243	1,129	420	18	23,451
DEC	2,784	935	253	1,199	397	321	23,772
1987 JAN	2,695	870	237	1,177	411	320	24,092
FEB	2,949R	1,033R	225	1,276	415	323R	24,415R
MAR	3,237R	1,118R	283	1,421	415	369R	24,784R
APR	3,089	1,067	317	1,289	416	492	25,276
1986 NOV-JAN '87	8,114	3,381		3,505	1,228	659	24,092
1987 FEB-APR	9,275	4,043		3,986	1,246	1,184	25,276
Percentage increase over previous quarter	14	20		14	1	80	5

— indicates a break in the series

R = revised

NOTES (a) Until December 1985 excluding amounts outstanding on Bank Credit Cards and block discounted agreements.

(b) Including Building Societies. See Table 2 for an analysis into agreements with consumers and agreements with businesses.

(c) Until December 1985 includes only direct fixed-sum business of Finance Houses and other specialist Credit Grantors and advances by retailers.

(d) From January 1986 including new credit on block discounted agreements.

(e) Self-financed credit advanced by clothing retailers, household goods retailers, mixed retail businesses (other than Co-operative Societies) and general mail-order houses only.

TABLE 2

TOTAL CREDIT BUSINESS OF FINANCE HOUSES , OTHER SPECIALIST  
CREDIT GRANTORS AND BUILDING SOCIETIES (SEASONALLY ADJUSTED)

£ Million

	NEW CREDIT ADVANCED				TOTAL AMOUNTS OUTSTANDING		
	AGREEMENTS WITH CONSUMERS (b)		AGREEMENTS WITH BUSINESSES (c)		FIXED SUM AGREEMENTS (a)	RUNNING ACCOUNT AGREEMENTS	DEALER STOCK FUNDING LOANS (d)
	FIXED SUM CREDIT	RUNNING ACCOUNT CREDIT	FIXED SUM CREDIT (a)	RUNNING ACCOUNT CREDIT			
1983	4,470		2,370		9,378	995	652
1984	5,092		2,570		11,183	1,233	789
1985	6,168		2,559		13,165	1,642	939
1986	7,251	3,025	3,469	20	14,778	2,082	1,019
1985 2nd Qtr	1,401		629		12,074	1,403	908
3rd Qtr	1,661		632		12,660	1,503	971
4th Qtr	1,725		611		13,165	1,642	939
1986 1st Qtr	1,833	644	822	4	13,858	1,755	1,027
2nd Qtr	1,781	788	859	5	13,959	1,856	989
3rd Qtr	1,852	835	870	4	14,363	1,957	1,006
4th Qtr	1,785	758	918	7	14,778	2,082	1,019
1987 1st Qtr	2,061	742	960	3	15,370R	2,187R	964
1986 MAR	539	237	263	1	13,858	1,755	1,027
APR	650	250	319	1	13,892	1,787	987
MAY	558	262	261	1	13,942	1,810	982
JUN	573	276	279	3	13,959	1,856	989
JUL	612	277	273	1	14,032	1,894	1,026
AUG	606	288	284	1	14,190	1,922	989
SEP	634	270	313	2	14,363	1,957	1,006
OCT	607	265	318	4	14,549	2,013	1,080
NOV	570	241	273	2	14,637	2,044	1,024
DEC	608	252	327	1	14,778	2,082	1,019
1987 JAN	593	236	277	1	15,016	2,141	939
FEB	703R	224	330	1	15,191R	2,165	936
MAR	765R	282	353	1	15,370R	2,187R	964
APR	754	316	313	1	15,719	2,197	957
1986 NOV-JAN '87	2,500		881		15,016	2,141	939
1987 FEB-APR	3,044		999		15,719	2,197	957

Percentage increase over previous quarter

22

13

5

3

2

— indicates a break in the series

R = revised

## NOTES

- (a) From January 1986 including block discounted agreements.
- (b) Until December 1985 figures are for consumer credit agreements regulated under the Consumer Credit Act 1974. These comprise non-exempt agreements involving the provision of credit not exceeding £15,000 (£5,000 before 20 May 1985) to individuals.
- (c) Until December 1985 figures are for credit agreements not regulated under the Consumer Credit Act 1974, entered into by companies which also enter into regulated credit agreements.
- (d) Figures in this column are excluded from amounts outstanding in Table 1.

CIRCULATION LIST

Mr Alan Clark  
Mr Geoffrey Pattie  
Mr Giles Shaw  
Lord Lucas  
Mr Michael Howard  
Mr John Butcher  
Sir Brian Hayes  
Mr Liesner  
Mr Treadgold  
Mr Whiting  
Mr Healey  
Mr Stibbard  
Mr Miner  
Mr Norton  
Miss Marson  
Mr Mattock  
Miss Lea  
Mr Mann  
Mr Parsons

Prime Minister's Office

Chancellor's Office

Sir Terence Burns - Treasury  
Mr P Sedgwick - "  
Mr P Allum - "  
Miss M O'Mara - "  
Mr P Hall - "  
Mr G Pike - "

Mr M J Dicks - Bank of England  
Mr J Exeter - " " "

Miss S Carter - CSO  
Mr E Lomas - "  
Mr C Bryant - "  
Mr D Sterling - "  
Mr J Alexander - "

REGIONAL TRENDS

Andrew  
Pry

FROM: MISS M O'MARA

DATE: 26 JUNE 1987

AMH 29.6.

MR HUDSON 13/2

cc Mr Culpin.  
Mr Pickford  
Miss Simpson  
GB/04

REGIONAL TRENDS

As I mentioned to you, the CSO are publishing the 1987 edition of 'Regional Trends' at midnight on Wednesday, so it will be featured in Thursday's press. Since the CSO are releasing copies of the document and a lengthy press notice (which we were not shown in time to influence) under embargo on Tuesday, the publication is bound to attract some attention, especially given the current interest in North/South issues.

2. We agreed that the Chancellor would not want to tackle this topic head on in Thursday's speech. But the Opposition will almost certainly make something of it, to fuel the North/South debate earlier in the week. We have therefore gone through the material to see what they are likely to pick out and to identify any useful points which could be made defensively. I attach the result.

3. I am sure you do not need to bother the Chancellor with any of this but you might like the note by you for use in the box 'in extremis' on Thursday. We will have a copy with us too, in case Mr Wakeham needs anything on these lines for his wind-up.

We have in fact sent a copy to John Wakeham; you may like to be aware. But I don't think swapping statistics is the best way of dealing with the "North/South" issue.

AMH

MOM

MISS M O'MARA

CONFIDENTIAL

A23/1

MONTHLY ECONOMIC BRIEF

COPY NO

Prepared by the CSO on 29 June 1987

86

Seasonally adjusted adult unemployment fell sharply again between April and May, by 64,000 - the largest monthly fall ever recorded - and now stands below 3 million for the first time since July 1984. The trend clearly continues downwards, with the improvement in the economy contributing to the fall over the last 11 months and probably having an increasing impact over the period. Revised tests of availability and Restart have also had a major influence.

