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[Ind. Act forecast: Bruce-Gardyne?]

* To be discussed Thurs. a.m.

AUTUMN SHORT-TERM FORECASTS

The attached report gives a full account of the short-term prospect emerging from the autumn exercise. It includes coverage of the variants which were called for at your previous meeting. Case A (the main case), which reflects the forecasting team's own best judgment about the likely outcome, is much the same as the figures which you saw earlier. There have been minor modifications, notably for the assumed removal of the SSD scheme.

2 We have now presented the prospect in a way which brings out the uncertainties, judgments and margins of error. We have also, as asked, omitted any material on the medium-term prospect, about which you will be receiving separate advice. I would stress, however, that the document is still essentially a report to you, your colleagues and senior officials on our assessment of the outcome. The presentation is not intended as a guide to what it will be appropriate to say in the published Industry Act forecast; though the variants displayed here may help in deciding what variants if any to publish. It is, however, now important to make decisions about the Industry Act forecast in the near future.

3 Finally, the report is at this stage being circulated within the Treasury and Bank only on a personal basis and with due warnings as to its sensitivity. You decided in July that you would normally circulate short-term forecasts to the Prime Minister and to five of your Cabinet colleagues. A number of officials in other departments will also expect to receive copies on a personal basis. We would be grateful to know whether you are content for us to circulate the attached report outside the Treasury.

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JRS

J R SHEPHERD

22 October 1979

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THE SHORT-TERM FORECAST

(Report for Treasury circulation)

Introduction and summary

This assessment of the short-term prospect concentrates on 1980-81 but also gives some indication of developments over the following year.

2 It is impossible to produce a forecast without figures. But it is important not to invest the figures with a significance which they cannot and do not possess. The section below is therefore an attempt to set out the main judgements in the forecast against the background of world developments and recent movements in the British economy.

3 The world economy is, by common consent, at a turning point. With the US moving into recession and most governments pursuing tight fiscal and monetary policies in order to limit the extent to which the oil price rise feeds into general inflation, the outlook for world trade and output is bleak. Interest rates everywhere are rising. Our own assessment is not markedly gloomy. In particular we allow for the favourable effect on UK exports of demand from OPEC countries and from a number of smaller OECD members which may not share in the general downturn. Nevertheless our markets are likely to grow only slowly by past standards.

4 The British economy, after a period of comparative strength in the early summer, now seems to be slipping into recession. Inflation has not yet been brought under control. Monetary growth is within the Government's guidelines and the exchange rate has been strong. But earnings rose at an underlying rate of 15% in the last pay round, the effects of oil price increases are still being absorbed and other commodity prices have remained firm. The annual rate of retail price inflation (16% over the year to the third quarter) will probably edge up in the coming months.

5 The current account of the balance of payments has been very poor this year with imports, in particular, rising disconcertingly fast. In the first nine months import volumes were 12½% above a year previously. A sharp rise in the exchange rate since the turn of the year, coupled with a relatively fast growth in earnings, has led to labour cost competitiveness worsening by 15-20% between mid 1978 and mid 1979. The domestic factors boosting activity have

also weakened or ceased. Price increases have got much closer to earnings (even using the TPI rather than the RPI, so as to allow for the benefits of income tax reductions) and personal consumption turned down in the third quarter. Private sector investment has probably reached a cyclical downward turning point.

6. Against this background we have assumed that the Government will continue to give top priority to the fight against inflation. The money supply objective is put at the centre of the present target range equivalent to 10% in 1979-80; it falls to 9% next year and continues to fall each year thereafter. Public expenditure is in line with the programme agreed by the Cabinet for 1979-80 and 1980-81, and the published cash limits for the present year. Exchange controls are removed completely and the SSD scheme is removed.

The Forecast

7. We do not expect any very dramatic reversal of confidence in either external or domestic markets, given demonstrable success in meeting the monetary targets. But confidence is not expected to be as strong as it has been over the past year and the exchange rate will probably come back from its present very high levels as the outflows following the relaxation of exchange controls have their effects.

8. This fall in the exchange rate will of course be reflected in domestic prices as will the full effect of oil and other commodity price increases which have already taken place. To this must be added domestic influences on inflation: sharply higher prices for nationalised industries, rate increases in line with the inflation rate, tax revalorisation and particularly wage costs. Low productivity and wage increases in the private sector currently running at 16% - forecast to be 14% for the year up to autumn 1980 - mean that inflation continues to rise, getting into the 18-20% region in the first half of 1980 before it declines. A larger decline in the growth of earnings over the next year would imply an unusually large squeeze on real earnings.

Inflation itself affects output by causing saving to increase, by reducing the value of disposable incomes and by imposing uncertainties and liquidity pressures on industry. Everyone recognizes that bringing down a high rate of inflation by monetary means inevitably brings about a temporary fall in activity. In this case, single figure monetary growth is attempting to contain double digit inflation, so the effect on output in the next two years is pronounced. UK trade performance has been deteriorating for much of the post-war period. On the export side (but not for imports) we think this effect is now much attenuated, but it will be reinforced over the next year by the poor competitiveness brought about this year by a combination of high earnings growth and a strong exchange rate. This constitutes a further powerful downward influence on output. All in all therefore it is difficult to come to any other conclusion than that GDP is likely to fall significantly in 1980, perhaps continuing into 1981. In these circumstances employment must be expected to fall and unemployment to rise. ?

10 It follows from the poor trading performance described above that the visible balance is likely to remain in deficit at least temporarily. This is compounded by the virtual disappearance of the invisible surplus. British companies with rising costs and poor competitiveness will face strong competition in domestic and internal markets together with a severe financial squeeze. Bank lending cannot however be allowed to rise at a rate incompatible with the monetary guidelines. The PSBR, is forecast to remain constant as a proportion of GDP in 1980-81, despite the fall in output, but still rises in nominal terms. Together with the prospect of inflation substantially above the monetary targe this means that a fall in interest rates is unlikely: indeed some increases may be necessary.

Risks, ~~uncertainties and~~ variants

11 There are many major uncertainties in the conditions foreseen. Both the actual prospect and the policies being pursued have no close parallel and it would be wrong to suppose that one can infer behaviour simply from past experience. Perhaps the crucial uncertainty

is how monetary policy and unemployment affect wage settlements. Everyone accepts that they will come down eventually but there is great doubt about how quickly. There is also great uncertainty about the effect of monetary policy on financial markets, about the UK's trading performance, and about the determinants of personal savings and their relationship to inflation. In our view the uncertainties are not all on one side; but we have selected a few variants which illustrate some of the ways in which the outcome for prices and output could be more favourable than in the main case.

12 First we have considered what might happen if favourable responses to monetary policy generated expectations which bring the rate of earnings increase in the private sector over the next twelve months down to 10%, instead of the 14% discussed earlier. This is about the limit of what could conceivably happen and is much more optimistic than any other forecaster is likely to be. Further, we have assumed that external confidence is sufficiently buoyant to prevent any fall in the exchange rate from now on, despite the abolition of exchange control. These assumptions lead to a reduction in the inflation rate at the end of 1980 to about 12½% (compared with 17% in the main case). But because the higher exchange rate more than compensates for lower earnings, competitiveness worsens and so there is no benefit to output in 1980. In the longer term, of course, getting pay increases down is the first step towards a recovery in output.

13 Second we have looked at the possibility of a better performance in both exports and imports coupled with an improvement in confidence in domestic financial markets which would allow the Government to meet its monetary targets with considerably lower interest rates. Even with these improvements in performance output still falls in 1980 though by much less than in the main case. The variant adds about 2% to the level of GDP. The current balance would also be better though the stronger domestic demand probably still leaves us with a small deficit, though we could move into surplus in 1981. This is certainly a possible outcome; some other

forecasters are more optimistic about trade performance than we are; nevertheless we think the main case is nearer the centre of the possible range.

14 Third we considered a lower savings ratio. In effect we assumed that 2% more of any level of real incomes was spent rather than saved. This again reduces but does not eliminate the fall in GDP in 1980. In the short-term, before the exchange rate responds, it also makes the balance of payments deficit bigger. Because of higher output and a lower exchange rate inflation would be marginally higher than in the other cases. This again is about as big as reduction in savings as seems at all likely. But very similar results would follow if a number of different components of domestic demand - say investment and stocks as well as personal consumption - were above the main forecast. Although in this case the PSBR would be lower, higher demand for credit means that the scope for reduction in interest rates would be very limited.

15 All in all this examination of variants confirms the general conclusion that the main unpalatable conclusions about 1980 - continuing high inflation and falling GDP - are not too easily upset. There could, of course, be a combination of the favourable aspects of all three variants - but such a combination of benefits begins to look decidedly unlikely. By the end of 1980 inflation could well fall slightly from its current level - though to expect an outcome much below 15% in a year's time would seem very rash. Looking further ahead to 1981 the uncertainties are inevitably extremely large - above all about the pace at which pay increases come down. Even on optimistic assumptions about inflation, however, the prospect for an output recovery in 1981 looks poor. On the fallible basis of past experience a turnaround would take longer than that.

MAIN REPORT

Arrangement of the report

16 The main text of the report amplifies the summary by explaining the issues and judgments which determine the shape of the forecast. This begins with an explanation of the key features of the report concerning inflation and the recession. Under each subject the text deals primarily with the main case - ie the version which the forecasters themselves think to be in the centre of the range of possibilities - but also considers the issues involved in constructing variants; both with regard to internal consistency and as a step in evaluating the overall uncertainties of the forecast. Annex 1 sets out the policy assumptions more fully than in the summary section. Annex 2 lists the key features which distinguish the variants and includes a table summarising the outcome of each variant. Finally the statistical appendix tabulates some aspects of the forecast (main case only) in rather more detail.

17 The presentation throughout concentrates on 1980 (or 1980-81) with some looser indications of the likely continuation into 1981. The quarterly path is tabulated only to the end of 1980-81.

The Financial Markets

18 As was noted in the introduction, the forecast has been prepared on the assumption that the Government will meet its monetary targets this year and that monetary growth will decline in subsequent years. Though we have not specificallly assumed that the Government will announce a medium term financial plan, market reactions are conditioned by a belief in the Government's determination to bring about progressive reductions in £M3. This maintains a good state of confidence in both external and domestic financial markets. The exchange rate and interest rate projections are explained in more detail on pages 24-30 below and this section is intended as a preview.

6

19 In the main case the exchange rate falls by 10% between the end of 1979 and the end of 1980 reflecting:

a. the abolition of exchange controls

b. continued weakenss in the current account

c. a reduction in the support to the capital account resulting from inflows associated with the development of North Sea oil

d. the exchange rate is currently high in relation to most of the usual indicators such as relative costs and prices and relative monetary growth

20 In our view, despite the poor immediate prospect for prices, this is consistent with a generally firm tone in financial markets brought about by the relative tightness of UK monetary policy as compared with other countries. Once the initial effect of relaxing of exchange controls is over and sterling reaches a more sustainable level, the fall in the rate may be quite gentle.

21 The same, basically firm tone is reflected in domestic markets. Interest rates have to stay high or rise reflecting:

a. the assumed removal of the SSD scheme which means that £M3 will be swollen as business diverted from the bank flows back

b. the assumed monetary growth is well below the likely accumulation of financial assets by the private sector. Appropriate interest rates are needed to ensure that a high proportion of the accumulation is held in non-monetary form.

c. the rapid growth in prices and money national income which boosts the demand for credit and which will be expected to continue for a time.

The forecast shows both short and long rates rising slightly to around 15% in the course of 1980-81.

22 The domestic picture is of course also affected by the ending of exchange controls. With a substantial capital account outflow, the aggregates are characterised by high DCE offset by large negative externals. This pattern of development is assumed to be accepted by the market as a natural consequence of the relaxation of exchange controls and has no adverse effect on confidence.

INFLATION

23 Inflation this year is coming out close to the budget forecast of a 17½% rise in the RPI between the fourth quarters of 1978 and 1979. The effect of a higher exchange rate has been offset by higher prices of oil and some other imports of materials and by higher wage costs this year.

24 We expect the exchange rate to fall, perhaps by some 10% in the course of next year as a result of capital outflows following the assumed abolition of exchange controls, the continued current account deficit and the poor level of competitiveness. Much of the fall will affect prices of goods and services sold in the UK before the end of next year. Commodity prices, not only oil, were sharply higher by the third quarter of 1979 and their full impact on domestic prices will not be felt until 1980, even though substantial further increases in commodity prices are not projected from now on.

25 Domestic influences on inflation in 1980 include sharply higher prices for nationalised industries (we have assumed an increase of 3% in real terms for domestic consumers, much of it from gas); rate increases in line with the general inflation rate; and revalorisation of indirect taxes (arithmetically this adds 1% to the level of prices in the second quarter of 1980; not to include revalorisation would mean a fall in the real value of indirect taxes and hence an artifically low price forecast). But the main domestic element in prices is of course wage costs. Two factors, apart from the growth in earnings, are unfavourable in 1980: we have assumed no rise in productivity - because experience over the past four years or so suggests growth of no more than 1% pa and because the recession in 1980 makes the prospect for productivity growth even worse - and we have forecast a rise in the National Insurance contribution rates for both employees and employers in order to keep the Fund in balance. These two factors add over 1% to the growth of wage costs during 1980, by comparison with 1979.

