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30 July 1979

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

30 July 1979

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MONTHLY ECONOMIC BRIEF

Prepared by the CSO on 27 July 1979

ACTIVITY AND UNEMPLOYMENT

GDP increased by perhaps 2 per cent in the second quarter mainly because of output deferred from the first; the underlying level during the first half of 1979 appears to have been little different from the second half of 1978.

The latest evidence suggests that unemployment has fallen slightly during the first half of the year. By now, however, the downward trend is probably coming to an end.

DEMAND

There was little growth in the components of demand other than consumers' expenditure which rose sharply in the second quarter in anticipation of indirect tax increases. Most of the growth in demand was matched by an excess of imports over exports. Consumers' expenditure is unlikely to continue as high as in the second quarter and there seems little prospect of growth in demand or activity in the third quarter.

BALANCE OF PAYMENTS

The current balance is now probably running at a somewhat smaller deficit than the average for the past six months - say £200-300 million a month against £300-350 million (after allowances for document flow distortions).

EARNINGS AND PRICES

The annual increase in the index of average earnings for the year to July will be about the same as the 1977-78 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 over 1 per cent a month. The net effect of the oil price rises and the appreciation of sterling on retail prices over the next few months is likely to be small. In addition there will be in the July index the step increase resulting from the Budget changes.

MONEY SUPPLY

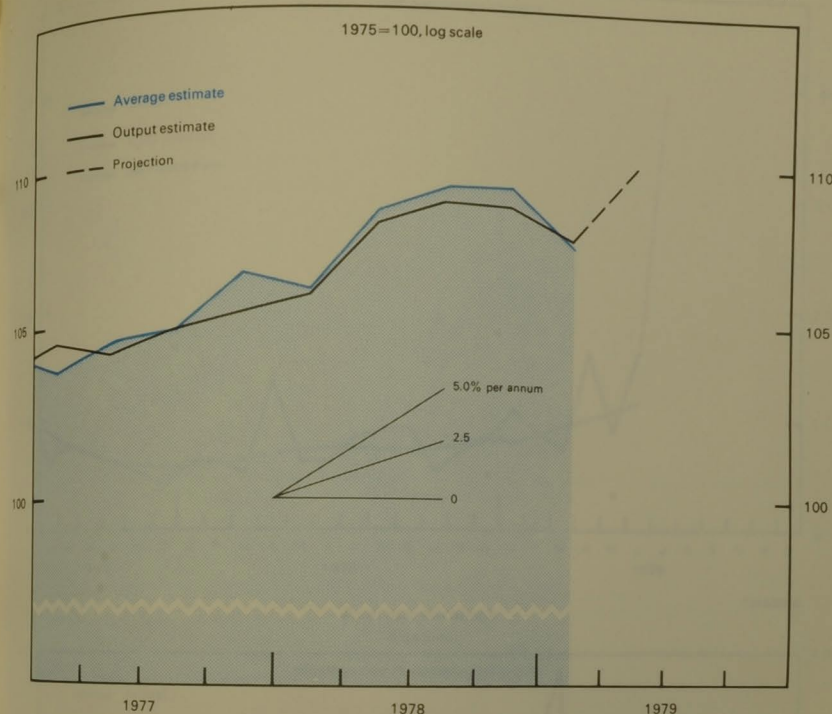
Money supply in banking June continued to grow above the 8-12 per cent range. Interest rates have been kept at a high level and the sterling exchange rate appreciated further.

THE EXCHANGE RATE AND COMPETITIVENESS

The rising exchange rate combined with labour costs rising faster than in most other countries have led to a major deterioration in international competitiveness - perhaps as much as 15 per cent in the year to the second quarter. That is putting increasing pressure on firms' profit margins and making it more difficult for UK firms to retain their share of domestic and overseas markets.

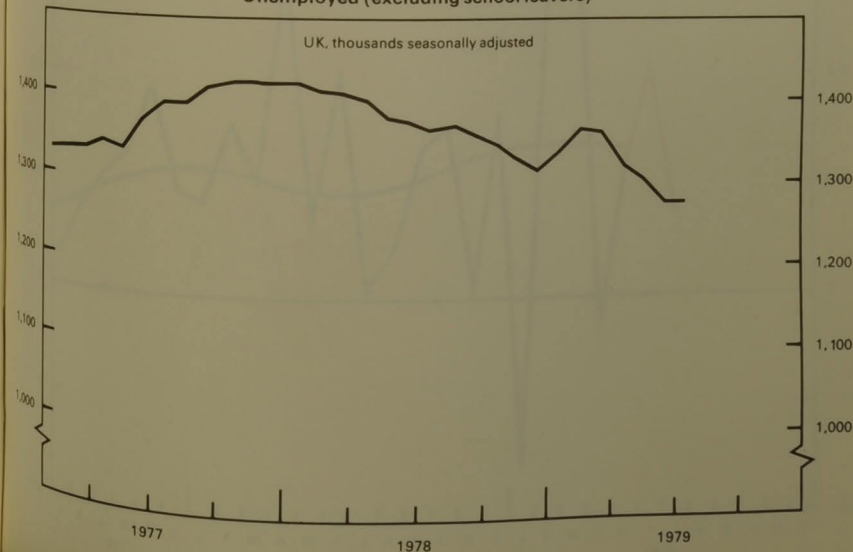
Gross domestic product

CHART 1



Unemployed (excluding school leavers)