The annual rate of inflation, as measured by the Retail Prices Index fell marginally to 4.1 per cent in May from 4.2 per cent in April. In June the rate is expected to increase to about 4 1/4 per cent.

The level of producer input prices (seasonally adjusted) showed a slight increase between April and May. Between May 1986 and May 1987 producer input prices rose by 1.7 per cent: this and a corresponding small increase between April 1986 and April 1987 were the first annual increases since June 1985, though prices remain 10 1/2 per cent below their peak.

Published provisional figures for the first quarter of 1987 show that the average measure of GDP was some 1-1 1/2 per cent higher than in the fourth quarter of 1986 and 3 1/2 per cent higher than a year earlier. First estimates for the second quarter show another increase approaching 1 per cent, and our assessment of the current underlying trend in GDP remains in the range 2 1/2-4 1/2 per cent per annum, with short-term movements at the top end of this range.

The underlying increase in average earnings in the whole economy in the year to April was up slightly at 7 3/4 per cent, reflecting increased activity in the economy which has led to higher overtime and bonus payments. Unit wage costs in manufacturing increased by one per cent in the three months to April compared with the same period a year earlier, a rise in average earnings of 7 1/2 per cent being largely offset by a 6 1/2 per cent increase in productivity. The significant reduction in the unit wage costs increase since the beginning of 1986 reflects solely an improvement in productivity.

Sterling rose to a recent peak of 73.4 in terms of the effective index at the time of the election, but subsequently fell back: it was at 72.2 at the close on Friday 26 June.

As a result of industrial action in Customs and Excise the publication of overseas trade figures for May has been delayed.

CONFIDENTIAL



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

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

**GDP (average measure)** in the first quarter of 1987 was  $3\frac{1}{2}$  per cent higher than in the same period a year ago. This figure does not take account of past experience which shows that revisions to growth rates for the initial published estimates of GDP were on average, upwards, though not uniformly so. The assessment of current underlying trend for the first quarter of 1987 is that the rate of increase lies in the range  $2\frac{1}{2}$ - $4\frac{1}{2}$  per cent per annum.

**Industrial production** in the three months to April 1987 was  $2\frac{1}{2}$  per cent higher than in the same period a year ago; manufacturing output was  $4\frac{1}{2}$  per cent higher. The assessment of current underlying trend for industrial production is that the rate of change lies in the range 2-5 per cent per annum at present. The current underlying trend in manufacturing output is in the range 3-6 per cent per annum.

**Retail prices** rose by slightly over 4 per cent in the twelve months to May 1987. It is only possible to provide a useful indicator of trend for about 70 per cent of the RPI, mainly that covering private sector prices and excluding eg mortgage interest, rent, rates, products produced by nationalised industries, seasonal food and petrol. The current trend for this series is around 4 per cent per annum. In the twelve months to May 1987 this series rose  $3\frac{1}{2}$  per cent (not published).

**Producer input prices** showed an increase of 0.2 per cent in seasonally adjusted terms in May. Although they are now  $1\frac{1}{2}$  per cent higher than at the same time last year, they remain  $10\frac{1}{2}$  per cent below their peak in March 1985. An increase of about 1 per cent is expected in June.

**Average earnings (underlying)** in the twelve months to April 1987 rose by  $7\frac{3}{4}$  per cent. The current trend is estimated to be  $7\frac{1}{2}$ -8 per cent per annum.

**Unit wage costs in manufacturing** in the three months to April rose by 1 per cent compared with the same period a year ago. The current underlying trend is estimated to be in the range 1-4 per cent per annum.

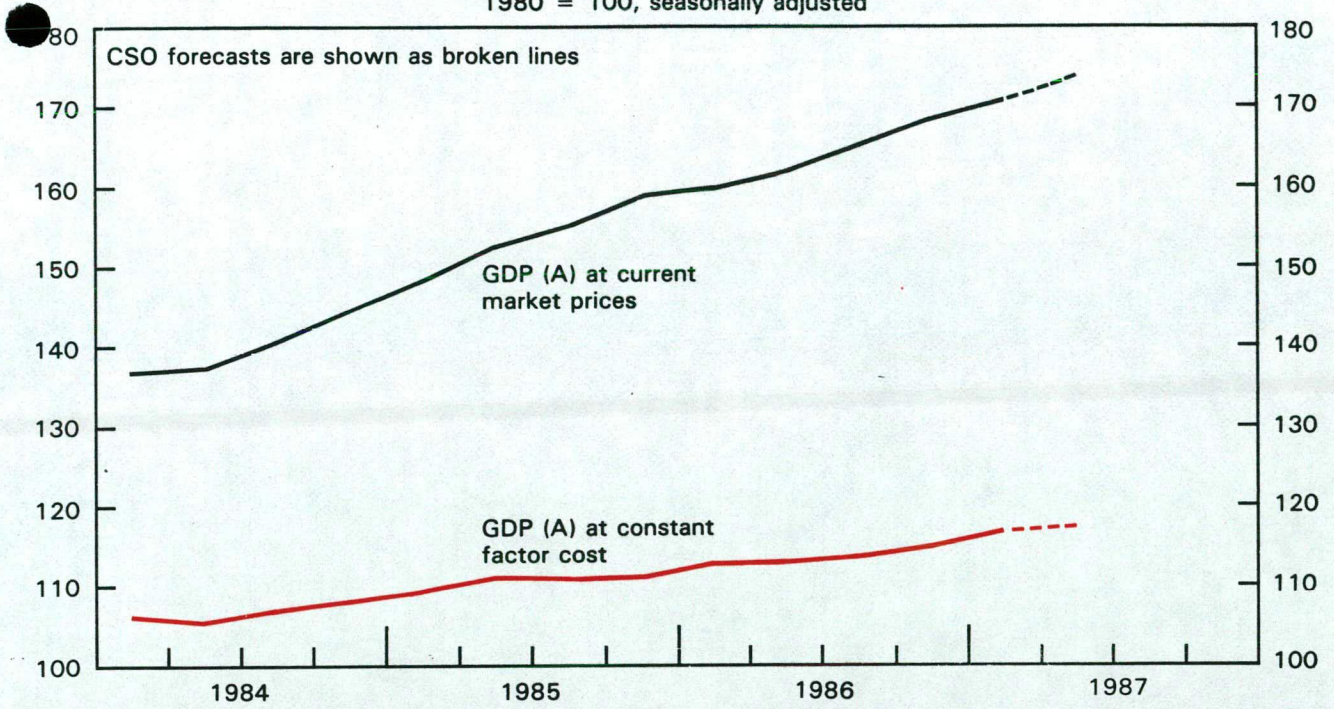
**Unemployment (excluding school leavers)** in the twelve months to May has fallen on average by nearly 21,000 per month. Over the past 6 months there has been an average fall of nearly 32,000 per month.

