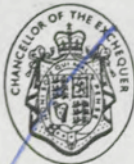


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Alan has one too. Jem.
With the Compliments ^{28/11}

of the
Chancellor of the Exchequer's
Private Secretary

Treasury Chambers,
Parliament Street,
S.W.1.

JANUARY 1983 FORECAST

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Annex: comparisons of forecasts

Tables from the printout:

1. General Summary
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Introduction and summary

1. This paper reports on the latest internal Treasury forecast. Based on the same policy assumptions as the forecast in the Autumn Statement, the forecast takes account of latest information, including the fall in sterling in recent weeks. The forecast covers the period to the financial year 1985-86.
2. The text of the report and its charts highlight the main issues and uncertainties. A summary of the forecast is given in the table on pages 5 and 6, and detailed comparisons with earlier Treasury forecasts and with the latest outside forecasts are provided in the Annex. A selection of tables from the printout is attached: as always the numbers should not be interpreted too literally.
3. The assumption, spelt out in Section II, is that present policies will be continued beyond the election. Since we attribute some of the fall in sterling to the possibility of a marked change in policy after the election, we are inclined to forecast a little strengthening of the rate in 1984. In essence, we have brought forward the fall that successive forecasts have incorporated. We could of course be seriously wrong - in either direction. Section III of the report reports our judgment that the recent fall in the rate will allow a substantial competitiveness gain, as wage settlements respond only slowly to a recovery in profits and to some pick up in the rate of RPI inflation.
4. Section IV sets out the prospect for the world economy. The recovery, postponed for a time, is expected to begin this year and to be stronger by 1984. While there are obviously downside risks, there are also a number of commentators stressing the possibility that US growth will be higher than the Administration's "deliberately cautious" estimate of $1\frac{1}{2}$ per cent in 1983. The risks of a sharp rise in commodity prices do not look all that high, especially as real oil prices look set to fall.
5. Section V shows the way in which UK exports have held up in 1982 despite very difficult trading conditions. With the UK forecast to grow rather faster than most other industrialised

countries, there is a tendency for the current account surplus to shrink, though by 1984 the benefits of better competitiveness are being felt.

6. Section VI shows the extent to which the forecast of inflation has gone up: unless the exchange rate regains most of its recent fall - and we do not assume this - then it seems likely that the inflation rate in 1983 will be higher than earlier envisaged. We think that the addition to the inflation rate will not be quite as large as a straight application of the Treasury ready reckoner would suggest (mainly because of lower oil prices) - and clearly less than the recent calculations of the Bank of England or the London Business School. Beyond 1983, maintenance of existing policies - PSBR at 2 per cent of GDP and 6-10 per cent growth of monetary aggregates - is perhaps compatible with inflation staying in the range 6-8 per cent, though we are very unsure of this.

7. Section VII sets out the prospects for the individual components of domestic demand. Continuing growth in personal consumption - helped by the fiscal adjustment - combined with a turnaround in stockbuilding and some investment growth in both private and public sectors to raise domestic demand by over 3 per cent in 1983. The latest statistics - retail sales sharply up in December, manufacturing output down in November - indicate the difficulties of assessing the impact of rising demand on domestic output, but we do expect a recovery, even including manufacturing, once the present stock rundown is over.

8. Section VIII suggests that despite the recovery in output and profitability, unemployment is expected to rise a little further. The discovery of $\frac{3}{4}$ million extra people in the labour force in mid 1981 complicates the analysis but does not change significantly the prospects for unemployment.

