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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MONTHLY ECONOMIC BRIEF

Note by the Secretaries

The attached monthly economic brief prepared by the Central Statistical Office, is circulated for the information of the Committee.

Signed JOHN HUNT
P Le CHEMINANT
P MOUNTFIELD

Cabinet Office
2 July 1979

CONFIDENTIAL

MONTHLY ECONOMIC BRIEF

PREPARED BY THE CSO ON 28 JUNE 1979

ACTIVITY AND UNEMPLOYMENT

An increase in GDP in the second quarter of this year reflects the recovery from severe weather and industrial disputes in the first. During the first half of 1979, as a whole, activity appears to have been little different from the second half of 1978.

The latest evidence suggests that some small reduction has occurred in the underlying level of unemployment during the first half of this year.

DEMAND

Consumers' expenditure was buoyant through the second quarter, with a burst of spending in June in advance of indirect tax increases. There is little growth in other components of demand.

BALANCE OF PAYMENTS

The recorded current account deficit in the first 5 months of 1979 of just over £1bn was seriously affected by delays in documentation. The actual current account deficit was probably in excess of £1½bn. During this period there was an exceptionally large increase in imports together with some damaging effects on exports arising from the road haulage dispute. Though our assessment of the underlying position indicates a deficit considerably lower than £1½bn, there has been a substantial deterioration in the current balance since the end of last year.

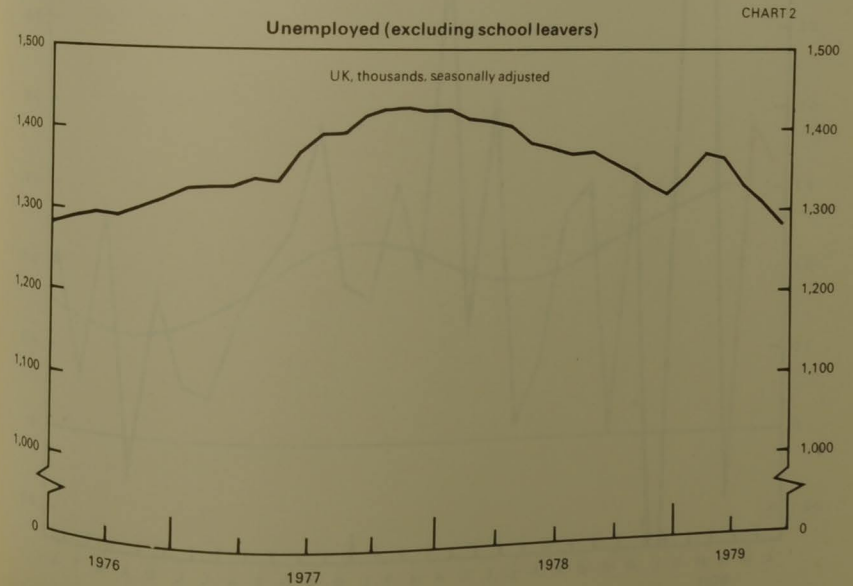
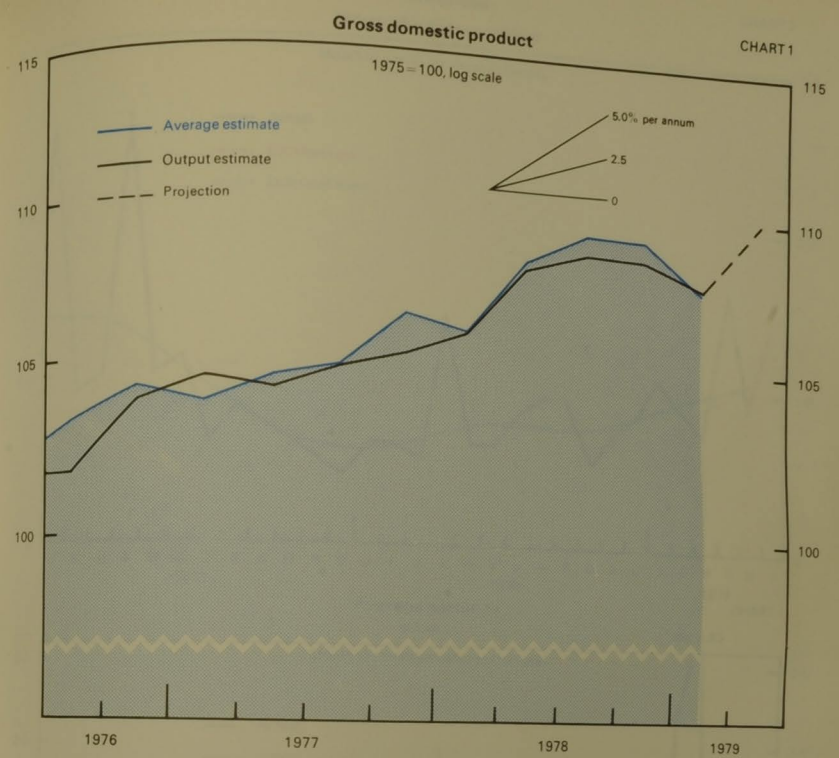
EARNINGS AND PRICES

With the current pay round almost complete, the annual increase in average earnings seems likely to be not far above the 1977-78 pay round figure of 14 per cent. A further 2 per cent or more may be hanging over for the next round.