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

Gross domestic product (average measure)

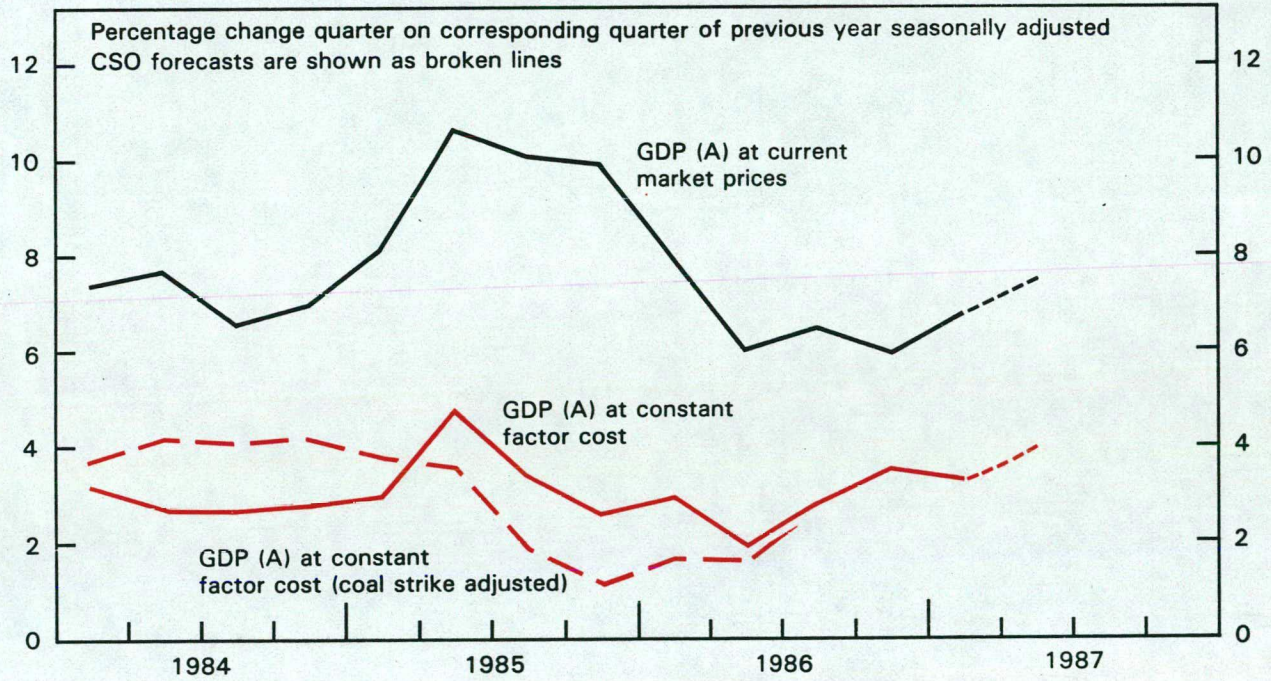
CHART 1A

1980 = 100, seasonally adjusted



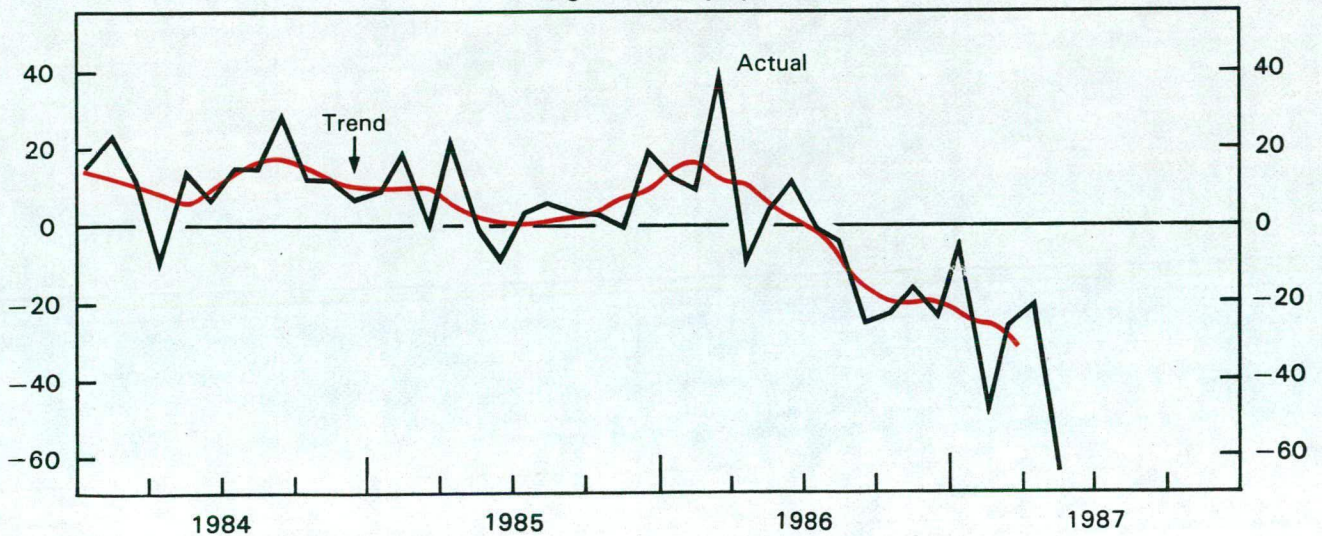
Gross domestic product (average measure)