CHART 2

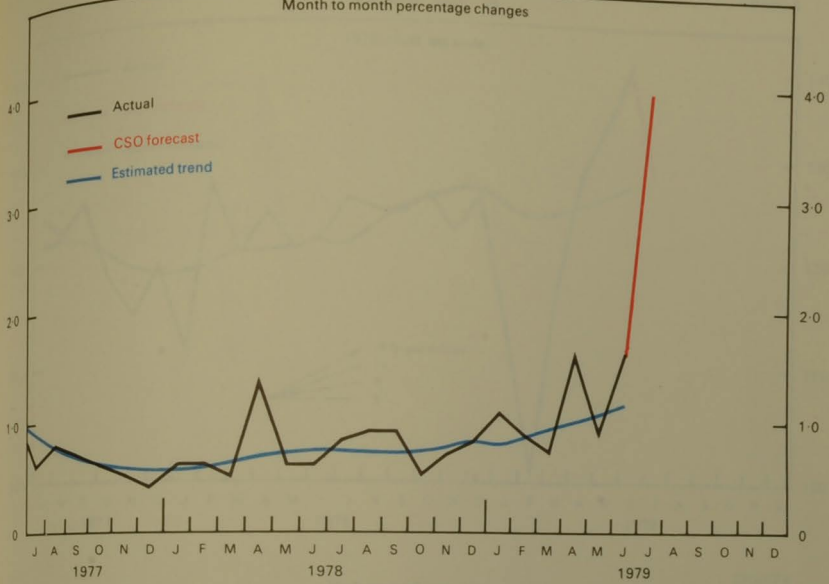


Retail prices

CHART 3

All items other than seasonal food

Month to month percentage changes

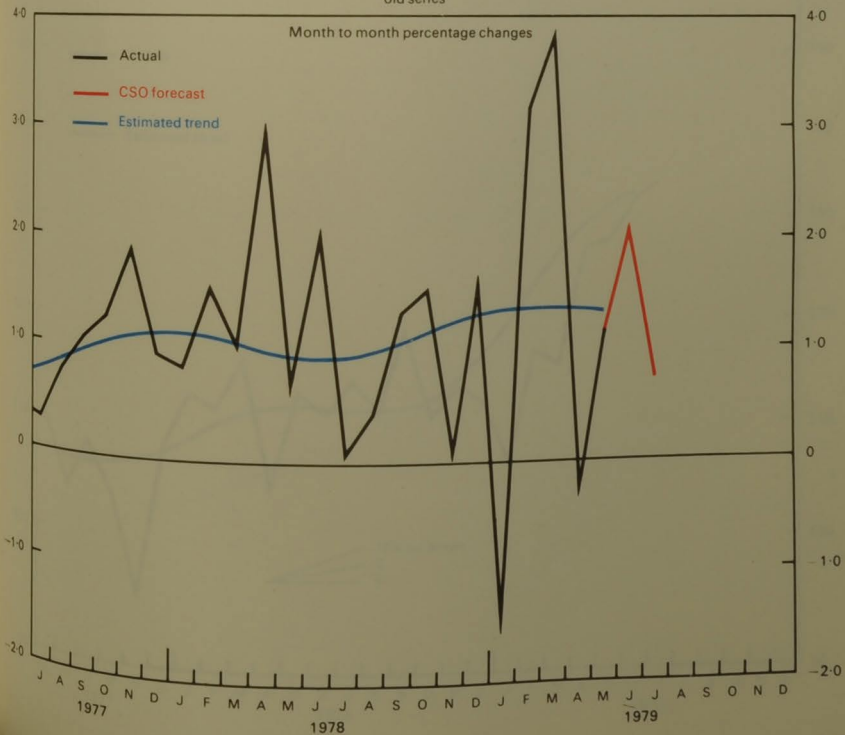


Average earnings

CHART 4

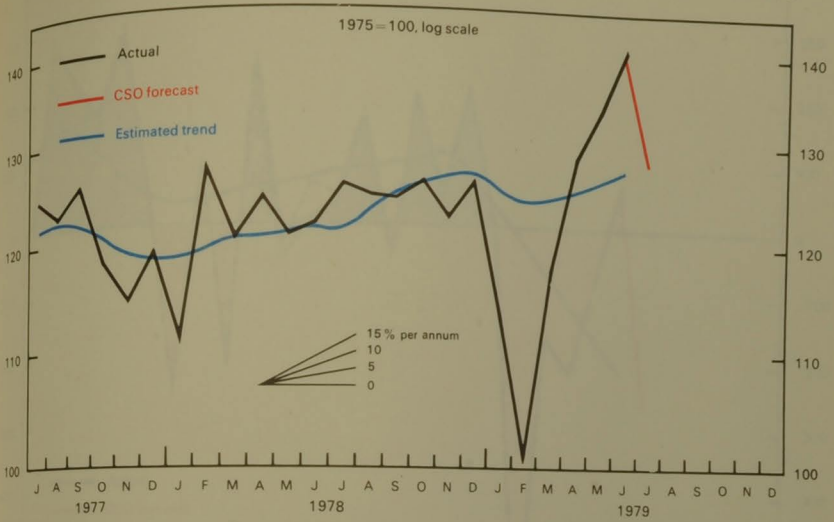