26 On earnings, the increase in the year to July last is put at an underlying 15-15½%. This was higher than generally predicted and

occurred despite single figure inflation over most of the period and large increases in real incomes. Wage settlements in the period April-September this year have been running at about 16% in the private sector. The ability of employers to stand up to and win long drawn out industrial conflicts is still very much in doubt: the engineering, Times and ITV disputes do not provide reassuring evidence.

27 The forecast of private sector earnings over the next year takes account of the factors tending to raise the growth of earnings - the much higher rate of price inflation, the large increases being awarded in most of the public services, the high rate of settlements in the most recent period - as well as the factors pushing in the opposite direction: the government's monetary and fiscal policies aimed at reducing expectations of inflation, direct tax reductions which compensate for the VAT-induced price rises, the likely rise in unemployment and the growing realisation of the connection between jobs and pay. There is considerable agreement that in these circumstances pay increases will fall, but there is great uncertainty about how far and how soon. Our central forecast, though consistent with the wage equation currently being used in the model, is essentially an ad hoc judgment. It is that, before taking account of the loss of overtime etc, private sector earnings will rise by 14% in the year to the third quarter of 1980. This is consistent with wage settlements in the present round of no more than 12-14%, implying an early and sizeable response by wage bargainers of which there is as yet no sign. Against the background of increases in prices which, on a year on year basis, reach 18-20% in the first half of 1980 (though the TPI is some 2-3 % lower) a substantial fall in real gross earnings is implied.

28 The forecasts of domestic prices are based on the principle of a constant mark-up on import costs and cyclically-adjusted wage costs. Despite research efforts here and elsewhere, there is little evidence to suggest that either the pressure of demand or competing import prices exercise a significant effect on the mark-up. Over the last few years, and still more in this forecast, profit shares and profit margins have been and are compressed: there seems little scope for further compression of profit margins on a scale that would materially reduce the forecast of inflation. It is, however, possible that firms' low level of profits, large financial deficits,

and poor liquidity will lead them to want to increase the mark-up: but with intense foreign competition and low pressure of demand our judgment is that firms will not in general be successful in raising the mark-up.

29 Case B, lower earnings and a stronger exchange rate, is the main inflation variant: cases C and D have little impact on the rate of inflation in the short run. In case B, the exchange rate is assumed to stay at 68½, despite the relaxation of exchange controls, and so by the end of 1980 is over 10% higher than in the main case; in the same period the level of earnings is 5% lower. These large changes in costs are fully reflected, after the usual time lags, in prices. The impact on profits is small, because the two components of the variant broadly offset each other. Since the level of profit remains nearly as low in this variant as in the main case, the scope for a bigger impact on prices, by firms' reducing their margins, is very limited.

30 The following table sets out the main components of the RPI forecast in the main case and in the low inflation variant;

8

Table A. The RPI forecast

	% change 80Q4/79Q4			Contributions to total RPI Change	
	Main Case A	Low Earnings/ High exchange Rate Case B	Weight in index	Main Case A	Low Earnings/ High exchange rate Case B
Total RPI	17.1	12.8	100		
Food	14.8	10.4	22	3.3	2.3
Housing	22.4	12.7	13	2.9	1.7
Nationalised Industries	19.2	14.7	8	1.5	1.2
Other retail prices *of which*	16.5	13.4	57	9.4	7.6
changes in wages	9¾	8½			
changes in dollar import prices	5	5			
changes in exchange rate	1¾	-¼			

Changes in the first three categories in the above table depend heavily on institutional factors as well as changes in costs. However the forecast for 'other retail prices' is largely determined by cost movements. In the low earnings case the increase in 'other retail prices' is reduced because of lower earnings and, more importantly, because the higher exchange rate reduces the rise in import costs. The contribution of these cost increases, derived from the lags implicit in the Treasury model, do not reflect the 'ultimate' causes of price inflation; changes in costs in turn depend on changes in prices and on the effects of government policy.

THE RECESSION

31 The prospect of another year or two of high inflation, at a time when money supply growth in single figures is assumed, is a major factor in the recession forecast for 1980 and 1981. The other main factors are the exceptionally poor state of competitiveness and the likelihood of a recession in the United States and to a lesser extent in the rest of the industrialised world.

32 The 17% increase forecast for the RPI by the end of 1980 reduces consumer demand in two ways: by reducing the real value of personal disposable income, since money incomes rise more slowly than prices; and by increasing the incentive to save. Previous experience, above all in 1974 and 1975, strongly suggests that consumers react to the fall in the real value of their wealth caused by an acceleration of prices by attempting to save more, so that, very gradually, the value of their real wealth is restored. Evidence from the UK and other countries suggests that this effect of inflation(perhaps reinforced by other uncertainties and fears of unemployment) is more important than any flight from money into goods, perhaps because of the great uncertainty, and high transactions costs, associated with holding goods. We forecast a fall in the volume of consumers' expenditure (which accounts for 45% of total demand at factor cost) of 1½% both in 1980 and 1981.

33 A crucial determinant in the forecast is the assessment of UK industry's performance in competing in the markets for traded goods. Abstracting as best we can from changes in cost and price competitiveness, there is clear evidence from our trade performance over both the last five and the last ten years of a declining UK share in both export and domestic markets. In export markets the pace of that decline is not we think as rapid as it used to be and the forecast allows for a further attenuation of the decline. But over the past six years import penetration has increased from 22% to 38% in the case of consumer goods, and 18% to 31% in the case of capital goods. These increases have occurred without loss of competitiveness over

the period. Similarly our export share in world markets has declined. To these trend factors must be added over the forecast period the lagged effects of the worsening in cost and price competitiveness that has already taken place: by the middle two quarters of 1979 unit labour cost in manufacturing had risen in the UK by nearly 15-20% more than those of our main competitors. A major worsening in competitiveness is also shown by other indicators, such as relative prices. Our interpretation of past evidence is that changes of this magnitude in relative costs will add very significantly to the usual loss of market share over the next two years. As an illustration of the magnitudes, if we were to take out from the import forecast both competitiveness effects and the trend increase in import propensity we would end up with GDP a full 3% higher.
Another way of looking at the import forecast is as a mirror image of the habitually poor supply performance of British industry, exacerbated in the forecast period by excessive real wages.

34 The monetary squeeze, apart from restraining the fall in the exchange rate and thus the rise in prices, produces continuing high interest rates and poor company liquidity, and contributes to the downturn in private investment and stockbuilding, both in any case near to the top of their cycles. Although this downturn is one cause of the forecast recession its scale is, of course, very much a consequence of the recession rather than an exogenous influence.

35 Finally, fiscal policy is not exercising a counter-cyclical influence, with the PSBR roughly constant as a percentage of GDP, despite the fall in output and rise in unemployment.

36 The fall in GDP in 1980 in this forecast is put at 3½%; excluding North Sea oil output, the fall would be at least 4%. This is a considerably larger fall than in the previous recession: between 1973 and 1975 GDP fell by 2½%, at a time when world trade was more depressed than in this forecast. But

in the earlier period, there was not much squeeze on personal real incomes, public sector expenditure was rising rapidly, competitiveness was relatively favourable, and the PSBR rose from £4 billion in 1973 to £10 billion in 1975. Thus the output recession was mitigated, at the cost of a large acceleration in prices. In this forecast there is a much more effective check on inflation, at the cost of a larger fall in output.

37 Of the variants Case B, low earnings and strong exchange rate, has little immediate effect on output: low earnings, taken in isolation, would tend to raise activity but the rise in the exchange rate is substantially larger than the reduction in earnings and so competitiveness worsens, compared to the base case, with adverse consequences for output and once the initial J-curve effect has worn off, the balance of payments.

38 In case C, better trade performance and financial confidence, the fall in output is limited to 2% in 1980, as UK firms take a higher share of both domestic and foreign markets, and as lower interest rates stimulate investment (though most of the impact would come in later years).

39 Case D, lower savings demonstrates how higher domestic demand - not resulting from a fiscal stimulus which would require either higher monetary growth or higher interest rates - would also limit the fall in GDP in 1980 to 2%.

The current account

40 Assessment of the UK's trading performance is complicated both by distortions to this year's figures and by the big adverse movement in cost and price competitiveness which will handicap UK producers over the period of the forecast. We have judged that the trade figures up to September give a reasonably fair picture of the level of trading during the year, though there is virtually no useful information about its timing within the nine month period. It is likely, however, that some exports were permanently lost as the result of temporary supply difficulties in the first quarter.

UK exports

41 A separate report has been submitted on the world prospect. The short-term outlook is for a slowdown in most of the major industrial countries though only in the USA is growth expected to cease entirely. Allowing for relatively firm trends in imports by OPEC and by some smaller OECD countries the growth in markets appropriate to UK exports of manufactures may recover to 5-6% this year falling to perhaps 4% in 1980 - low in relation to past trends but not a deep recession. We interpret past evidence as suggesting some continued downward trend in the UK's share of world markets, but at a considerably lower pace than during the 1950's and 1960's; this trend is over and above the effects of adverse movements in competitiveness. Since the time lags are quite long this year's worsening in competitiveness will be only partially reflected in exports during 1980; nevertheless the prospect for manufactured exports is poor; excluding erratic items the main case suggests fractional falls both this year and in 1980. A variant with better trading performance is considered below.

Imports

42 For imports of manufactures the forecast is even more difficult than for exports. Even allowing for the continued upward trend in import penetration we cannot explain the high level of imports so far this year. Although we conclude that they have been erratically and temporarily high we have had to make some upward

revision to our view of the underlying level. On the other hand, recent experience has been of a strong cyclical pattern of imports and the forecast reflects this; it leads to our projecting for the main case a small fall of around 2% in import of manufactures in 1980 after a very sharp rise (19%) in 1979. Even this dramatic change of trend may be pessimistic by comparison with some other forecasts, though few have yet confronted the full difficulty of interpreting recent figures. We have therefore considered an optimistic trade performance variant in which substantially lower import propensities (some 4% for total imports of manufactures in 1980) are combined with better export performance (by over 2% in 1980). Combined with more favourable financial confidence and hence lower interest rates this variant adds some 2% to the volume of GDP in 1980. Because of the effects of higher domestic incomes and hence demand, the net effects on the current account are fairly small.

Terms of trade

43 Quite apart from oil, world prices of industrial materials have risen markedly more during 1979 than prices of manufactures, and this has had an adverse effect on the UK's terms of trade. The strength of sterling has, however, swamped this effect and overall the UK's non-oil terms of trade have probably improved this year by some 3-4%. Both these influences on the terms of trade are likely to be reversed in 1980; the exchange rate falls but commodity prices weaken as world demand slows down. The net effect is likely to mean a small adverse movement in the UK's non-oil terms of trade in 1980, though the level will probably remain more favourable in 1980 than in 1978.

Invisibles

44 The other major feature of the current account is the virtual disappearance by 1980 of the customary invisibles surplus. Much of the worsening has probably taken place in the course of this year. Two important and virtually inevitable factors are the outflow of oil profits attributable to overseas companies operating in the North Sea (only a small proportion, of course, of the benefits to visible trade) and the rise in UK contributions to the EEC (current negotiations are expected to affect payments in 1981 rather than 1980). In addition, the previously favourable trend in the services balance appears to have been checked; the recent record for travel and civil aviation has been particularly poor and the immediate prospect for competitiveness and world demand does not suggest an early recovery.

45 Table B sets out the factors contributing to the forecast changes in the current account. It brings out clearly the extent to which this year's increase in import volumes is fundamental to the forecast deterioration of the current account, with a further significant deterioration arising from the invisible account and with export volumes static. The improvement in the oil balance continues and, combined with the effects of the recession on imports, should produce a recovery in the current account by 1981.

Table B Contributions to changes in current account (Main Case)

			£ billion
	1979	1980	1981
Forecast current balance: levels	-2.9	-2.2	0.9
	1978 to 1979	1979 to 1980	1980 to 1981
Contributions to changes in current balance			
Goods excluding fuel			
export volume	0.3	-0.4	-0.1
import volume	-5.0	1.2	0.3
terms of trade	1.2	-0.7	0.2
Fuel balance	1.1	1.2	1.6
Visible balance	-2.4	1.3	2.0
Invisible balance	-1.5	-0.6	1.1
Total current account	-3.9	0.7	3.1

Competitiveness

46 The sharp rise in the exchange rate this year, while UK wage costs were running ahead of those in main industrial countries, has pushed competitiveness to exceptionally unfavourable levels. In the main case the forecast fall in the exchange rate brings about a marked improvement compared with 1979Q3, though there is

little change between 1979 and 1980 average levels. With UK costs still rising faster than most competitors but with some modest further decline in the effective exchange rate competitiveness is forecast to remain fairly steady (though at a historically unfavourable level) from early 1980 onwards.