CHART 1B



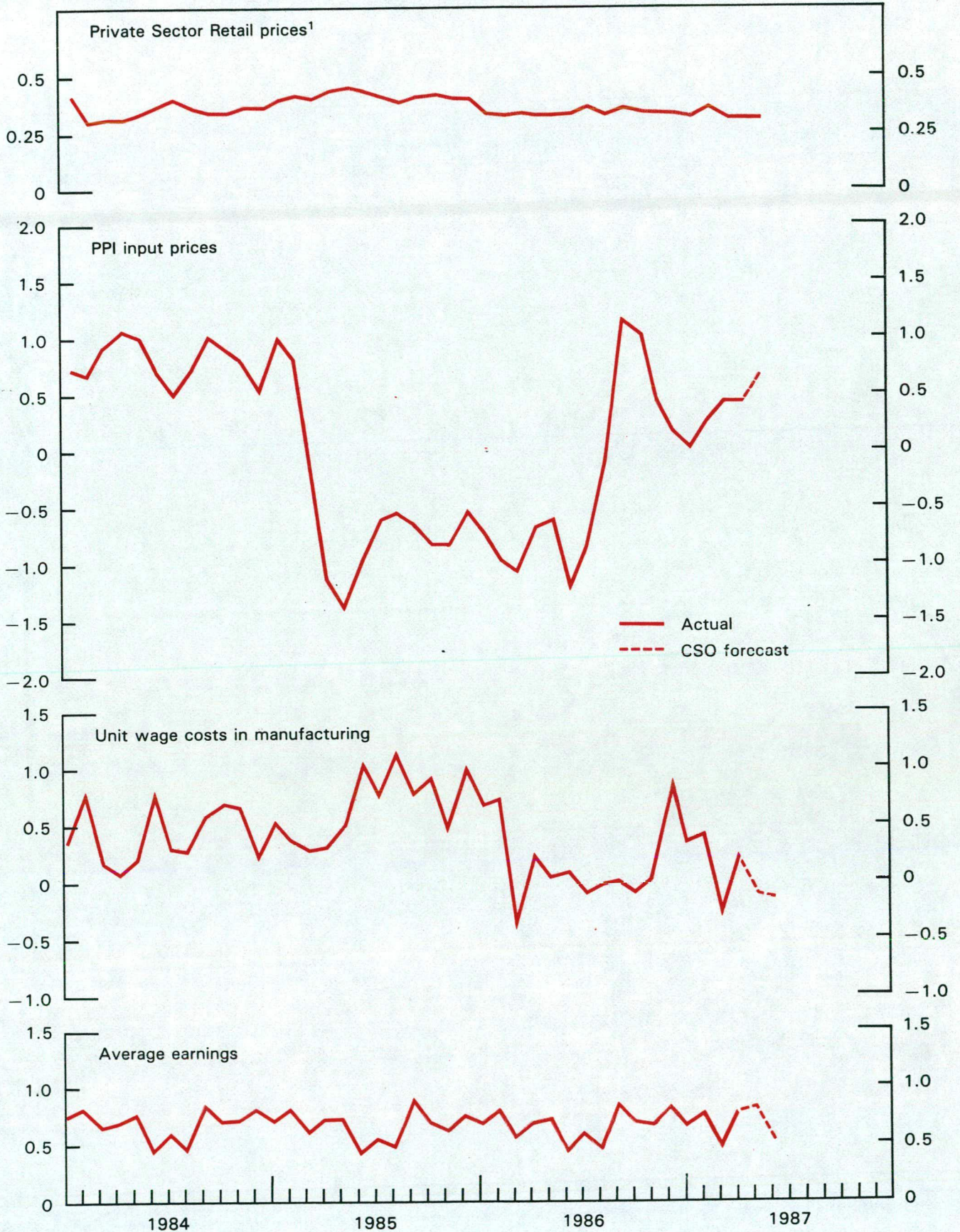
Changes in unemployment

CHART 2



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

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