Retail prices are now rising at about 1 per cent a month. In addition, a step increase of about 4 per cent resulting from the Budget changes will show up in the July index which will be published in August.

MONEY SUPPLY

Money supply has been growing slightly above the previous Government 8-12 per cent range. Interest rates, which remained steady until the Budget, rose sharply following the rise of 2 per cent in Minimum Lending Rate and the sterling exchange rate also hardened.

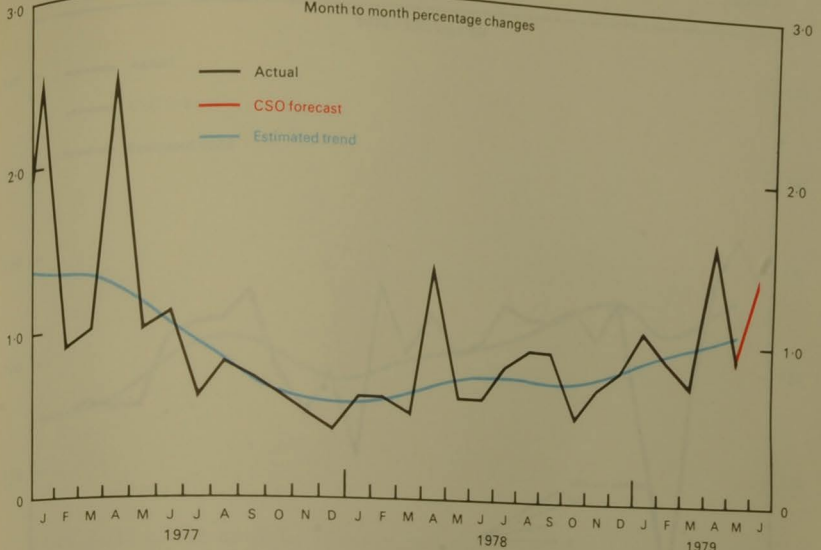