old series

Month to month percentage changes



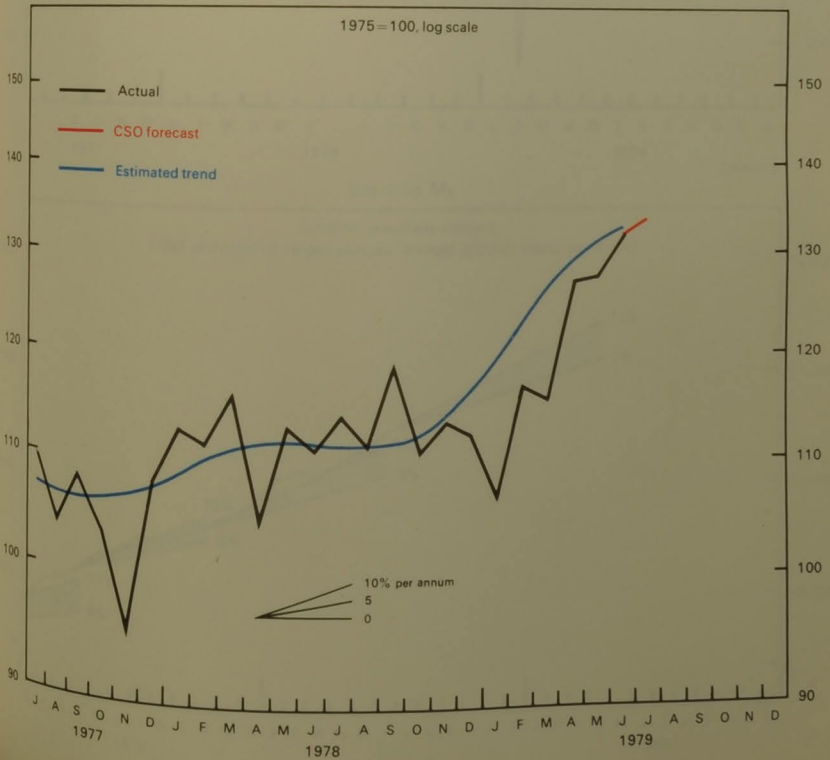
Volume of exports

CHART 5



Volume of imports

CHART 6



Current balance

CHART 7

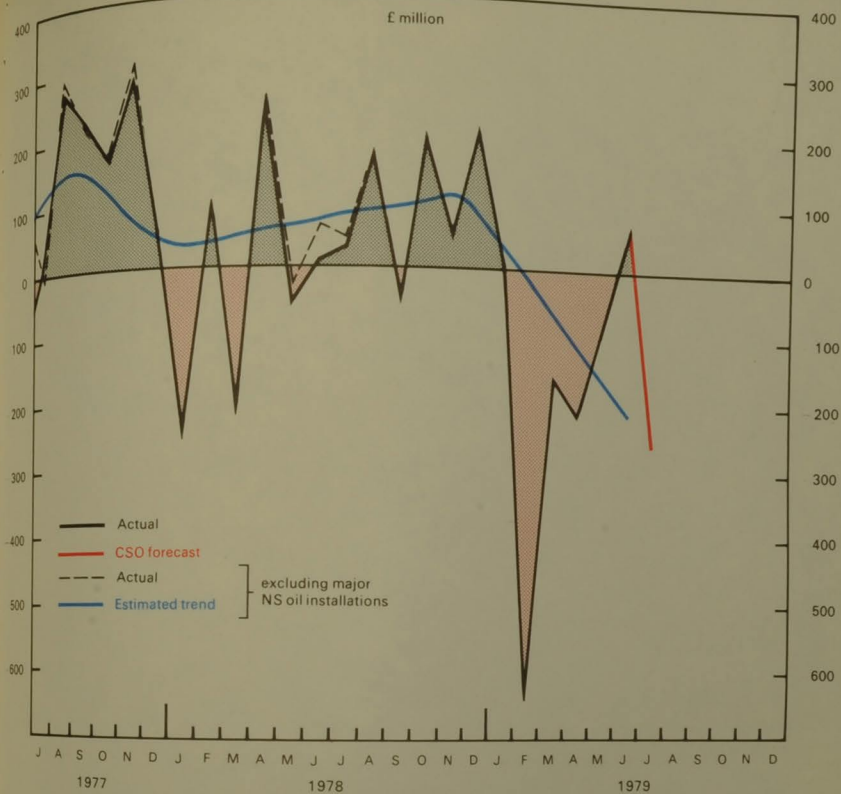


CHART 8

Sterling M₃