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

CHART 4

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

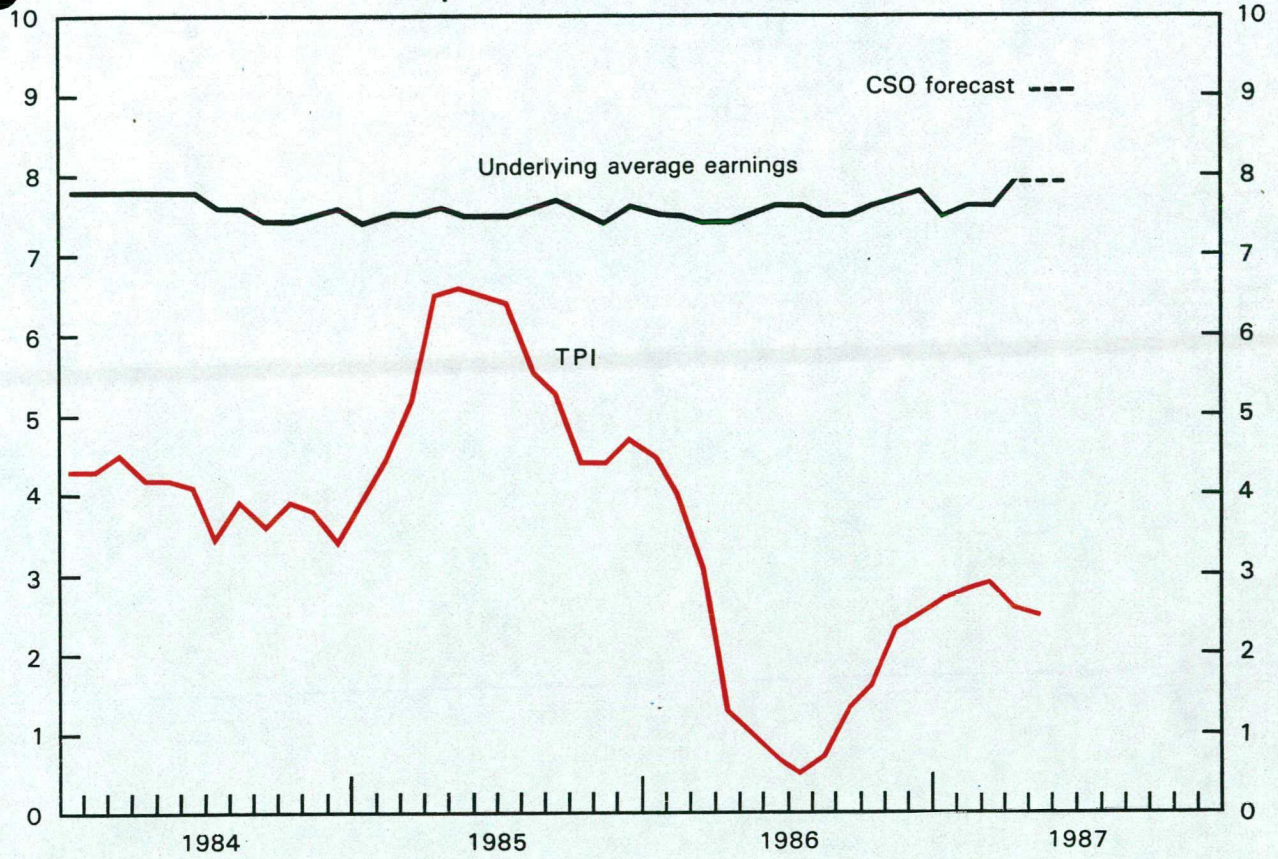
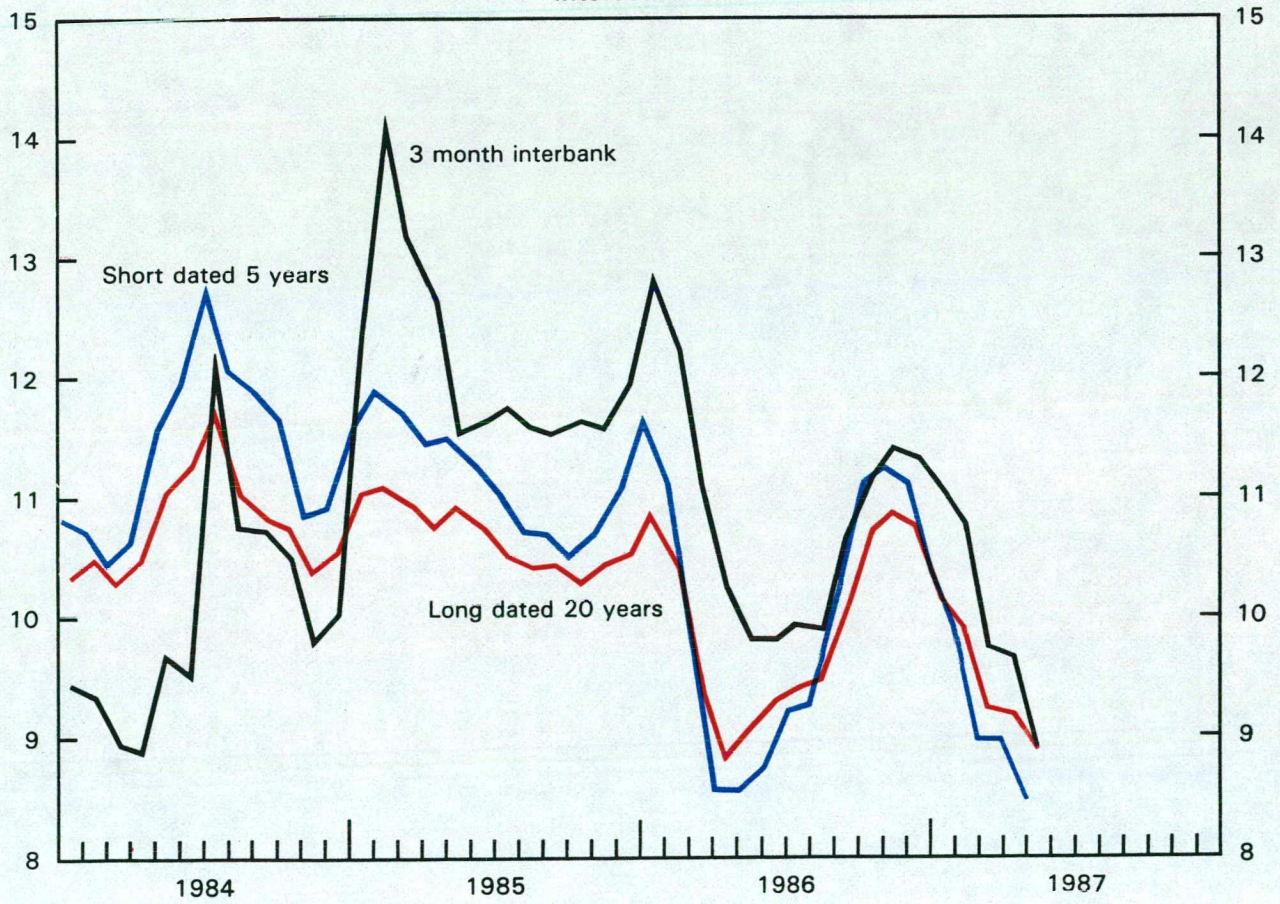