47 On the low inflation variant the assumption of a constant exchange rate from now on keeps competitiveness at an even more unfavourable level. In variant C, the improvement in trading performance leads to a higher exchange rate, and a deterioration in competitiveness compared with the main case of about 1-2%. In the variant D, on the other hand, competitiveness is a little better than in the main case, as a result of the lower exchange rate. Even in this case, however, competitiveness is at historically poor levels throughout the forecast period.

The company sector

48 In the first half of 1979 the financial deficit of the company sector was running at a considerably higher rate than in 1978, as a result of the fall in profits as a share of national income, combined with high expenditure on investment and stocks. The fall in the profit share reflected mainly the losses caused by the strikes and bad weather in the first quarter and the narrowing of export profit margins caused by the high exchange rate.

49 In the second half of this year and in 1980 we see a further decline in the profit share because of the drop in activity (which has always in the past affected profits disproportionately in the short run, as sales revenue falls more quickly than costs) and because of the continuing high level of wage increases. With some companies making larger dividend payments, following the ending of controls, and with tax payments rising for a time, reflecting the higher profits earned in 1978, company savings are forecast to fall steeply between 1979 and 1980. Although the level of stocks is cut back, fixed investment responds more slowly, and so the deficit of the company sector in 1980 is likely to remain high. The problems are likely to be somewhat more severe for manufacturers, because their output is forecast to fall most and their margins to be squeezed most because of increased foreign competition.

50 By 1981, a modest recovery in profits, as wages slow down, and as the exchange rate is lower, combined with a further large cutback in stocks and a bigger reduction than in 1980 in investment, allows the financial deficit of companies to be substantially reduced.

51 Companies, especially industrial and commercial companies with no North Sea interests, face an obviously difficult time. Any forecasts of their financial deficit are subject to very wide margins of error, but it looks as though the deficit in 1980 alone will not be as large, in real terms, as in 1974. By 1981, cutbacks in investment in fixed assets and in stocks mean that the problem has become one of low profitability, and hence incentive to invest, more than large deficits or poor liquidity. As a share of national income, non-North Sea company profits are forecast to fall from 8½% in 1978 to 6% in 1979 and to a low point of under 4% in 1980.

52 The overall financial prospects for the company sector are reflected in other elements of the forecast, notably expenditure by companies. While firms would obviously want to raise profit margins, the low levels of activity and the intense competition from abroad suggest that they will not, in general, be able to accomplish this aim. We would expect companies to try to improve their finances by resisting wage increases and shedding employment to a greater extent than would otherwise be likely. This is a factor in our wage forecast, though it should be noted that companies with liquidity problems do not always judge that risking a long strike is in their best interests. Given past experience it is less easy to make any explicit allowance for shedding employment.

53 None of the variants considered dramatically alters the position of the company sector. In the two cases (C & D) which involve higher output profits are somewhat higher and although the financial deficit in 1980 is very little changed, this is after achieving slightly higher levels of investment and stockbuilding. In the low inflation case there is a slightly larger reduction in the financial deficit, largely reflecting lower prices for investment goods. But the worsening of competitiveness, resulting from the assumed strength of the exchange rate, partly offsets the benefit to profits arising from slower cost increases.

THE PUBLIC SECTOR

Expenditure

54 The starting point for forecasts of the volume of public expenditure is the Cabinet decisions, taken in July, on the 1980-81 programmes; and the Treasury proposals for the later years. For those elements dependent on economic developments - debt interest, social security, housing subsidies - the forecast of expenditure is based on the development of the economy as presently forecast, and not on the economic assumptions of the Public Expenditure Survey. For other elements of public expenditure, the forecast takes the programmes, adds in the contingency reserve (plausibly allocated between economic categories), and makes allowances for shortfall, broadly based on historical experience.

55 For 1979-80 the announced cash limits are assumed to hold: expenditure in this financial year is forecast subject to that constraint and based on known expenditures in the first half of the year. For 1980-81 we assume that cash limits will be based on the price and wage increases incorporated in this forecast: hence there is by assumption, no cash limit squeeze in 1980-81.

56 Table C shows the forecast of expenditures and shortfall. "Shortfall" as here defined excludes differences due to economic assumptions, but it includes statistical differences that arise, for example between the price indices used by the CSO (and hence the forecasters) and those implicit in the PES. Thus the absolute level of shortfall now estimated for eg 1978-79 is not a reliable estimate of the shortfall that will eventually be reported by departments. For 1980-81 shortfall judgments have been made on the assumption that cash limits will not be set so as to squeeze expenditure. The only year since cash limits were instituted when expenditure was not squeezed was 1977-78: we have generally used smaller shortfalls than in that year, as managers' ability to spend close to the limits seems to be improving.

57 On nationalised industries, our policy assumptions require us to assume that borrowing by individual industries will be within the limits agreed or proposed to Cabinet. There is normally some shortfall on their external finance: in 1978-79 it was well over £½ billion. This year and next year, however, because both inflation and recession

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TABLE C

PUBLIC EXPENDITURE (EXCLUDING DEBT INTEREST)

	£m at 1979 Survey Prices			% Changes	
	1978-79	1979-80	1980-81	1979-80 on 1978-9	1980-81 on 1979-80
PUBLIC EXPENDITURE SHORT WHITE PAPER, AS AT 18 OCTOBER					
1. Programmes, excluding lending to nationalised industries	68648	70075	69929		
2. Contingency reserve	-	277	750		
3. Total, excl. lending to nationalised industries and debt interest of which:	68648	70352	70679	+2.5	+0.5
4. Goods and services (excl. nationalised industries investment)	39041	39510	39222	+1.2	-0.7
5. Other (excl. lending to nationalised industries)	29607	30842	31457	+4.0	+2.0
6. Total borrowing by nationalised industries, including leasing	1139	1200	400		
7. Planning total	69787	71552	71079		
8. Sales of assets	-	-1000	-500		
9. General allowance for shortfall	-	-1000	-1000		
10. Outturn and projected outturn	69787	69552	69579	-0.3	0.0
AUTUMN NIF, AU36					
11. Goods and services (excl. nationalised industries investment)	38887	39331	38982	+1.1	-0.9
12. Other (excl. lending to nationalised industries)	29723	29906	30346	+0.6	+1.5
13. Total (excl. lending to nationalised industries)	68610	69237	69328	+0.9	+0.1
14. Total borrowing by nationalised industries, incl. leasing	1138	1436	931		
15. Planning total	69748	70673	70259		
16. Sales of assets	-	-1000	-500		
17. Outturn and projected outturn	69748	69673	69759	-0.1	+0.1
Differences between Short White Paper and NIF AU36					
a) Shortfall in NIF, excl. (b) and (c)	-38	-831	-532		
b) Economic assumptions	-	-284	-819		
c) Borrowing by nationalised industries	-1	+236	+531		
d) Total difference from planning total	-39	-879	-820		
e) General allowance for shortfall in Short White Paper	-	+1000	+1000		
f) Net difference	-39	+121	+180		

are turning
/out worse than expected by the industries when they drew up their plans the shortfall seems likely to be smaller than usual: we have forecast no more than £200m in both years. This is substantially less than the amounts proposed by PE.

58 In total, the outturn for the volume of public expenditure (corresponding to the "planning total" in PEWP terms) is forecast to rise by 1½% in 1979-80 and to fall by ½% in 1980-81; these figures correspond closely to the comparable figures (after shortfall but before asset sales) in the draft White Paper (as at 18 October).

Revenue

59 Public sector receipts are forecast by type in considerable detail, with the Revenue departments and their tax models a main source of information. Some features of the forecast period are:

(i) the growth in receipts from North Sea taxation, from £1.5bn in 1979-80 to £3½bn in 1981-82.

(ii) the £½bn fall in receipts of mainstream corporation tax in 1981-2: forecasts of profits, and of the tax derived from a given level of profits, are extremely uncertain, but some lagged effect of the recession on corporate tax revenue seems likely.

(iii) the rise in national insurance contribution rates: in order to balance the fund (a policy assumption) at a time when unemployment is rising and when benefits are being uprated in line with prices which are rising faster than contribution income (rising in line with earnings), increases in the joint (contracted in) contribution rate are forecast from the current 16½% to over 17% in 1980-81 and to 18% in 1981-82.

Public sector accounts

60 In the first half of this financial year, the PSBR is estimated at about £6bn. Three factors point to a substantial reduction in the second six months: the partial unwinding of the unpaid Post Office bills; the assumed £1000m asset sales (including forward oil sales); and the timing of the budget tax changes which resulted in the full rate of VAT receipts at 15% not being received until the second half

of this financial year. Moreover local authorities, whose borrowing tends to be very erratic during the year, have borrowed relatively highly in the first five months of the year. The estimate for the PSBR for 1979-80 remains subject to a wide margin of error.

61 Forecasts of the public sector financial deficits and the PSBR are set out below:

TABLE D — £ billion

	1978-79	1979-80	1980-81	1981-82
Financial deficits				
Central government	5	3	6½	9
Local authorities	1½	2	2	1½
Public corporations	1½	1½	1	1
Total deficit	8	6½	9½	11½
PSBR: £bn	9¼	8½	10	12½
: as % of GDP at market prices	5½	4½	4½	5

62 For both 1979-80 and 1980-81, the forecasts of the PSBR are similar to those made in May/June, though there have been many detailed changes. For 1981-82, there may be some increase in the PSBR, and a small rise in its proportion of GDP, partly reflecting the continuing effects of the recession, especially as it affects company profits and, with a lag of about a year, receipts of taxation. An important element in the 1980-81 PSBR, is the full impact of large increases in the pay of nearly all public services groups: for the financial year 1980-81, average earnings in central and local government, taken together, are forecast to rise by about 23%. In later years, public service pay rises at much the same rate as that of the private sector.

DOMESTIC MONETARY DEVELOPMENTS

63 The domestic financial forecast has been constructed on the assumption that the SSD scheme is abolished in November. As usual our assessment of expectations in financial markets is a crucial part of the forecast, and in particular our forecast of the interest rates which are necessary to validate the monetary targets we have assumed is very sensitive to this assessment. The view which underlies the forecast is that the markets expect the Government to adhere to targets implying a gradual reduction in the rate of monetary growth, and that this will eventually mean lower inflation and interest rates. But nevertheless our assessment of the exact state of confidence is subject to very wide margins of error.

64 In 1979-80 in particular the forecast is heavily dependent on a number of special factors. First, the capital outflows which are expected to result from the abolition of exchange controls are expected both to reduce gilt sales and to add to bank lending, as investors switch out of domestic financial assets and firms refinance existing foreign currency debt. The resulting effect on gilt sales in the second half of 1979-80 is expected to be about £1¼ billion, whilst bank lending is expected to increase by about £600 million.

65 The gilts market is also likely to be adversely affected over this period by sales of public sector assets and oil sales totalling £1 billion, and maturing stocks of about £2¼ billion. These two factors are expected to reduce gilt sales by about £1¼ billion. In addition the abolition of the SSD scheme is expected to add to the increase in recorded bank lending by around £1 billion as non-bank holdings of acceptances are run down, and the unwinding of other cosmetic monetary effects resulting from the scheme can also be expected to add to £M3.

66 But the PSBR is forecast to be very low in the second half of 1979-80, and in spite of the adverse influences on the gilts market we expect the underlying state of expectations over this period to remain reasonably strong. Nevertheless it is not envisaged that a fall in short rates will be possible if the £M3 target is to be met, so the forecast assumes that MLR remains at 14% until the end of the financial year. Long rates are expected to rise slightly and the forecast of gilt sales is about £1 billion for the period, compared with nearly £5 billion for the first half of the financial year. There is some slight evidence of a slow down in the rate of increase in bank lending from the September figures, but we still expect the increases in the remainder of the year to be higher than would normally be expected on the basis of past relationships. Allowing for special factors we are forecasting an increase of £4½ billion in the second half of the year, a monthly rate of

about £750 million.

67 As a result of the exchange control relaxations in the forecast and the exchange market intervention assumed in the remainder of the year, the external factors in the money supply are expected to be substantially negative. The overall picture for 1979-80 is therefore of the monetary target for the year being met with high DCE (£10 billion) being offset by large negative externals (over £3 billion).

68 In 1980-81 we expect that some further rise in interest rates will be necessary, to perhaps 15% at both the short and long ends of the market. Essentially this reflects the assumption of a 9% monetary target while the private sector is accumulating financial assets (reflecting the forecasts of inflation and the PSBR) at a substantially faster rate. Demand for credit also reflects the growth of nominal incomes. High interest rates are needed to ensure that a sufficient proportion of these assets are held in non-monetary form.