9. Section IX looks in some detail at public expenditure and the PSBR. Even with the control totals set, the forecast requires judgment about shortfall, use of the contingency reserve, spending by local authorities and so on. In total, these

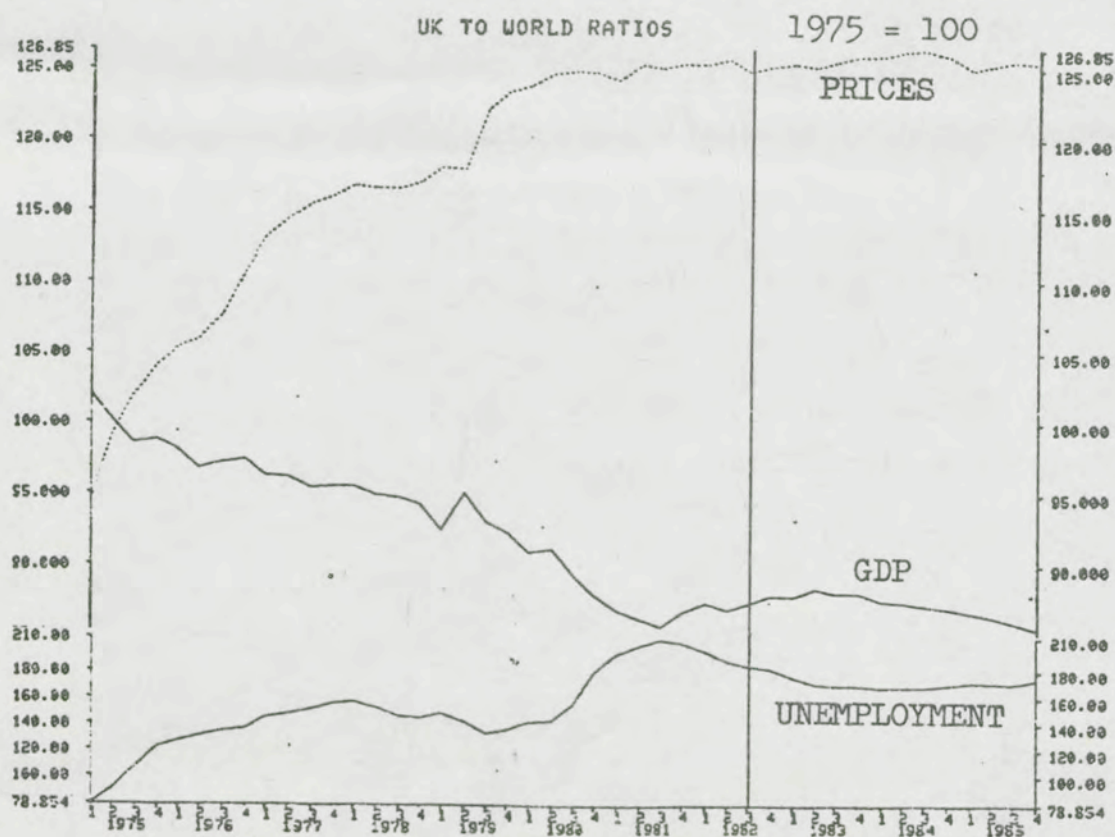
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judgments suggest somewhat higher shortfall than the forthcoming White Paper. Forecasts of expenditure, taken with forecasts of revenue, suggest scope for a fiscal adjustment - by convention taken all on personal income tax - of about £2 billion in 1983-84. It should be noted that additions to public expenditure, if contemplated in the run-up to the budget, are liable to reduce the fiscal adjustment even if the extra money is found from the contingency reserve - because we assume that not all the reserve will be spent.

10. Section X relates the forecast of sectoral flows - the financial surpluses and deficits - to the rest of the forecast. The financial position of the company sector now looks better as a consequence of the fall in the exchange rate and the judgment that the gain in competitiveness will last.

11. Section XI suggests that - if we are right about pressure on sterling easing - there may be scope for interest rates to come down a little, either this year or next, consistently with keeping most but not all measures of monetary growth within the 7-11 per cent range for 1983-84. M1 is likely to rise above the top end of the range; but £M3 should rise more slowly if we are right in judging that the growth of bank lending will slow down.