Retail prices

CHART 3

All items other than seasonal food

Month to month percentage changes



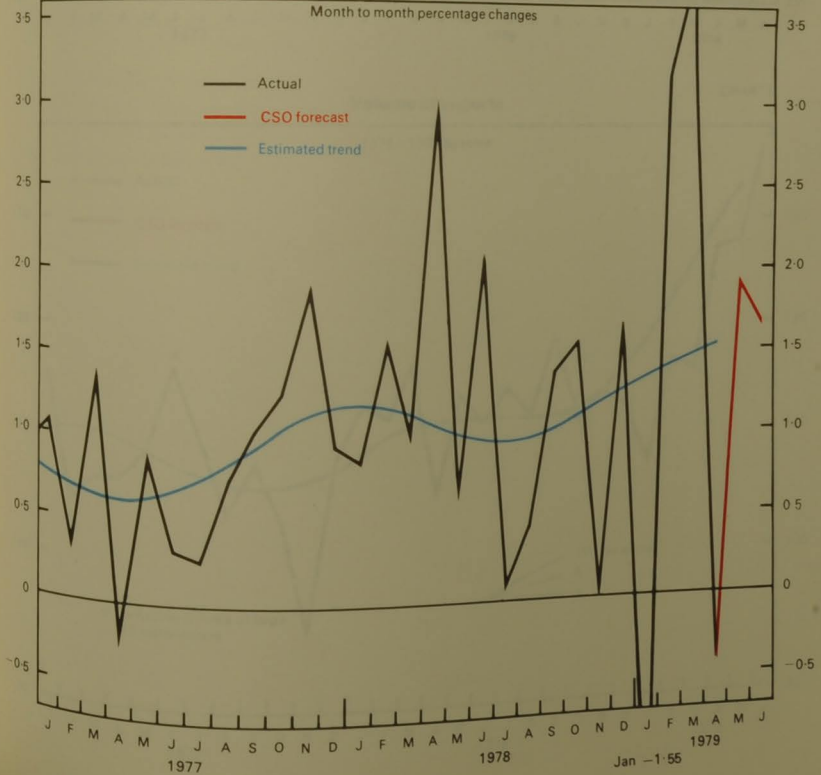
Average earnings

CHART 4

old series

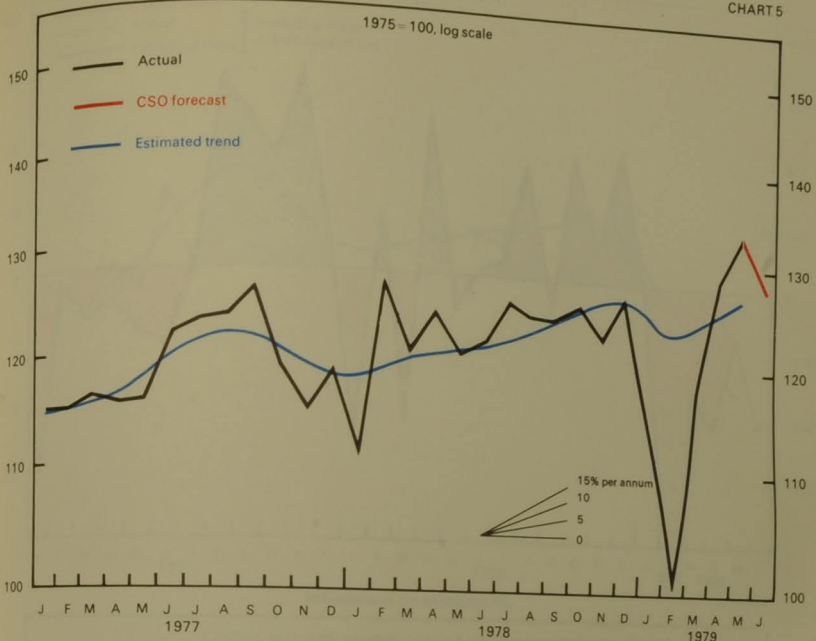
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Month to month percentage changes



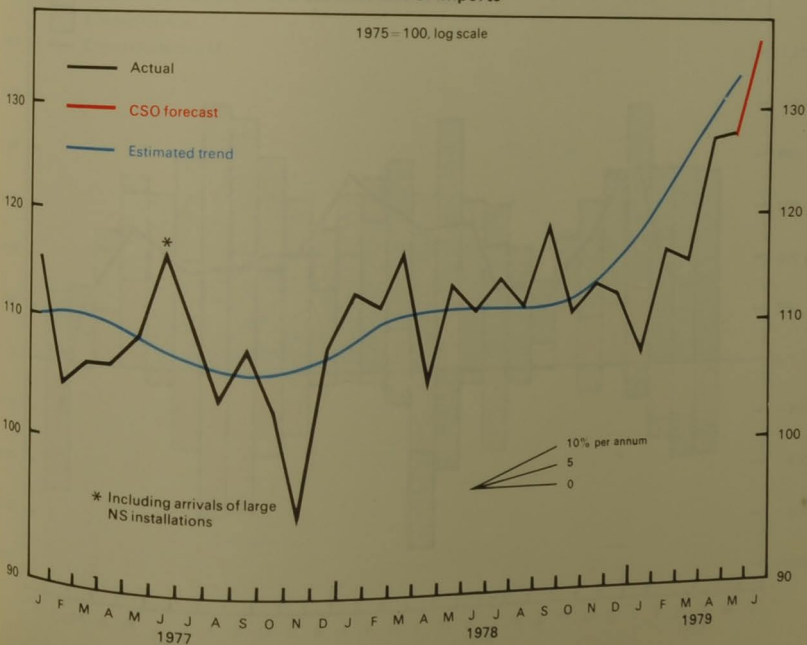
Volume of exports

CHART 5



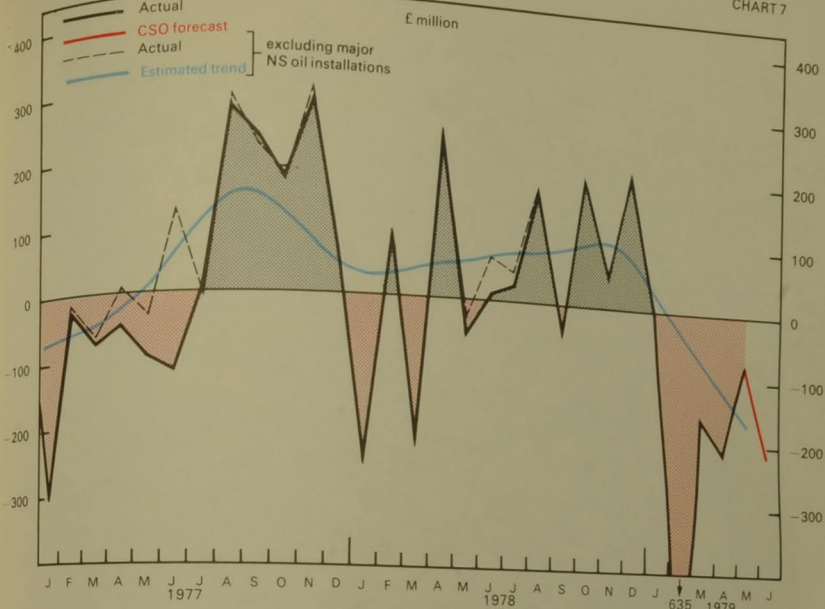
Volume of imports

CHART 6



Current balance

CHART 7



Influences on sterling M₃

CHART 8