69 In spite of the relatively poor inflation prospect for the year and the high PSBR, expectations in the gilts market are expected to remain moderately favourable. The fact that the monetary target is being adhered to and interest rates are pushed up to very high levels is expected to lead the market to expect some decline in long rates. As a result gilt sales of about £6 billion are forecast for 1980-81, slightly more than in the previous year in spite of the continuing adverse impact of exchange control outflows and sales of public sector assets which together are expected to reduce gilt sales by nearly £1½ billion. The forecast also reflects our judgement that the private sector will be aiming broadly to maintain the share of gilts in its portfolio, and not to reverse recent increases.

70 The growth of bank lending is forecast to be substantially lower than in 1979-80, however. A forecast of only £5.9 billion, compared with £8.2 billion in 1979-80, reflects an assumption that the abnormal increases observed so far this year will not continue, as well as the effect of high and rising interest rates. But we have not assumed that the abnormal rise will be reversed, and the difficult financial position of the company sector during this period, in spite of substantial destocking, can be expected to ensure a continuing substantial growth of bank lending to the company sector. Higher sales of other public sector debt, including National Savings, and continuing (smaller) negative external factors are expected to contribute to the achievement of the 9% target.

71 After 1980-81, some further rise in interest rates could well be necessary for a time with the PSBR continuing to rise and the monetary target declining. But

72 eventually rates are expected to fall as the PSBR falls in nominal terms and the clear signs that inflation is coming down generates favourable interest rate expectations.

73 In the lower inflation variant interest rates are forecast to start to fall, rather than rise, after the turn of the year as inflationary expectations improve and the growth of nominal income, and hence the demand for credit, falls. As regards timing, much depends on the extent to which investors believe that the lower pay settlements being achieved really represent a permanent improvement. The fall in long rates is likely to be less sharp than in short rates, perhaps only 1 point by mid 1980, but as it gradually becomes apparent later in the year that the next pay round will lead to even lower earnings growth a further fall is likely. By the end of 1980-81 short rates might stand at around 10%, some 5% lower than in the main case, with long rates slightly higher.

74 In the lower savings variant there are two opposing influences on interest rates. On the one hand the lower saving itself implies a reduction in the demand for money, so that the given monetary target could in principle be achieved with lower interest rates. But the increase in activity which also results raises the demand for credit and, other things being equal, raises interest rates. On balance we expect the former effect to predominate, and hence some very gradual reduction in interest rates compared with the main case. But this may not be enough to prevent some slight further rise in rates during 1980-81.

75 In the better trade performance variant it has also been assumed that confidence in domestic financial markets is better than forecast in the main case. As a result interest rates are assumed to be about 2 points lower than in the main case by the end of 1980-81, and this implies virtually flat long rates with short rates falling to about 12½% by the end of the year.

THE CAPITAL ACCOUNT AND THE EXCHANGE RATE

76 If official intervention in the foreign excxhange market is minimal, the capital account of the balance of payments must broadly offset the current account. In the short run, capital flows are generally much more sensitive to the exchange rate than trade flows, since movements in the exchange rate have an immediate impact on the speculative return from holding sterling. In the short run, the exchange rate will adjust until speculative capital flows are forthcoming on a sufficient scale to offset the balance on other flows. How much it moves depends ultimately on the underlying factors that determine these other flows.

77 The forecast assumes that apart from a limited amount of intervention in the rest of this financial year to smooth the impact of the dismantling of exchange controls, the exchange rate will be determined by market forces. The main independent influences on the capital account therefore have their effect on the exchange rate rather than on the overall capital account balance.

Expectations

78 One of the most important such factors is the view taken by market operators about the probable future course of sterling. The forecast reflects a view that speculators will come to expect some fall in the exchange rate. At current levels (68-69), the effective rate looks rather high in relation to all the conventional indicators, such as relative money supplies and price and cost competitiveness. North Sea oil and recent sharp rises in the real oil price have made it hard to reach a view on the appropriate rate for sterling. But the view that sterling is somewhat over-valued is gaining ground among commentators and may command wider acceptance during the winter months, against a background of current account weakness and high UK inflation.

79 A major break in confidence seems unlikely however, if expectations are reinforced by the publication of a medium term financial plan and by evident success in meeting the monetary targets. The temporary addition to monetary growth towards the end of this financial year, due to re-intermediation following the removal of the SSD scheme may have little if any adverse effect on

market opinion. We have assumed that over the forecast period market operators base their views about inflation and the exchange rate primarily on relative trends in monetary growth, and only to a minor extent on current changes in relative costs and prices. If, as forecast, the rate reaches a more sustainable level by the middle of next year the tightness of UK monetary policy, relative to other major countries, should prevent any significant deterioration in confidence for the rest of the forecast period, despite a persistently unfavourable trend in relative costs and prices.

80 The evolution of expectations about inflation following the Government's greatly increased emphasis on monetary policy is inevitably a source of major uncertainty. In variant B, which illustrates the consequences of more favourable expectations in labour and foreign exchange markets, we have assumed that confidence is sufficiently buoyant to keep the exchange rate at about current levels - 68½ per cent - over the whole period. Such an outcome for the exchange rate is well within the bounds of possibility.

81 The exchange rate forecasts in the other variants start from the same basic judgment about confidence as the main case. In variant C, we assume that speculators take a more bullish view about sterling when they see trade performance improving. In variant D, we assume that the shift from money into goods, represented by a fall in the savings ratio, leads market operators to expect a slightly lower rate for sterling.

Overseas monetary conditions

82 The impact of domestic monetary conditions on the exchange rate depends on how they compare with trends in other countries. No significant relaxation in US monetary stance is expected in response to the developing recession, even though there may be a spring fiscal boost. Interest rates may fall back only slowly from a peak at the turn of the year, as inflation rates come down. Elsewhere, fears of inflation may also keep interest rates high in the immediate future. The growth of broad money in the six major OECD countries may be in the region of 12-12½ per cent a year from now on (rather above the assumed growth in £M3) while interest differentials are unlikely to move significantly in the UK's favour until the middle of 1980.

Exchange controls

83 Another major influence on capital flows is the final abolition of all remaining exchange controls which the forecast assumes will take place in October this year. The effect both of this and of earlier exchange control measures is a major uncertainty. It seems likely, even in the absence of expectations for a fall in the exchange rate, that there would be substantial once-for-all outflows of capital as investors rearrange their portfolios and firms refinance some of their existing foreign currency debt in sterling. Thereafter, there would be continuing flow effects as greater use is made of sterling resources to finance outward investments. The timing of these effects will depend on the strength of the underlying demand for sterling and, to some extent, on the prospects for investment in the US in particular. Under present circumstances a major exodus of capital seems unlikely. The forecast allows for total net outflows resulting from the complete abolition of controls since May this year of around £2¾ billion during 1979/80 and £1½billion in 1980/81.

Other capital flows

84 There are two other important long term influences on the capital account. First, capital inflows to finance expenditure by oil companies on the UK/ continental shelf, which have been running at around £1 billion a year in recent years, are likely to fall off sharply over the forecast period reflecting both a pause in investment spending in the North Sea, and, on the part of UK companies, a reduced need for external finance, as profits build up from fields already under production. While non-UK companies are unlikely to retain North Sea profits for onshore investment in the UK on any scale, it seems possible that UK companies will invest most of their surplus profits from North Sea operations overseas. There may thus be a growing net capital outflow resulting from oil-associated transactions from now onwards, perhaps reaching about £1 billion a year by 1981.

85 Second, the switch in 1976 to foreign currency finance of fixed rate export credit is finally starting to have a significant effect on balance of payments flows. The outflows from credits

financed in sterling reached a peak of £600 million in 1976/7, but is forecast this year to be only about £100-150 million. In line with recent experience, we have assumed that 70 per cent of ECGD's new fixed rate business will be financed in foreign currency.

Margins of error

86 Variants which illustrate alternative outcomes for some key aspects of the forecast have already been presented. However, variants are not in themselves good indications of margins of error. Even if some systematic procedure is used for selecting the degree of variation one can only usefully vary one or a small number of factors at a time. Actual forecasting errors are a necessarily unpredictable combination of many factors. The measure of error margins used recently in the Treasury, both internally and for publication (there is a statutory obligation to indicate margins of error) has been based on average errors made over a similar time horizon in previous forecasts over the past ten years or so; (the growth of all nominal magnitudes is allowed for by taking errors as a percentage of GDP). On this basis the error in the present forecast for the 1980-81 PSBR would be some £3 billion, for GDP volume in 1980 about 2% and for the end-1980 RPI perhaps 4%. Errors can be in either direction and presumptions of bias, when based on a few years experience, have generally not stood up to analysis of a longer period.

87 It has already been noted, however, that relationships are more likely to break down if circumstances - including economic policies - become radically different to those experienced in the past. Even if the basic economic relationships are sound the more extreme the conditions the more crucial are the actual numbers for the important elasticities, eg for competitiveness or the investment accelerator. So with a very deep recession and a sharp break in the whole policy approach to counteracting inflation it seems clear that margins of error should be expected to be bigger than the past average; unless, improbably, the forecasters have suddenly become more skilful.

Comparisons with other forecasts

88 Tables E and F provide a comparison, for both 1979 and 1980, of the main case in the Treasury forecast with those of the main outside forecasts.

89 The Bank's forecasts have not been published. The two cases given in the table were specified as follows:

Case A: 17% growth of average earnings in 1980; the effective exchange rate index remains at 70;

Case D: 13% growth of average earnings in 1980; the exchange rate index falling to 64½.

Both cases assume full revalorisation of taxes. In addition an extra £1 bn indirect tax increases are assumed in the 1980 budget (worth perhaps £¾ bn off the PSBR and 1% on to the RPI over and above revalorisation).

90 For 1979, the forecasts are generally similar, surprisingly so given all the uncertainties on elements such as the PSBR. Substantial differences in the forecasts for the current balance partly reflect the difficulties of interpreting the distorted trade figures in the first half of the year: these differences persist in 1980.

91 For 1980, all the forecasts quoted, with the exception of the National Institute, show a fall, generally a small one, in GDP. Qualitatively, the same factors are at work: a slowing in consumer spending, a fall in investment, and weak exports as a result of slow world trade growth and poor competitiveness. All the forecasters see a substantial rise in unemployment. There are important differences in the inflation forecasts: while most see the rise in earnings within a point or two on either side of 15%, differences of view on the exchange rate, world prices and profit margins lead to a significant variation in the price forecast, for given earnings growth, and hence in the outlook for personal real incomes and consumer spending. The Treasury forecast, at 17½%, is higher than any of the other forecasts, with the exchange rate accounting for only part of the difference: the rest is probably higher earnings in

1979, higher commodity prices, a 17½% revalorisation of specific indirect taxes, the real increases assumed for nationalised industries' prices, and the judgment of zero underlying productivity growth.

92 The PSBR forecasts for 1980-81 cluster remarkably closely around £10 bn (with the exception of Phillips and Drew at £7 bn, and the ITEM forecast, a few details of which were published in the Guardian on 15.10.79, of £5½ bn). It is not possible to distinguish differences in policy assumptions from other differences in the PSBR forecasts, though most forecasters assume tax revalorisation and some public expenditure cuts.

93 Most, if not all, of the outside forecasts treat money supply growth as a target and forecast the required levels of interest rates. Phillips and Drew (and ITEM) with their low PSBRs see large falls in interest rates; most others have small declines. It is not clear what assumptions the outside forecasters have made about the further relaxation of exchange controls: this is an important factor in the Treasury forecast pushing the exchange rate down and keeping interest rates up.

94 The Treasury forecast for 1980 shows an appreciably larger fall in GDP in 1980 than the forecast made at the time of the budget: partly this reflects a higher level of output in 1979 for essentially temporary reasons, such as higher stockbuilding. Although the forecast decline in output in 1980 is now considerably greater than in the budget forecast, the <u>level</u> of output in 1980 is put only 1½% lower than in the earlier assessment. Two other important factors are the higher rate of price inflation and the worse level of competitiveness. The much worse current account picture, despite lower activity, results partly from a fuller appreciation of the trade figures thus far, partly from worse competitiveness, partly from lower world trade growth.