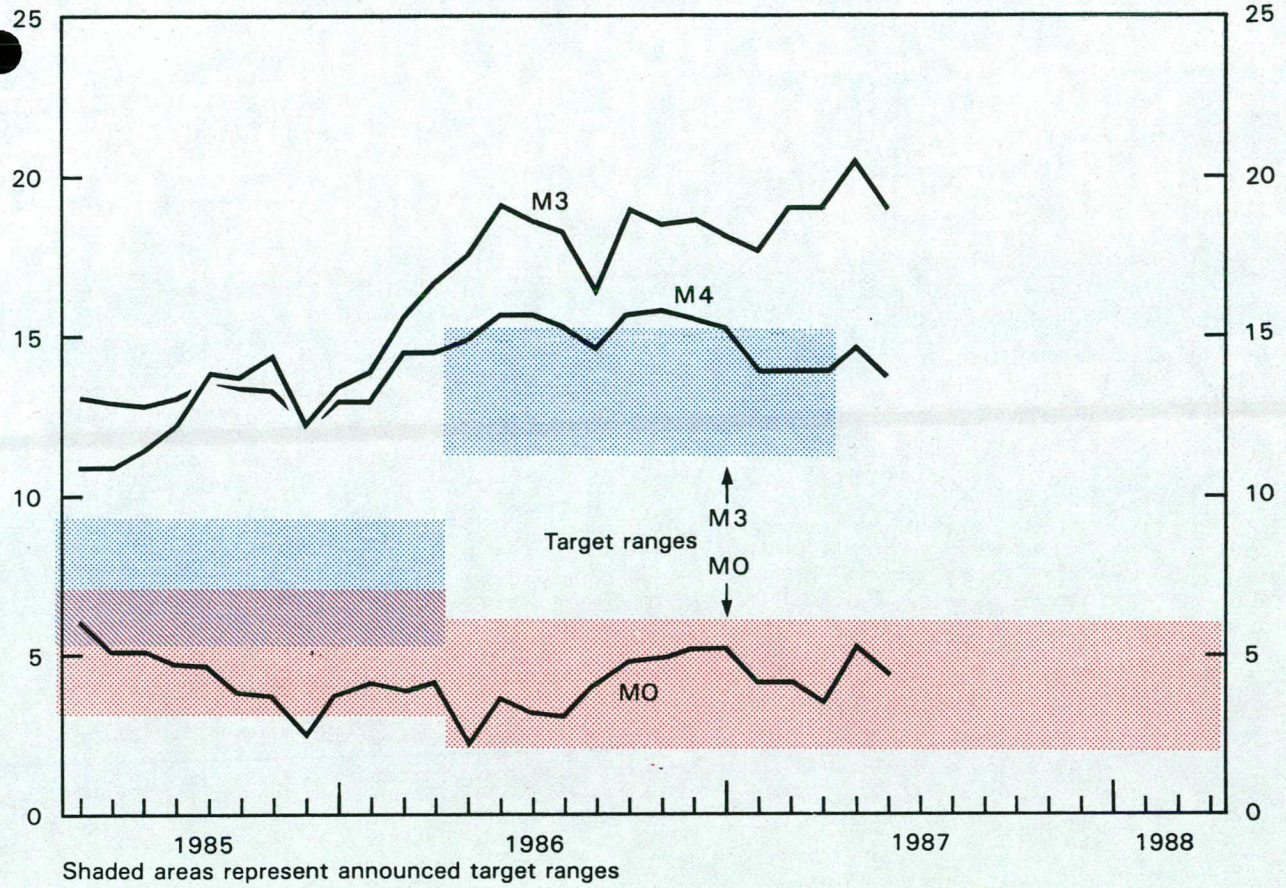
CHART 5

Interest rates



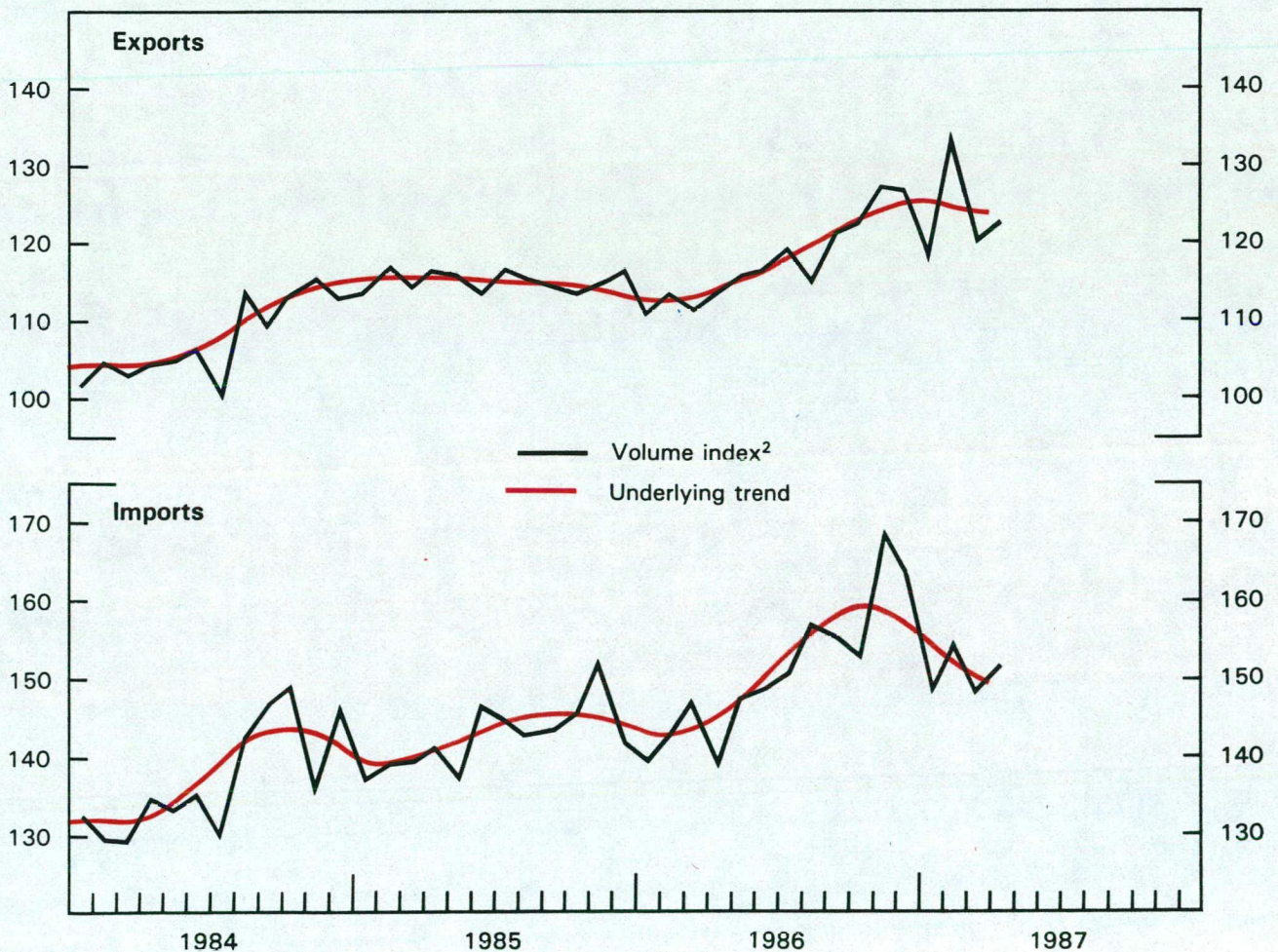
Monetary aggregates

Percentage change on previous 12 months (not seasonally adjusted)



Exports and Imports (excluding oil and erratics<sup>1</sup>)

Index 1980 = 100



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

**NORTH**

Average unemployment rate second only to Northern Ireland in 1986.

Highest crime rate in 1985.

Mortality rates in 1985 higher than elsewhere apart from Scotland for both males and females.

Below average proportion of 16 year olds stayed on at school or entered non-advanced FE in 1985.

Only Scotland had lower proportion of owner occupation in 1985.

**BUT**

Cheapest housing in UK

Above average possession of washing machines (85% to 80% average).

**NORTH WEST**

Highest unemployment rate in January 1987, bar Northern Ireland.

Lowest growth in housing stock 1975-85.

Highest proportion of children in care outside Scotland in March 1985.

**BUT**

Third highest male average earnings in country and second highest female.

Highest proportion of 16 year olds staying on at school or entering non-advanced FE in England and Wales in 1984/85.

**YORKSHIRE AND HUMBERSIDE**

With North, lowest proportion of 16 year olds staying on at school or entering non-advanced FE in 1985.

**BUT**

Comparatively cheap housing (only North and Northern Ireland lower).

## **EAST MIDLANDS**

Average earnings for women lowest in UK and third lowest for men in April 1986.

Share of manufacturing in region's GDP fell from 35% in 1975 to 33% in 1985.

### **BUT**

Fall in manufacturing's share in GDP 1975-85 proportionately less than UK average.

Housing stock growth above average 1975-85 and higher than average owner occupation in 1985.

Lowest proportion of school leavers with no graded examination bar South West in 1984/85.

## **WEST MIDLANDS**

GDP per head fell sharply from UK average in 1975 to 89.7% of average in 1983.

Female average earnings in Shropshire lowest of any county in April 1986 and male average earnings one of lowest.

Perinatal mortality highest in country.

### **BUT**

GDP per head risen to 92.3% of UK average by 1985.

More cars per 1,000 population than national average in 1985.

## **WALES**

GDP per head in 1985 lower than anywhere but Northern Ireland.

Households less likely than rest of UK to have consumer durables in 1984 and 1985.

### **BUT**

GDP per head in 1985 was highest proportion of national average since 1976.

## **SCOTLAND**

Lowest proportion of owner occupation in 1985.

Highest regional mortality rates for both males and females in 1985.

**BUT**

GDP per head in 1985 third highest in country and personal disposable income per head higher as proportion of UK average than in 1975.

**NORTHERN IRELAND**

GDP per head much lowest of all regions in 1985.

Half unemployed claimants out of work for more than year - higher than anywhere else.

Social security benefits accounted for one-fifth average household income 1984 and 1985 - with North, higher than elsewhere.

School leavers more likely to have no qualifications than in England or Wales.

**BUT**

With East Anglia, highest rate of new dwellings built in country.

School leavers more likely to have A level passes than those in England and Wales.

Biggest regional improvement in infant mortality rate 1971-85.



Reference .....