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TABLE E

Except where specified figures are % changes on previous year	NIESR (Aug 1979)	LBS (July 1979)	P&D (Sept 1979)	CBI (Aug 1979)	Cambridge Econometrics (July 1979)	NIF (June 1979)	Bank Case A Sept. 1979	Bank Case D Sept. 1979	NIF Oct 1979 Main case
1979									
GDP	0.5	1.6	0.9	1.3	1.5	0.2	0.3	0.4	1.2
Consumers' Expenditure	4.2	3.0	3.9	4.8	1.7	2.6	4.1	4.1	4.1
RPDI	4.1	4.3	1.7			3.8	3.8	3.7	4.9
Investment	-1.7	-4.0	-1.9	-0.7	4.7	-1.2	-2.8	-2.4	-2.5
Public Authorities' expenditure	1.2	1.7	1.2	1.2	1.8	1.7	1.4	1.4	1.5
Consumer prices	12.7	12.6	12.9		12.7	12.7	12.4	12.3	12.3
Current Account (£bn)	-1.7	-0.2	-1.6	-2½		-0.5	-2.2	-2.4	-2.9
Unemployment (m) (Q4)	1.4	1.4	1.3			1.5	1.3	1.3	1.3
Exchange Rate (effective)	67.9	66	68.6			65.2	67.8	67.4	67.5
World Trade	6	7.1	5.5	5½-6		4	3.5	3.5	5.5
Average earnings	13.3	14.3	14.0		14.5	13.9	13.6	13.2	15.7
1979/80									
£M3 growth %	11	12.2*	10.9	7-11			11.6	11.7	10.7
DCE (£bn)	6.7	9.3*	4.8				7.9	8.0	10.0
PSBR (£bn)	8.8	8.5	8.2			8.3	8.4	8.5	8.7
Interest rates (MLR)	12	12.6*	12.4		13		13.2	13.3	13.6

*Calendar Year

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TABLE F

1980

Except where specified figures are % changes on previous year	NIESR (Aug 1979)	LBS (July 1979)	P&D (Sept 1979)	CBI (Aug 1979)	Cambridge Econometrics (July 1979)	NIF (June 1979)	Bank Case A Sept. 1979	Bank Case D Sept. 1979	NIF Oct 1979 Main case
GDP	0.5	-0.4	-0.2	-0.4	-0.9	-0.8	-3.2	-2.1	-3.3
Consumers' Expenditure	1.9	2.0	0.8	1.2	-1.8	0.3	-0.1	-0.8	-1.5
RPDI	2.7	2.0	1.5			-0.3	0.6	-1.0	-2.5
Investment	-0.1	-4.6	-2.9	-5.5	-1.7	-3.5	-9.2	-7.8	-3.8
Public Authorities' expenditure	-1.3	-1.3	0.2	-1.0	1.1	-0.6	-0.2	-0.2	0.7
Consumer prices	13.8	14.1	13.4		17.2	15.1	14.4	13.8	17.6
Current Account (£bn)	-0.4	-0.2	0.4	-2¼		0.2	1.4	1.3	-2.2
Unemployment (m) (Q4)	1.7	1.7	1.55			1.8	2.0	1.9	1.7
Exchange Rate (effective)	70.1	65	70			62.3	70.0	64.7	62.8
World Trade	5	1.8	2.4	4-5		6	5.2	5.2	4.1
Average earnings	15.9	13.8	15.0		15.5	15.4	17.1	13.1	15.5
1980/81									
£M3 growth %		9.5*	8.9	7-11			9.2	11.5	9.0
DCE (£bn)		4.5*	3.8				7.5	8.6	7.5
PSBR (£bn)	10.3	10.9	6.9			9.7	9.3	9.2	10.3
Interest rates (MLR)		11.1*	8.3		12	12¾	10.9	11.1	14.8

*Calendar Year

Main Policy Assumptions

Monetary policy

For the current year £M_3 is held to be the centre of the target range - ie an annual rate of 9% from June to April and 10% for the complete financial year. For 1980-81 an outcome near to the middle of a 7-11% range is assumed; thereafter monetary growth conforms with a progressive reduction in the target range to 5-9% for 1983-84. The SSD scheme is assumed to be removed in the near future. The interest rate projections are the consequence of the monetary and fiscal policy assumptions and the other features of the forecast. It is not implied that the high interest rates which emerge will be considered a desirable means of achieving the money supply objectives.

Exchange rate debt repayment and intervention

The exchange rate is assumed to float with only minimal intervention by the authorities, as measured by the balance of official financing. In the rest of the current financial year, however, we have assumed that the authorities use the reserves acquired through intervention so far this year to finance part of the largely once-for-all stock shift effect of dismantling exchange controls. It is assumed that official debt repayments of $1 billion a year (net) in 1980 and 1981 are financed out of the reserves.

Exchange controls

The remaining controls (primarily on portfolio investment) are assumed to be removed in the course of the current financial year.

Public expenditure

Public expenditure volume plans for 1979-80 and 1980-81 are as approved by Cabinet/ in July. For the later years the proposals put by the Chancellor to Cabinet on September 13 have been used. In addition, cuts in civil service manpower rising to £300 million in 1983-84 have been assumed. Asset disposals amount to £1,000 million in 1979-80 and £500 million in 1980-81.

The RSG percentage is taken (as a starting point rather than a prediction) to remain at 61%. The usual upratings of social security benefits (now in line with the RPI using the forecast method) are assumed. Child benefits are uprated annually (starting November 1980); but this is treated as a claim on the contingency reserve, not a rise in planned expenditure. Nationalised industry prices are projected on the basis of existing or likely financing targets, with borrowing by individual industries constrained to be within the totals agreed by or proposed to Cabinet. Large increases in council rents are assumed from 1981-82 onwards.

Cash limits

For 1979-80 it is assumed that part of the first round of Clegg awards (notably LA manuals and NHS ancillaries) is taken as a squeeze on expenditure volumes, though the remaining awards are fully reflected in cash limits. For 1980-81 and thereafter it is assumed that cash limits reflect existing volume plans and the present forecast for pay and prices; so there is no specific cash limit squeeze.

Taxation

Taxation allowances, thresholds and specific duties are assumed to be indexed in each budget in line with RPI increases in the previous year. National insurance contributions are adjusted to maintain the balance of the fund.

CAP prices and green pound

It is assumed that the green pound is maintained at a level which keeps the growth of support prices in the UK a little below the rate of inflation.

It is also assumed that the current discussions produce a significant improvement in the UK's net contribution to the European Budget.

List of variants considered

The results for the four variants are summarised in table S.1. overleaf.

Case A (The "main case")

This is the version which the forecasters themselves think most likely, given the policy assumptions.

Case B (Low inflation)

In this case we assume much faster progress in bringing down the rate of pay settlements. Earnings growth in the private sector (adjusted for cyclical overtime etc) falls to 10% instead of 14% in the year ending in the third quarter of 1980. In addition, we assume a constant instead of a depreciating exchange rate; the effective rate remains throughout 1980-81 at the level (68½) prevailing at the time the forecast was completed.

Case C (Trading performance and financial confidence)

This case examines the implication of a different and more optimistic judgment on both import and export volumes. In addition UK financial confidence improves in such a way as to bring interest rates down (other things being equal) during 1980 to some 2% below the level predicted in the main case.

Case D (Lower savings)

This case assumes a savings propensity for 1980 (for given incomes, prices etc) 2% lower than in the main case.

Table S.1: Summary of Short-term forecast

			A Main Case	Variants: B Low earnings and strong exchange rate	C Better trade and financial confidence	D Lower savings
1	Money supply (£M3) (Policy Assumption)	% change on year previously				
		end year 1979-80	10¾	10¾	10¾	10¾
		1980-81	9	9	9	9
2	PSBR (In brackets % of market price GDP)	£ billion				
		1979-80	8½(4½%)	8½	8½	8½
		1980-81	10 (4½%)	9½(4½)	9(4)	9(4)
3	Average earnings (private sector cyclically adjusted)	% change on year previously				
		3rd quarter 1979	16	16	16	16
		1980	14	10	14½	14½
4	Retail prices	% change on year previously				
		4th quarter 1979	17½	17½	17½	17½
		1980	17	12½	17	17½
5	Effective exchange rate	December 1971=100				
		4th quarter 1979	67½	68½	68	67
		1980	61½	68½	61	59½
6	Labour cost competitiveness*	Index				
		4th quarter 1978	94	94	94	94
		1979	109	110	110	108½
		1980	104½	112	104½	102
7	Current balance	£ billion				
		1979	-3	-3	-2½	-3
		1980	-2	-2	-1	-3½
8	Manufacturing output	% change on year previously				
		1979	½	½	1	1
		1980	-7	-7½	-5	-5½
9	GDP volume (In brackets nominal GDP)	% change on year previously				
		1979	1(13)	1(13)	1½(13½)	1½(13)
		1980	-3½(12)	-3½(10)	-2(14)	-2(14)
10	Interest rates	per cent				
	a) Short-term	Average 1979-80	13½	13¼	13½	13½
		Average 1980-81	15	11	13	14½
	b) Long-term	Average 1979-80	12½	12½	12½	12½
		1980-81	14½	11½	13	14½

*increase implies worsening competitiveness

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TABLE 1 SUMMARY OF EXPENDITURE

AT 1975 PRICES, SEASONALLY ADJUSTED
UNDERLYING AN FORECAST £ MILLION

	1 CONS EXPDT	2 PUBLIC AUTH CONS	3 FIXED INV	4 EXPORTS GOODS + SERVICE	5 INV STOCKS	6 COMPR ADJ	7 TOTAL FINAL EXPDT	8 IMPORTS GOODS + SERVICE	9 FACTOR COST ADT	10 GDP AT FACTOR COST	11 GDP INDEX 1975=100
1978	66728	23623	20485	32340	1128	-296	144304	31626	11856	100526	107.9
1979	69470	23968	19977	32734	1421	1850	147570	35403	12309	101708	109.2
1980	68405	24147	19226	32753	-692	800	143839	34226	12069	98344	105.5
1981	67469	23943	17804	33154	-1010	800	141360	33754	11868	96538	103.6
1978 QTR 1	16432	5872	5166	7924	390	-183	35784	7955	2957	24689	106.0
QTR 2	16522	5869	5205	7988	228	-9	35812	7758	2938	25107	107.8
QTR 3	16879	5901	5054	8229	346	-9	36409	8043	2994	25363	108.9
QTR 4	16895	5979	5060	8199	164	-95	36297	7870	2965	25367	108.9
1979 QTR 1	17096	5905	4925	7390	691	500	36007	8275	3089	25143	107.9
QTR 2	17786	5958	5015	8542	141	700	37442	9337	3092	25713	110.4
QTR 3	17279	6024	4964	8523	214	350	37004	8901	3061	25392	109.0
QTR 4	17309	6081	5073	8279	375	300	37117	8890	3067	25460	109.3
1980 QTR 1	17258	6048	4909	8190	81	200	36486	8700	3046	24940	107.1
QTR 2	17246	6042	4835	8214	-181	200	36156	8598	3040	24718	106.1
QTR 3	17014	6032	4810	8173	-269	200	35760	8514	3004	24442	104.9
QTR 4	16887	6024	4672	8174	-323	200	35434	8413	2977	24244	104.1
1981 QTR 1	16857	6009	4588	8233	-298	200	35389	8411	2971	24207	103.9

NIF CASE A

TABLE 3 FIXED INVESTMENT - PRIVATE AND TOTALS

AT 1975 PRICES, SEASONALLY ADJUSTED
UNDERLYING AND FORECAST £ MILLION

	1	2	3	4	5	6	7	8	9	10	11
	P R I V A T E										
	DWELL	MANUF -TURE(1)	NON MANUFAC	SHIPS	NORTH SEA	LAND	TOTAL PRIV(1)	TOTAL PUB(2)	GRAND TOTAL	MANUF TOTAL	LEASING
1978	2256	3570	5185	277	1423	912	13705	6780	20485	3853	990
1979	1801	3534	5478	243	1503	851	13439	6538	19977	3762	1195
1980	1880	3224	5467	280	1215	1021	13085	6141	19226	3460	1390
1981	1909	2892	4922	260	1008	926	11913	5891	17804	3128	1454
1978 QTR 1	603	861	1234	118	392	190	3431	1735	5166	945	217
QTR 2	575	893	1366	73	342	204	3472	1733	5205	970	240
QTR 3	536	903	1256	61	336	231	3338	1716	5054	966	258
QTR 4	542	913	1329	25	353	287	3464	1596	5060	972	275
1979 QTR 1	434	891	1283	33	362	219	3242	1683	4925	952	285
QTR 2	471	880	1395	60	379	167	3360	1655	5015	930	300
QTR 3	445	829	1400	75	385	220	3355	1609	4964	887	300
QTR 4	451	934	1400	75	377	245	3482	1591	5073	993	310
1980 QTR 1	468	843	1395	70	317	352	3445	1464	4909	902	340
QTR 2	468	821	1377	70	304	224	3264	1571	4835	880	345
QTR 3	472	818	1372	70	297	223	3251	1559	4810	877	350
QTR 4	472	742	1323	70	297	222	3125	1547	4672	801	355
1981 QTR 1	477	757	1292	65	255	226	3072	1516	4588	816	358

(1) EXCLUDING BSC AND OTHER PUBLIC SECTOR MANUFACTURING:
FROM 1977Q3 THE STATE-OWNED PART OF THE SHIPBUILDING AND AEROSPACE INDUSTRIES IS EXCLUDED
(2) INCLUDES BRITISH STEEL THROUGHOUT -
BRITISH AEROSPACE FROM 1977Q2 AND BRITISH SHIPBUILDERS FROM 1977Q3

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TABLE 5 WAGE AND SALARY BILL (1)

SEASONALLY ADJUSTED
RECORDED AND FORECAST

	1	2	3	4	5	6	7	8	9	10
	PERCENTAGE	CHANGES	ON THE	PREVIOUS	YEAR			1975 = 100		£M.
	AVERAGE TOTAL	WAGES AND SALARIES PUBLIC	PRIVATE	CYC.PRIV	RL DISP AVW+S(3)	W + S EARNRS	W + S BILL	AVERAGE W + S	W + S EARNERS	W + S BILL
1978	13.5	11.8	14.0	14.3	6.4	0.3	13.9	142.2	100.1	86026
1979	15.7	13.0	16.5	15.5	3.2	0.6	16.4	164.5	100.6	100120
1980	15.5	25.5	12.9	14.7	-1.1	-1.6	13.6	190.0	99.0	113749
1981	13.4	14.9	13.0	13.0	-1.7	-2.9	10.1	215.5	96.2	125288
1978 QTR 1	11.2	9.7	11.6	12.6	3.9	0.2	11.4	135.0	99.9	20378
QTR 2	13.9	11.3	14.6	15.0	7.5	0.2	14.1	140.4	100.0	21228
QTR 3	15.1	11.8	16.0	15.9	9.7	0.2	15.3	145.1	100.0	21944
QTR 4	13.8	14.4	13.7	13.6	4.7	0.6	14.5	148.1	100.4	22476
1979 QTR 1	13.3	8.0	14.8	14.6	5.1	0.6	14.0	153.0	100.4	23226
QTR 2	14.2	11.3	15.0	14.8	3.7	0.7	15.0	160.4	100.7	24409
QTR 3	16.6	14.8	17.0	16.0	-0.5	0.8	17.5	169.1	100.8	25777
QTR 4	18.5	17.5	18.8	16.6	4.8	0.3	18.8	175.6	100.6	26708
1980 QTR 1	18.0	26.5	15.9	16.0	1.3	-0.3	17.7	180.6	100.1	27330
QTR 2	16.7	27.7	13.9	14.9	1.1	-1.2	15.3	187.2	99.5	28144
QTR 3	14.2	23.9	11.6	14.0	-0.6	-2.1	11.7	193.1	98.7	28804
QTR 4	13.4	24.3	10.5	13.9	-5.9	-2.7	10.3	199.1	97.9	29471
1981 QTR 1	13.3	17.3	12.1	13.0	-3.0	-3.0	9.9	204.5	97.1	30034

(1) THE WAGE AND SALARY BILL AND AVERAGE WAGE AND SALARY FIGURES IN THIS TABLE INCLUDE FORCES PAY
(2) PUBLIC REFERS TO NON-TRADING PUBLIC AUTH. AND PRIVATE TO THE REST
(3) THIS MEASURE OF REAL TAKE-HOME PAY IS DEFLATED BY THE RETAIL PRICES INDEX

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TABLE 6 CONSUMERS EXPENDITURE

	1	2	3	4	5	6	7	8	9	10	11
	REAL	CONSMR	EXP.	REAL	SAVINGS	CONSMR	% CHANGES ON PREVIOUS YEAR OF:				
							- -CONSUMPTION- -				
	TOTAL	DUR-ABLES	NONDUR-ABLES	PERSNL DISP. INC.	RATIO	PRICE INDEX	TOTAL	DUR-ABLES	NONDUR-ABLES	PERSNL DISP. INC.	CONSMR PRICES
1978	66728	5938	60790	78660	15.17	144.0	5.4	17.1	4.4	15.9	8.4
1979	69470	6638	62832	82477	15.77	161.7	4.1	11.8	3.4	17.7	12.3
1980	68405	6051	62352	80452	14.98	190.1	-1.5	-8.8	-0.8	14.6	17.6
1981	67469	5651	61820	78564	14.12	217.6	-1.4	-6.6	-0.9	11.9	14.5
1978/79	67392	6041	61351	80118	15.88	146.8	5.3	15.3	4.4	16.6	7.9
1979/80	69632	6704	62928	82613	15.71	168.5	3.3	11.0	2.6	18.3	14.8
1980/81	68004	5890	62112	79687	14.66	197.1	-2.3	-12.1	-1.3	12.8	17.0
1978 QTR 1	16432	1425	15007	18926	13.18	139.8	4.5	13.1	3.7	13.3	10.0
QTR 2	16522	1457	15065	19496	15.25	142.6	5.3	19.6	4.1	17.3	8.2
QTR 3	16879	1530	15349	20009	15.64	145.6	6.3	18.3	5.2	17.9	7.4
QTR 4	16895	1526	15369	20229	16.48	147.9	5.5	17.2	4.5	15.2	8.0
1979 QTR 1	17096	1528	15568	20384	16.13	151.0	4.0	7.2	3.7	16.4	8.1
QTR 2	17786	1861	15925	20810	14.53	156.1	7.7	27.7	5.7	16.8	9.4
QTR 3	17279	1584	15695	20338	15.04	167.5	2.4	3.5	2.3	16.9	15.1
QTR 4	17309	1665	15644	20945	17.36	172.1	2.5	9.1	1.8	20.5	16.4
1980 QTR 1	17258	1594	15664	20520	15.90	178.2	0.9	4.3	0.6	18.8	18.0
QTR 2	17246	1517	15729	20167	14.49	187.7	-3.0	-18.5	-1.2	16.5	20.2
QTR 3	17014	1475	15538	19911	14.55	194.4	-1.5	-6.9	-1.0	13.6	16.1
QTR 4	16887	1465	15421	19854	14.95	200.1	-2.4	-12.0	-1.4	10.2	16.3
1981 QTR 1	16857	1433	15424	19755	14.67	206.2	-2.3	-10.0	-1.5	11.4	15.7

TABLE 7 RETAIL PRICES INDEX AND CONSUMERS EXPENDITURE DEFLATOR

RECORDED AND FORECAST

	1	2	3	4	5	6	7	8	9	10	11	12
	RETAIL PRICES INDEX JANUARY 1974=100					PERCENTAGE CHANGES OVER LAST YEAR FOR RETAIL PRICE INDEX AND COMPONENTS					CONS.EXPD.DEFLATOR (SEAS. ADJ.)	
	FOOD	HOUSING	NAT.IND.	OTHER	TOTAL						INDEX	P-C CH ON
WEIGHTS(1)	221	131	78	570	1000	FOOD	HOUSING	NAT.IND.	OTHER	TOTAL	1975=100	PREV.YEAR
1978	203.8	173.3	227.2	195.7	197.0	7.1	7.1	9.2	9.0	8.3	144.0	8.4
1979	228.6	207.8	246.5	222.1	223.6	12.1	19.9	8.5	13.5	13.5	161.7	12.3
1980	260.3	247.3	292.7	264.4	263.4	13.9	19.0	18.8	19.0	17.8	190.1	17.6
1981	295.1	297.1	337.7	303.9	303.7	13.4	20.2	15.3	14.9	15.3	217.6	14.5
1978 QTR 1	197.3	162.9	221.1	190.1	190.6	6.8	5.2	11.2	11.4	9.5	139.8	10.0
QTR 2	203.8	171.2	226.0	194.2	195.8	6.7	3.8	8.9	8.9	7.6	142.6	8.2
QTR 3	206.2	176.8	230.2	197.3	199.2	7.3	7.7	9.2	7.9	7.9	145.6	7.4
QTR 4	208.0	182.4	231.7	201.1	202.6	7.6	11.6	7.6	7.8	8.1	147.9	8.0
1979 QTR 1	218.8	191.5	235.3	205.4	208.9	10.9	17.6	6.4	8.0	9.6	151.0	8.1
QTR 2	225.2	207.7	238.8	212.2	216.6	10.5	21.3	5.7	9.3	10.6	156.1	9.4
QTR 3	232.4	215.4	250.3	231.3	230.9	12.7	21.8	8.7	17.2	15.9	167.5	15.1
QTR 4	238.0	216.6	261.6	239.5	237.9	14.4	18.7	12.9	19.1	17.4	172.1	16.4
1980 QTR 1	247.6	224.2	271.2	247.0	246.0	13.2	17.1	15.3	20.2	17.8	178.2	18.0
QTR 2	256.8	245.3	289.8	261.1	260.3	14.0	18.1	21.4	23.0	20.2	187.7	20.2
QTR 3	263.7	254.6	298.1	270.3	269.0	13.5	18.2	19.1	16.9	16.5	194.4	16.1
QTR 4	273.1	265.0	311.8	279.1	278.5	14.8	22.4	19.2	16.5	17.1	200.1	16.3
1981 QTR 1	282.7	270.5	317.3	287.3	286.4	14.2	20.6	17.0	16.4	16.4	206.2	15.7

(1) THESE WEIGHTS ARE APPLICABLE TO INDICES BASED ON JANUARY 1974 = 100
THE PUBLISHED WEIGHTS ARE APPLICABLE TO INDICES BASED ON JANUARY 1978 = 100

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TABLE 10 SUMMARY OF EXPENDITURE

AT 1975 PRICES, SEASONALLY ADJUSTED
UNDERLYING AND FORECAST

	1 CONS EXPDT	2 PUBLIC CONS	3 PUBLIC EXPENDITURE INV (1)	4 TOTAL (1)	5 PRIVATE INV (2)	6 EXPORTS GOODS + SERVICE	7 INV STOCKS (3)	8 TOTAL FINAL EXPDT	9 IMPORTS GOODS + SERVICE	10 FACTOR COST ADJ	11 GDP AT FACTOR COST
£ MILLION											
1975	63704	23049	9000	32049	11545	27144	-1479	132963	29018	10447	93176
INDEX NUMBERS 1975 = 100											
1978 I	103.5	101.9	77.1	94.9	119.6	117.2	618	107.7	108.3	112.9	106.9
II	106.0	103.1	73.6	94.8	117.8	121.0	510	109.4	109.7	114.1	108.9
1979 I	109.5	102.9	74.2	94.9	114.4	117.4	832	110.5	121.4	118.3	109.2
II	108.6	105.0	71.1	95.5	118.4	123.8	589	111.5	122.6	117.3	109.2
1980 I	108.3	104.9	67.4	94.4	116.2	120.9	-100	109.3	119.2	116.6	106.6
II	106.4	104.6	69.0	94.6	110.5	120.5	-592	107.1	116.7	114.5	104.5
1981 I	106.1	104.1	66.1	93.5	105.2	121.6	-565	106.4	116.0	113.8	103.9
II	105.8	103.6	64.8	92.7	101.2	122.7	-445	106.2	116.7	113.4	103.3
PERCENTAGE CHANGES ON A YEAR EARLIER											
1979 I	5.9	1.0	-3.7	-0.1	-4.4	0.1		2.6	12.1	4.8	2.1
II	2.4	1.9	-3.4	0.7	0.5	2.3		1.9	11.8	2.8	0.2
1980 I	-1.1	1.9	-9.1	-0.5	1.6	3.0		-1.1	-1.8	-1.5	-2.4
II	-2.0	-0.4	-2.9	-0.9	-6.7	-2.7		-3.9	-4.9	-2.4	-4.3
1981 I	-2.1	-0.7	-1.9	-1.0	-9.5	0.6		-2.6	-2.7	-2.3	-2.5
II	-0.6	-1.0	-6.1	-2.0	-8.4	1.9		-0.8	0.0	-1.0	-1.1

(1) INCL B.S.C. AND PART OF SHIPBUILDING + AIRCRAFT MAN. FROM 1977QTR1
(2) EXCL B.S.C. AND OTHER PUBLIC SECT MAN. (FROM 1977QTR1 PART OF SHIPBUILDING AND AIRCRAFT IS EXCLUDED)

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TABLE 20 WORLD ECONOMIC VARIABLES