*PHR*

To:

SECRETARY OF STATE

(Circulation list attached)

From:

PETER RICHARDSON  
S2C  
Room 3/3  
20 Victoria Street  
215 3351

7 August 1987

**CREDIT BUSINESS IN JUNE**

A Press Notice giving details of credit business in June is attached for information. It incorporates the changes to coverage and presentation which were agreed with Mr Maude, PUSS(CAA) on 31 July. The Press Notice will be issued at 11.30 am on Monday 10 August. The contents should be treated as confidential until then.

*P. H. Richardson*  
P H RICHARDSON

Department of Trade and Industry

1 Victoria Street SW1H 0ET

Press Office: 01-215 4471/4475

Out of hours: 01-215 7877

Number 87/465

10 August 1987

## CREDIT BUSINESS IN JUNE

During June the change in amounts outstanding on consumer credit agreements with finance houses, other specialist credit grantors, building societies, retailers and on bank credit cards was £0.4 billion (see Table 1). This compared to an increase in May of £0.3 billion.

The increase in the latest three months, April to June, was £1.1 billion, slightly more than the corresponding figure of £1.0 billion in the previous three months. Within the total, the increase shown by finance houses, other specialist credit grantors and building societies was £0.8 billion in the most recent period compared to £0.6 billion in the previous one. The increases for bank credit cards and retailers in the latest three months were much the same as in the previous period. In the period April to June they were £0.3 billion for bank credit cards and £0.1 billion for retailers.

Bank loans on personal accounts showed an increase in amounts outstanding of £0.5 billion, higher than the previous quarter's value of £0.2 billion (see Table 2). Including these loans and loans by insurance companies, figures for which are available only quarterly, gives a total increase in consumer credit in the April to June quarter of £1.5 billion, up from £1.2 billion in the preceding quarter. At the end of the quarter, the total amount outstanding on consumer credit agreements was £33.8 billion, 5 per cent more than the total at the end of the previous quarter.

MORE/...

New credit advanced to consumers in June by finance houses, other specialist credit grantors, building societies, retailers and on bank credit cards amounted to £3.0 billion, compared to a total of £2.7 billion in May (see Table 2). The total for the three months April to June was 7 per cent higher than that for the previous three months.

In June there was a change in amounts outstanding on agreements with businesses by finance houses, other specialist credit grantors and building societies of £0.2 billion (see Table 1). The total change in the latest three months was £0.4 billion compared to no change in the preceding three months. At the end of June the total value of the outstanding amounts was £6.1 billion.

## Changes to Credit Business Press Notice

1 Starting from this month there are changes in the coverage and presentation of the statistics.

2 The coverage of the data has been expanded to include loans by banks (monetary sector institutions other than those included in finance houses and other specialist credit grantors) on personal accounts, where the amount outstanding does not exceed £15,000, and loans by insurance companies to individuals. Figures for such loans which are available only quarterly, are now included in the quarterly totals in Table 2 to give statistics on total consumer credit. The main sources of finance for house purchase are, by definition, excluded.

3 All institutions lending to individuals for consumption are covered by these quarterly totals, although, in the case of banks, only personal loans where the amount outstanding does not exceed £15,000 are included. Loans to businesses by retailers and on bank credit cards are included in total consumer credit as they cannot be separately identified. They are thought to be small in relation to loans to consumers.

4 There are also changes to the presentation of the data. The text now concentrates on changes in amounts outstanding. Previously the main emphasis was on new credit advanced. This overstated the level of credit advances when, for example, bank credit cards were used as the method of payment rather than as a means of obtaining credit. Changes in amounts outstanding are a better indicator as repayments by consumers are taken into account.

5 In Tables 1, 2 and 3 separate totals are given for agreements with consumers and all agreements. The latter includes lending to businesses. Such lending is only part of total lending to businesses. Lending by banks and by finance houses and other specialist credit grantors, where the group specialises in lending to other companies only are not included in the statistics.

## NOTES TO EDITORS

1 All figures are quoted after seasonal adjustment. The seasonal adjustments of bank loans on personal account and of credit card lending are subject to greater uncertainty than the seasonal adjustments of the other data owing to the shortness of the series.

2 Table 1 covers amounts outstanding and changes in amounts outstanding to finance houses, other specialist credit grantors and building societies, retailers and on bank credit cards. Loans by retailers and on bank credit cards are mainly to consumers and are treated as consumer agreements. Loans by finance houses, other specialist credit grantors and building societies, are split into agreements with consumers and agreements with businesses and the two components are shown separately.

3 Table 2 includes the same data as Table 1 with the addition of loans by banks (monetary sector institutions other than those included in finance houses and other specialist credit grantors) on personal accounts, where the amount outstanding does not exceed £15,000, and by insurance companies to individuals, excluding loans for house purchase and bridging finance. These figures are available only quarterly. This table therefore contains a quarterly series which covers all institutions which provide finance for consumers.

4 Table 3 shows new credit advanced by finance houses, other specialist credit grantors and building societies, retailers and on bank credit cards. The coverage is the same as for Table 1 except that dealer stock funding loans by finance houses to businesses are excluded.

5 Unsecured loans by building societies, which are advanced under the terms of the Building Societies Act 1986, are included from January 1987. Amount outstanding on bank loans on personal accounts are available from end December 1986 only. Lending by finance houses and other specialist credit grantors where the group specialises in lending to other companies only are excluded from the statistics in this Press Notice.

6 Further definitions are given at the foot of the tables accompanying this Press Notice.

7 Full results of the inquiries which collect the monthly information on credit are published by H M Stationery Office in Business Monitor SDM6 - Credit business of finance houses and other specialist credit grantors - and in Business Monitor SDM8 - Credit business of retailers. Both may be obtained on subscription (£17.50 each title per annum) from H M Stationery Office P O Box 569, London SE1 9NH. Individual copies are available, price £3.20 each from:

The Library,  
Business Statistics Office,  
Government Buildings,  
Cardiff Road,  
Newport, GWENT.  
Telephone: Newport (0633) 222973.