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
		- -UK WEIGHTED (DOL)- -			WORLD	----- COMMODITY PRICES (DOL)-----					INDEX			WORLD
	WORLD TRADE MANUFS	COMPRS EXPORT PRICES	COMPRS WHSALE PRICES	COMPRS UNIT LABOUR	INDUST -RIAL PRODN	FOOD (SEE BELOW)	AGRIC. NON-FOOD	BASIC MATS	NON-FERROUS METALS	WORLD OIL PRICE	OF CAP PRICES (UA)	UK WTD COMMO-DITIES	TERMS OF TRADE	REAL OIL PRICE
1978	121.3	126.1	129.3	128.8	116.1	122.0	131.5	112.2	126.5	118.5	142.3	125.6	99.6	94.0
1979	127.9	141.9	144.2	142.2	120.6	135.4	154.7	132.3	159.9	163.0	162.2	146.3	103.1	114.9
1980	133.2	158.5	161.0	156.5	122.4	147.9	168.0	145.8	162.4	199.6	178.7	157.8	99.6	126.0
1981	140.2	175.2	177.7	173.0	126.3	160.2	182.9	159.6	186.8	220.7	199.7	172.9	98.7	126.0
78/77%CH	4.0	15.4	15.6	17.2	3.7	1.7	6.5	2.1	8.1	2.5	12.4	4.6	-9.4	-11.2
79/78%CH	5.5	12.6	11.5	10.3	3.8	11.0	17.7	17.9	26.4	37.6	14.0	16.5	3.4	22.2
80/79%CH	4.1	11.7	11.6	10.1	1.5	9.2	8.6	10.2	1.5	22.4	10.1	7.8	-3.4	9.7
81/80%CH	5.2	10.5	10.4	10.6	3.2	8.3	8.9	9.5	15.1	10.6	11.8	9.6	-0.9	0.0
1978 QTR 1	118.3	118.8	121.7	120.9	113.5	121.0	122.0	105.7	119.0	118.5	135.6	119.9	100.9	99.7
QTR 2	120.4	122.6	125.2	124.4	114.9	121.0	129.0	110.3	120.0	118.5	138.2	123.2	100.5	96.6
QTR 3	120.3	128.8	132.4	131.9	116.8	120.0	134.0	112.6	129.0	118.5	144.5	126.3	98.1	92.0
QTR 4	126.1	134.2	138.0	138.1	119.4	126.0	141.0	120.1	138.0	118.5	151.0	133.2	99.3	88.3
1979 QTR 1	125.1	137.9	140.3	139.5	120.0	127.0	150.0	125.4	155.0	126.3	160.2	140.0	101.5	91.6
QTR 2	126.7	138.7	140.6	138.7	120.3	135.0	155.0	131.2	163.0	154.8	161.0	146.6	105.7	111.7
QTR 3	129.3	143.5	146.0	143.4	120.8	139.4	156.7	135.3	163.5	184.4	161.9	149.4	104.1	128.5
QTR 4	130.6	147.7	149.9	147.1	121.2	140.2	157.3	137.1	158.1	186.6	165.6	149.3	101.1	126.3
1980 QTR 1	131.4	152.7	155.3	151.0	121.5	142.2	161.3	140.5	158.9	199.6	170.8	152.0	99.6	130.8
QTR 2	132.6	156.7	159.7	155.1	122.0	144.4	166.6	144.5	161.3	199.6	176.0	155.6	99.3	127.4
QTR 3	133.4	160.4	162.7	158.2	122.6	150.4	170.9	148.0	164.1	199.6	182.2	160.3	99.9	124.5
QTR 4	135.5	164.2	166.2	161.8	123.7	154.7	173.2	150.0	165.2	199.6	185.8	163.2	99.4	121.6
1981 QTR 1	137.2	169.1	171.6	166.4	124.6	158.1	176.7	153.7	171.0	220.7	191.3	167.0	98.7	130.5

COLUMN 6 IS FOOD WEIGHTED BY UK IMPORTS FROM NON-EEC COUNTRIES

NIE CASE A

TABLE 21 BALANCE OF PAYMENTS

AT CURRENT PRICES, SEASONALLY ADJUSTED
UNDERLYING AND FORECAST £ MILLION *

	1 EXPORT GOODS	2 IMPORT GOODS	3 VISIB BAL	4 EXPORT SERV	5 IMPORT SERV	6 BAL SERV	7 BAL TRANSF	8 BAL IPD	9 INVIS BAL	10 CURRENT BALANCE	11 CURRENT BALANCE DOLLRS (1)	12 CONTRIB NS OIL (2)
1978	35433	36606	-1173	12204	8915	3289	-1918	836	2207	1034	1985	2374
1979	40413	44039	-3626	13191	10216	2975	-2321	58	712	-2914	-6159	4068
1980	46283	48574	-2291	15078	12012	3066	-2774	-168	124	-2167	-4369	6459
1981	53325	53607	-282	17231	13448	3783	-2454	-103	1226	944	1883	8234
1978 QTR 1	8409	9004	-595	2927	2165	762	-540	124	346	-249	-479	488
QTR 2	8753	8925	-172	2973	2263	710	-439	271	542	370	679	618
QTR 3	9051	9418	-367	3144	2247	897	-511	280	666	299	577	612
QTR 4	9220	9259	-39	3160	2240	920	-428	161	653	614	1218	654
1979 QTR 1	8390	9971	-1581	3115	2431	684	-511	266	439	-1142	-2301	744
QTR 2	10491	11552	-1061	3233	2584	649	-574	-75	0	-1061	-2207	902
....												
QTR 3	10820	11022	-202	3366	2515	851	-635	-84	132	-70	-155	1168
QTR 4	10712	11494	-782	3477	2686	791	-601	-49	141	-641	-1363	1252
1980 QTR 1	10949	11690	-741	3582	2859	723	-639	-34	50	-691	-1429	1426
QTR 2	11418	11957	-539	3718	2972	746	-707	-58	-19	-558	-1137	1638
QTR 3	11756	12377	-621	3831	3052	779	-709	-40	30	-591	-1170	1651
QTR 4	12160	12550	-390	3947	3129	818	-719	-36	63	-327	-646	1742
1981 QTR 1	12751	12902	-151	4060	3246	814	-592	-9	213	62	122	1938

(1) N.B. COLUMN 11 IN U.S. DOLLAR MILLIONS

(2) VALUE OF N.S. OIL PRODUCTION LESS IPD DEBITS

TABLE 30 EXCHANGE RATES AND COMPETITIVENESS

	1	2	3	4	5	6	7	8	9	10
	. . . E X C H A N G E		R A T E S . . .	----------COMPETITIVENESS OF GOODS (1975=100)----------						
				EXPORTS OF MANUFACTURES			----IMPORTS OF MANUFACTURES----			
							--REL. COSTS--		--REL. PRICES--	
	EFFECTIVE EXCH.RATE	EX. COMP WTD. RATE	DOLLAR/£ EXCH.RATE	REL.WHS. PRICES	PRICE COMPET	REL.UNIT LAB.COST	OTHER S-MANUF	CONSUM GOODS	CAPIT GOODS	OTH.FIN. MAN(1)
1978	63.00	59.280	1.920	100.99	105.75	93.10	94.98	91.09	91.37	93.75
1979	67.47	62.802	2.114	113.35	114.12	106.11	108.30	103.13	97.17	105.13
1980	62.83	57.626	2.017	112.00	109.99	105.22	107.62	102.52	96.79	104.02
1981	60.44	54.442	1.993	114.13	112.68	106.66	109.10	104.25	96.94	104.18
1978 QTR 1	65.40	62.140	1.928	104.60	108.97	94.30	94.42	98.58	99.98	102.26
QTR 2	61.50	58.270	1.836	98.67	101.83	91.30	92.96	96.00	98.87	101.12
QTR 3	62.40	58.450	1.932	100.09	105.64	93.00	96.03	98.46	98.36	101.89
QTR 4	62.70	58.260	1.985	100.60	106.55	93.80	96.58	99.26	98.49	104.41
1979 QTR 1	64.00	59.540	2.015	103.56	108.63	96.58	99.32	101.75	98.64	105.88
QTR 2	67.40	62.790	2.081	111.56	113.30	105.21	107.70	110.42	104.40	114.71
QTR 3	71.00	66.172	2.233	121.69	120.33	113.83	116.22	119.27	110.82	122.33
QTR 4	67.50	62.707	2.128	116.60	114.21	108.83	111.38	114.12	107.74	117.71
1980 QTR 1	65.00	60.060	2.071	113.20	110.92	106.70	109.05	111.64	106.31	115.27
QTR 2	63.34	58.210	2.039	112.12	110.22	105.85	108.59	110.85	105.34	114.21
QTR 3	61.68	56.379	1.982	110.79	108.85	103.75	105.97	109.04	103.85	112.59
QTR 4	61.31	55.855	1.977	111.91	109.99	104.55	106.92	109.97	103.74	112.48
1981 QTR 1	60.62	54.918	1.977	111.95	110.71	104.85	107.18	110.26	103.88	112.63

(1) EXCLUDING SHIPS AND AIRCRAFT

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TABLE 38 CAPITAL ACCOUNT

CURRENT PRICES NOT SEASONALLY ADJUSTED
£ MILLION

	1 CURR. BAL.	2 SHORT TERM FLOWS	3 INWARD INVEST -MENT	4 OUTWARD INVEST -MENT	5 EXPORT COMRCL.	6 CREDIT IDENT. L-T	7 COMM. IMPORT CREDIT	8 NORTH SEA FLOWS	9 OTHER CAPITAL FLOWS	10 TOTAL CAPITAL FLOWS	11 BAL FOR OFFICL FINANCE	12 PSB IMF ETC	13 RESERVE CHANGE STERLING	14 RESERVE CHANGE DOLLARS
1978	1032	-511	1635	-1352	-297	-553	195	670	-1943	-2158	-1126	-1202	-2328	-4319
1979	-2897	5106	1653	-2903	-151	-188	93	617	43	4268	1372	-1276	96	144
1980	-2167	3555	1917	-4383	94	-72	170	223	-509	992	-1174	-344	-1518	-3107
1981	944	746	2344	-3254	70	-42	189	-205	-793	-944	0	-22	-22	-51
1976/77	-1326	1861	1172	-1860	-633	-663	300	627	-516	288	-1038	3203	2165	3712
1977/78	419	2971	1849	-1282	-368	-586	83	741	1795	5202	5621	724	6345	11140
1978/79	206	1813	1312	-1449	-233	-493	145	621	-2533	-820	-614	-908	-1522	-2699
1979/80	-2434	3636	1716	-4153	69	-158	131	514	392	2145	-287	-1181	-1468	-3051
1980/81	-1414	2760	2144	-3485	33	-54	187	105	-475	1214	-200	-302	-502	-1023
1978 QTR 1	-415	228	632	-315	-195	-121	25	200	133	588	173	-218	-45	-88
QTR 2	410	-1240	380	-361	-233	-193	-10	89	-335	-1904	-1494	-531	-2025	-3718
QTR 3	441	349	319	-420	101	-138	-20	182	-604	-231	210	-155	55	104
QTR 4	596	152	304	-256	30	-101	200	196	-1137	-611	-15	-296	-311	-617
1979 QTR 1	-1241	2553	309	-412	-131	-61	-25	151	-457	1926	685	74	759	1531
QTR 2	-1003	1097	632	-307	-176	-65	65	127	388	1761	758	-692	66	137
QTR 3	-41	695	331	-778	98	-31	-82	155	96	486	445	-142	303	674
QTR 4	-612	759	381	-1406	58	-31	135	182	16	95	-516	-516	-1032	-2198
1980 QTR 1	-778	1083	372	-1662	89	-31	13	48	-107	-197	-974	169	-805	-1665
QTR 2	-529	1203	421	-1199	-4	-14	22	30	-129	329	-200	-267	-467	-952
QTR 3	-562	545	553	-581	48	-14	45	84	-118	562	0	-58	-58	-116
QTR 4	-298	722	571	-941	-39	-13	90	60	-154	298	0	-189	-189	-374
1981 QTR 1	-25	288	599	-764	28	-13	30	-70	-73	25	0	211	211	419

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TABLE 41B DCE AND MONEY SUPPLY SUMMARY TABLE

£ MILLION AT CURRENT PRICES, SEASONALLY ADJUSTED

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
		SALES OF PUB. SECTOR DEBT TO NON BANKS			BANK LENDING								------VELOCITY OF £M3------			
	PSBR	GILTS	NATSAV	OTHER	PRIV. SECTOR	OVER-SEAS	RES.	DCE	EXT. & FOREIGN CURR. FINANCE	NON-DEP LIABS.	RES.	INCR. IN £M3	GDP BASED	GNP BASED	% CHG GDP BASED	% CHG GNP BASED
1978	8338	4377	1525	176	4700	852	207	8019	-424	830	-45	6720	3.30	3.36	-0.78	-0.05
1979	9794	7115	999	1669	8213	-60	225	8389	-2644	958	-7	4780	3.43	3.41	3.96	1.51
1980	9157	4669	1687	761	7360	-261	-282	8857	-2208	1246	-2	5401	3.57	3.58	4.09	5.00
1981	12364	7234	1808	211	3791	152	-345	6709	-247	1153	1	5310	3.71	3.72	3.86	3.76
1978/79	9409	5822	1622	1128	6383	133	229	7582	-1088	1061	-43	5390	3.30	3.34	-0.71	-1.34
1979/80	8653	5802	648	616	8193	-37	287	10030	-3298	1137	1	5596	3.49	3.48	5.56	4.07
1980/81	10741	5921	1971	621	5892	-164	-485	7471	-1055	1208	-2	5206	3.60	3.61	3.31	3.83
1978 QTR 1	1538	390	422	326	744	643	51	1838	165	-57	-10	2050	3.27	3.35	0.14	2.95
QTR 2	1904	1635	348	-434	1636	284	66	2341	-611	409	-11	1310	3.31	3.36	-0.55	0.36
QTR 3	2138	1153	470	171	1043	40	-32	1395	-49	101	-5	1240	3.35	3.40	-1.50	-1.45
QTR 4	2758	1199	285	113	1277	-115	122	2445	71	377	-19	2120	3.27	3.35	-1.13	-1.90
1979 QTR 1	2609	1835	519	1278	2427	-76	73	1401	-498	174	-9	720	3.28	3.27	0.28	-2.36
QTR 2	2917	2507	176	77	2317	-35	-7	2432	-225	217	0	1990	3.37	3.34	1.72	-0.44
QTR 3	3238	2300	162	140	1237	173	146	2192	-1070	272	0	850	3.52	3.50	5.27	3.15
QTR 4	1030	473	142	174	2232	-122	13	2364	-850	294	0	1219	3.54	3.54	8.24	5.67
1980 QTR 1	1468	522	168	225	2407	-53	134	3041	-1152	353	0	1536	3.51	3.53	6.85	8.01
QTR 2	2105	1287	563	313	2443	-51	-176	2157	-598	289	0	1269	3.59	3.60	6.59	7.66
QTR 3	2507	1457	499	56	1369	-9	-127	1727	-145	297	0	1284	3.59	3.60	1.78	2.68
QTR 4	3077	1403	457	167	1140	-148	-113	1928	-310	306	0	1312	3.60	3.61	1.69	2.01
1981 QTR 1	3052	1774	452	85	939	43	-67	1655	0	315	0	1340	3.63	3.64	3.41	3.16

COL 1 CALENDAR YEAR SEASONALLY ADJUSTED
COL 2 COMPRISES GILTS, LONG TERM LA DEBT AND PC DEBT
COL 4 COMPRISES TREASURY BILLS, LA TEMPORARY DEBT AND OTHER CG DEBT
COL 8 = COL1-(COL2+COL3+COL4)+COL5+COL6+COL7
COL13 = COL8+COL9-COL10
GDR-BASED £M3 IS THE RATIO OF GDP AT CURRENT MARKET PRICES EXPRESSED AT AN ANNUAL RATE TO £M3
GNR-BASED £M3 IS THE RATIO OF GNP AT CURRENT MARKET PRICES EXPRESSED AT AN ANNUAL RATE TO THE CENTRED QUARTERLY AVERAGE OF £M3
COLS 15 AND 16 ARE % CHANGES OVER PREVIOUS YEAR

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TABLE 42B INTEREST RATES, ANNUAL AND QUARTERLY AVERAGES

	1	2	3	4	5	6	7	8	9	10	11	12
	OVERSEAS		UNITED KINGDOM									
	TREASURY BILLS	3-MTH EURO-DOLLAR	TREASURY BILLS	MLR	BANKS DEP RATE	BASE RATE	3-MONTH INTER-BANK	20 YEAR GILTS	YIELD GAP (COL8-COL7)	UNCOVERED LA EURO-DOLLAR DIFFERENTIAL	COST OF FORWARD COVER	COVERED DIFFERENTIAL
1978	7.27	8.78	8.73	9.12	5.86	9.11	9.23	12.49	3.26	0.45	3.21	-2.76
1979	10.31	12.15	12.96	13.34	10.62	13.16	13.22	12.68	-0.54	1.07	4.03	-2.97
1980	9.62	12.75	14.30	14.60	12.35	14.60	14.60	14.20	-0.40	1.85	6.67	-4.83
1981	8.62	10.75	14.92	15.14	12.97	15.22	15.22	15.00	-0.22	4.47	7.09	-2.62
1978/79	8.11	9.68	10.30	10.72	7.63	10.70	10.74	12.95	2.21	1.06	4.23	-3.17
1979/80	10.37	12.79	13.32	13.64	11.00	13.44	13.55	12.67	-0.88	0.76	4.10	-3.34
1980/81	9.38	12.25	14.55	14.82	12.60	14.85	14.85	14.62	-0.22	2.60	7.38	-4.78
1978 QTR 1	6.41	7.35	5.99	6.50	3.11	6.54	6.63	11.52	4.89	-0.72	0.23	-0.95
QTR 2	6.48	7.92	8.36	8.54	5.19	8.47	9.05	12.68	3.63	1.13	3.60	-2.47
QTR 3	7.60	8.75	9.24	10.00	6.59	10.00	9.67	12.63	2.96	0.92	4.05	-3.13
QTR 4	8.60	11.12	11.33	11.45	8.54	11.45	11.59	13.14	1.55	0.47	4.99	-4.52
1979 QTR 1	9.75	10.95	12.27	12.88	10.22	12.88	12.67	13.35	0.68	1.72	4.30	-2.58
QTR 2	9.50	10.67	12.17	12.46	8.75	11.75	12.22	12.13	-0.09	1.55	3.53	-1.98
QTR 3	11.00	13.00	13.70	14.00	11.75	14.00	14.00	12.40	-1.60	1.00	4.24	-3.24
QTR 4	11.00	14.00	13.70	14.03	11.75	14.00	14.00	12.85	-1.15	-0.00	4.07	-4.07
1980 QTR 1	10.00	13.50	13.70	14.07	11.75	14.00	14.00	13.30	-0.70	0.50	4.56	-4.06
QTR 2	9.50	13.00	14.23	14.54	12.28	14.53	14.53	14.03	-0.50	1.53	6.87	-5.34
QTR 3	9.50	12.50	14.56	14.84	12.61	14.86	14.86	14.56	-0.30	2.36	7.68	-5.32
QTR 4	9.50	12.00	14.70	14.95	12.75	15.00	15.00	14.90	-0.10	3.00	7.59	-4.59
1981 QTR 1	9.00	11.50	14.70	14.93	12.75	15.00	15.00	15.00	0.00	3.50	7.37	-3.87

COL 9 = COLS 8-7 COL 10 = COLS 7-2
COL 12 = COLS 7-2-11

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TABLE 43B BANK LENDING

PERCENTAGE CHANGE IN AMOUNTS OUTSTANDING OVER PREVIOUS YEAR

	1	2	3	4	5	6	7	8	9
	£ TO PERSONS	£ TO I+C COMPANIES TOTAL	£ TO OFI'S	TOTAL £ PRIVATE SECTOR	FOREIGN CURRENCY TO PRIVATE SECTOR	TOTAL ADVANCES TO PRIVATE SECTOR	£ TO OVER-SEAS	PUBLIC SECTOR £	PUBLIC SECTOR FOREIGN CURRENCY
1978 QTR 1	15.57	10.18	12.46	11.85	5.06	10.46	30.25	5.64	-8.70
QTR 2	19.59	9.83	20.58	13.41	8.92	12.48	31.68	39.78	-14.60
QTR 3	21.47	10.33	21.92	14.41	7.40	13.01	27.27	-9.59	-25.15
QTR 4	21.49	11.34	23.39	15.22	7.94	13.82	19.98	9.76	-14.60
1979 QTR 1	24.98	17.81	21.04	20.12	4.81	17.13	2.78	20.65	-21.06
QTR 2	24.34	19.48	21.60	21.07	-2.84	16.29	-3.49	-18.64	-25.99
QTR 3	21.91	19.66	20.14	20.36	-2.80	15.98	-2.46	26.36	-31.46
QTR 4	19.22	23.62	21.87	22.16	-7.71	16.72	-2.63	5.93	-55.70
1980 QTR 1	16.00	23.06	22.93	20.98	-9.97	15.57	-2.33	-15.00	-38.58
QTR 2	12.90	23.77	18.76	20.11	-9.78	15.12	-2.86	12.07	-40.62
QTR 3	11.34	24.46	16.47	19.84	-6.15	15.72	-4.63	12.23	-32.24
QTR 4	10.37	19.32	15.77	16.42	0.32	14.10	-5.28	12.12	-24.56
1981 QTR 1	8.89	14.04	12.72	12.47	2.65	11.14	-3.36	11.99	-19.13
QTR 2	7.75	9.83	11.79	9.43	3.10	8.61	-2.37	11.87	-60.06
QTR 3	6.88	7.97	11.99	8.03	3.34	7.43	-0.19	11.97	-61.72
QTR 4	6.09	7.12	11.70	7.26	3.88	6.83	3.21	12.06	-61.83

TABLE 53 FACTOR INCOMES - SHARES

PERCENTAGE OF TOTAL DOMESTIC INCOME NET OF STOCK APPRECIATION

	1 INCOME FROM EMPLOYMENT	2 INCOME FROM SELF EMPLMT.	3 ..NET COMPANY NON-OIL	4 PROFITS.. OIL	5 PUBLIC CORP.ETC NET SURPLUSES	6 RENT	7 TOTAL DOMST. INCOME (1)
1978	69.6	8.9	8.3	1.6	3.7	7.9	100.0
1979	71.3	8.4	6.1	3.0	3.4	7.8	100.0
1980	72.6	8.3	3.7	3.7	3.7	8.0	100.0
1981	71.5	8.3	4.1	4.1	3.8	8.2	100.0
1978 QTR 1	69.6	9.0	8.3	1.6	3.5	8.0	100.0
QTR 2	69.9	8.9	7.7	1.6	3.9	7.9	100.0
QTR 3	69.0	8.8	9.1	1.5	3.8	7.8	100.0
QTR 4	70.0	8.8	7.8	1.8	3.6	8.0	100.0
1979 QTR 1	71.2	8.6	6.3	2.4	3.4	8.2	100.0
QTR 2	70.1	8.7	7.5	2.7	3.2	7.8	100.0
QTR 3	71.3	8.4	6.1	3.2	3.3	7.7	100.0
QTR 4	72.5	8.2	4.7	3.4	3.5	7.8	100.0
1980 QTR 1	72.8	8.2	4.2	3.5	3.4	7.9	100.0
QTR 2	72.6	8.4	3.3	3.7	4.0	8.0	100.0
QTR 3	72.4	8.5	3.7	3.7	3.7	8.1	100.0
QTR 4	72.5	8.3	3.5	3.8	3.7	8.1	100.0
1981 QTR 1	71.8	8.2	4.4	4.0	3.4	8.1	100.0

(1) NET OF STOCK APPRECIATION

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TABLE 57 SUMMARY ANALYSIS BY SECTOR - NET ACQUISITIONS OF FINANCIAL ASSETS

£ MILLION AT CURRENT PRICES, SEASONALLY ADJUSTED

	1	2	3	4	5	6	7	8	9	10	11
	........PRIVATE SECTOR........				........PUBLIC SECTOR........				OVERSEAS SECTOR (1)	RESIDUAL ERROR (2)	
	PERSONS	IND + COMM'L COMP'S	FINANC'L COMPS	TOTAL	PUBLIC CORPNS	CENTRAL GOV'T	LOCAL AUTHS	TOTAL			NAF
1978	11007	-2115	-987	7905	-1137	-5426	-1348	-7911	-1034	-1085	43
1979	14586	-5324	-1207	8055	-1587	-2970	-2073	-6630	2914	3151	1185
1980	15657	-5867	-1595	8195	-967	-5721	-2111	-8799	2167	1100	462
1981	16433	-1870	-1428	13135	-906	-8214	-1608	-10728	-944	1000	460
1978/79	12251	-2930	-552	8769	-1221	-5146	-1560	-7927	-141	283	415
1979/80	15260	-5809	-1742	7709	-1343	-3170	-1940	-6453	2463	2809	908
1980/81	15713	-4596	-1374	9743	-1215	-6403	-2076	-9694	1414	1000	461
1978 QTR 1	2099	-565	-471	1063	-334	-1068	-564	-1966	249	-676	21
QTR 2	2774	-513	-338	1923	-359	-1296	-74	-1729	-370	-179	1
QTR 3	2892	-225	-41	2626	-167	-1764	-379	-2310	-299	24	-8
QTR 4	3242	-812	-137	2293	-277	-1297	-330	-1904	-614	-254	29
1979 QTR 1	3343	-1380	-36	1927	-418	-788	-777	-1983	1142	692	393
QTR 2	3235	-599	-291	2345	-398	-885	-355	-1638	1061	1209	557
QTR 3	3440	-1281	-411	1748	-417	-118	-413	-948	70	750	118
QTR 4	4568	-2063	-469	2036	-353	-1178	-527	-2058	641	500	117
1980 QTR 1	4017	-1865	-571	1581	-173	-987	-644	-1804	691	350	116
QTR 2	3724	-1547	-322	1855	-150	-1497	-398	-2045	558	250	116
QTR 3	3796	-1336	-346	2114	-318	-1544	-477	-2339	591	250	115
QTR 4	4120	-1117	-356	2647	-325	-1690	-591	-2606	327	250	115
1981 QTR 1	4073	-595	-350	3128	-421	-1670	-610	-2701	-62	250	115

(1) EQUALS THE CURRENT BALANCE, WITH THE SIGN CHANGED, PLUS CAPITAL TRANSFERS