8 Non-press calls to 01-215 3138

TABLE 1

CHANGES IN AMOUNTS OUTSTANDING TO FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS  
AND BUILDING SOCIETIES, RETAILERS AND ON BANK CREDIT CARDS. (SEASONALLY ADJUSTED)

£ Million						
	AGREEMENTS WITH CONSUMERS			AGREEMENTS WITH BUSINESSES		TOTAL AGREEMENTS
	TOTAL	RETAILERS (a)	BANK CREDIT CARDS	FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS AND BUILDING SOCIETIES ON AGREEMENTS WITH		
				CONSUMERS	BUSINESSES	
AMOUNTS OUTSTANDING AT END OF PERIOD						
1986	19,063	2,231	4,681	12,151	5,728	24,791
1987 JUN	21,082	2,354	5,189	13,539	6,106	27,188
CHANGES IN AMOUNTS OUTSTANDING						
1986	2,437	94	891	1,452	596	3,033
1986 1st Qtr	855	39	221	595	214	1,069
2nd Qtr	346	3	213	130	34	380
3rd Qtr	792	107	356	329	193	985
4th Qtr	444	-55	101	398	155	599
1987 1st Qtr	952	67	248	637	5	957
2nd Qtr	1,067	56	260	751	373	1,440
1986 JUN	167	9	109	49	21	188
JUL	183	28	80	75	73	256
AUG	217	34	82	101	48	265
SEP	392	45	194	153	72	464
OCT	194	-81	86	189	127	321
NOV	-15	12	-113	86	-23	-38
DEC	265	14	128	123	51	316
1987 JAN	257	8	15	234	-17	240
FEB	296	27	97	172	24	320
MAR	399	32	136	231	-2	397
APR	410	20	113	277	66	476
MAY	294R	20	19	255R	141	435R
JUN	363	16	128	219	166	529
1987 JAN-MAR	952	67	248	637	5	957
1987 APR-JUN	1,067	56	260	751	373	1,440

R = revised

NOTES

(a) Self financed credit advanced by clothing retailers, household goods retailers mixed retail businesses (other than Co-operative societies) and general mail-order houses only.

(b) Data were not collected on a consistent basis for all types of credit grantor prior to 1986. The following table gives figures for changes in amounts outstanding which are available:

	£ Million		
	1983	1984	1985
Retailers	132	116	195
Finance Houses etc.	2,286	2,180	2,541

TABLE 2

CHANGES IN AMOUNTS OUTSTANDING TO FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS AND BUILDING SOCIETIES, RETAILERS, BANKS ON CREDIT CARDS AND PERSONAL ACCOUNTS AND TO INSURANCE COMPANIES ON CONSUMER LOANS. (SEASONALLY ADJUSTED)

£ Million

	AGREEMENTS WITH CONSUMERS				INSURANCE COMPANIES	AGREEMENTS WITH BUSINESSES		TOTAL AGREEMENTS (a)
	TOTAL (a)	RETAILERS (b)	BANKS (c)			FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS AND BUILDING SOCIETIES ON AGREEMENTS WITH CONSUMERS	BUSINESSES	
			CREDIT CARDS	LOANS ON PERSONAL ACCOUNTS (d)				
AMOUNT OUTSTANDING AT END OF PERIOD								
1986	31,095	2,231	4,681	11,228	804	12,151	5,728	36,823
1987 1st Qtr	32,267	2,298	4,929	11,440	812	12,788	5,733	38,000
2nd Qtr	33,799	2,354	5,189	11,895	822E	13,539	6,106	39,905
CHANGES IN AMOUNTS OUTSTANDING								
1986	2,496	94	891		59	1,452	596	3,092
1986 1st Qtr	858	39	221		3	595	214	1,072
2nd Qtr	360	3	213		14	130	34	394
3rd Qtr	806	107	356		14	329	193	999
4th Qtr	472	-55	101		28	398	155	627
1987 1st Qtr	1,172	67	248	212	8	637	5	1,177
2nd Qtr	1,532	56	260	455	10E	751	373	1,905

— indicates a break in the series

R = revised  
E = estimated

NOTES

- (a) Changes in amounts outstanding in 1986 exclude bank loans on personal accounts.
- (b) Self-financed advances by clothing retailers, household goods retailers mixed retail businesses (other than Co-operative societies) and general mail order houses only.
- (c) Monetary sector institutions other than those included in finance houses and other specialist credit grantors.
- (d) Amounts outstanding on bank loans on personal accounts, not exceeding £15,000, excluding bridging loans and house purchase finance.

TABLE 3

NEW CREDIT ADVANCED BY FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS AND  
BUILDING SOCIETIES, RETAILERS AND ON BANK CREDIT CARDS. (SEASONALLY ADJUSTED)

		£ Million					
		AGREEMENTS WITH CONSUMERS			AGREEMENTS WITH BUSINESSES		TOTAL AGREEMENTS
		TOTAL	RETAILERS (a)	BANK CREDIT CARDS	FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS AND BUILDING SOCIETIES ON AGREEMENTS WITH		
					CONSUMERS	BUSINESSES (b)	
1986		28,026	4,834	12,916	10,276	3,489	31,515
1986	1st Qtr	6,549	1,146	2,926	2,477	826	7,375
	2nd Qtr	6,875	1,191	3,115	2,569	864	7,739
	3rd Qtr	7,349	1,267	3,395	2,687	874	8,223
	4th Qtr	7,253	1,230	3,480	2,543	925	8,178
1987	1st Qtr	7,918	1,241	3,874	2,803	963	8,881
	2nd Qtr	8,445	1,272	3,997	3,176	1,029	9,474
1986	JUN	2,331	402	1,080	849	282	2,613
	JUL	2,411	415	1,107	889	274	2,685
	AUG	2,383	421	1,068	894	285	2,668
	SEP	2,555	431	1,220	904	315	2,870
	OCT	2,437	413	1,152	872	322	2,759
	NOV	2,360	420	1,129	811	275	2,635
	DEC	2,456	397	1,199	860	328	2,784
1987	JAN	2,417	411	1,177	829	278	2,695
	FEB	2,618	415	1,276	927	331	2,949
	MAR	2,883	415	1,421	1,047	354	3,237
	APR	2,766	416	1,289	1,061	314	3,080
	MAY	2,697R	414	1,268	1,015R	335	3,032R
	JUN	2,982	442	1,440	1,100	380	3,382
1987	JAN-MAR	7,918	1,241	3,874	2,803	963	8,881
1987	APR-JUN	8,445	1,272	3,997	3,176	1,029	9,474
Percentage increase over previous quarter		7	2	3	13	7	7

R = revised

NOTES

- (a) Self-financed credit advanced by clothing retailers, household goods retailers, mixed retail businesses (other than Co-operative societies) and general mail-order houses only.
- (b) Excluding dealer stock funding. These agreements are included in tables 1 and 2.



## CIRCULATION LIST

Mr Kenneth Clarke  
Mr Alan Clark  
Mr Robert Atkins  
Mr Francis Maude  
Mr John Butcher  
Sir Brian Hayes  
Mr Liesner  
Mr Treadgold  
Mr Whiting  
Mr Healey  
Mr Stibbard  
Mr Miner  
Mr Norton  
Miss Marson  
Mr Mattock  
Miss Lea  
Mr Mann  
Mr Parsons

Prime Minister's Office

### ✓Chancellor's Office

Sir Terence Burns - Treasury  
Mr P Sedgwick - "  
Mr T Allum - "  
Miss M O'Mara - "  
Mr P Hall - "  
Mr T Pike - "  
Mr P Brook - "  
  
Mr M J Dicks - Bank of England  
Mr J Exeter - " " "  
  
Miss S Carter - CSO  
Mr R Clare - "  
Mr C Bryant - "  
Mr D Stirling - "  
Mr J Alexander - "