12. One way of looking at the prospect for the UK is to compare ourselves with other countries. The chart below shows the ratio (UK to world) for prices, GDP and unemployment. The period up to



about 1981 shows that the UK grew more slowly, unemployment rose more, and prices rose faster. Since 1981 there has been a marked change, part of which reflects the timing of recession: in the UK this was steeper and earlier than elsewhere. Over the forecast period as a whole UK performance, in this relative sense, is better than in recent years.

13. The report points to particular areas of uncertainty. The timing and speed of the recovery in other countries remains very uncertain. At home there is some concern that the growth in liquidity could fuel more expenditure (in real or nominal terms), and that the supply response to rising demand could be limited. But we have made some allowances for these effects already.

14. The main forecast incorporates a fiscal adjustment in 1983-84 of some £2 billion. We have also looked at the consequences of assuming a zero adjustment ie assuming that tax changes in the budget are limited to simple revalorisation. With the same assumptions about monetary policy, the lower PSBR allows interest rates to be lower, with the exchange rate also down - though the size of these changes is very uncertain.

15. The direct effect of this alternative assumption is on consumers: their real incomes are reduced by over 1 per cent, which leads partly to lower spending, partly to lower saving. The cut in interest rates and exchange rates provides some offset to the lower spending by consumers. In total, by the first half of 1984, output could be $\frac{1}{4}$ per cent lower and prices $\frac{1}{4}$ per cent lower. In later years, more of the impact would be felt on inflation and less on output. The gain on interest rates could be between 1 and 2 per cent - on the assumption that there is the same growth in (the average of) monetary aggregates.

16. These are no more than broad orders of magnitude - and make no attempt to allow for the reactions in financial markets to the announcement of a significantly lower PSBR than is currently expected.

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SUMMARY TABLE AND COMPARISON OF FORECASTS

	FSBR/MTFS MARCH 1982	AUTUMN STATEMENT NOVEMBER 1982	INTERNAL FORECAST JANUARY 1983
<u>World Trade in Manufactures</u> (% change on year earlier)			
1981	4	4½	3½
1982	4	-2	-3
1983	4½	2½	1½
1984	5½	6	7
<u>GDP Volume</u> (% change on year earlier)			
1981	-2.0	-2½	-2½
1982	1.4	½	½
1983	2.4	1½	2
1984	2.8	2½	2½
<u>Manufacturing Output</u> (% change on year earlier)			
1981	-6½	-6½	-6½
1982	3	0	-½
1983	2	0	0
1984	2	1½	2
<u>Unemployment</u> (UK sa excl school leavers, millions, <u>new</u> definition)			
1981 Q4	2.6	2.6	2.6
1982 Q4	2.8	2.9	2.9
1983 Q4	2.8	3.2	3.0
1984 Q4	2.8	3.3	3.1
<u>RPI</u> (% change on year earlier)			
1981 Q4	12	12	12
1982 Q4	9	6	6
1983 Q4	7	5	6½
1984 Q4	6	7	7
<u>Effective Exchange Rate</u>			
1975 = 100			
1981	95	95	95
1982	88½	91	90½
1983	84½	89½	80
1984	82	84½	80

FSBR/MTFS
MARCH 1982

AUTUMN
STATEMENT
NOVEMBER
1982

INTERNAL
FORECAST
JANUARY 1983

Current Balance
(£b)

1981	8½	6	6
1982	4	3½	4½
1983	3	0	1
1984	3	0	2

Nominal GDP (mp)
(% change on year earlier)

1981	10	9½	9½
1982	10½	9	8½
1983	9	7	8
1984	10	9	9½

PSBR and fiscal adjustment
(£b)

1981-82	10½	9	9
1982-83	9½	9	8
1983-84	8½ (½)	8 (1)	8 (2)
1984-85	6½ (2)	6½ (1½)	6½ (2)

Interest Rates
Short-term

per cent

1981-82	14	14	14
1982-83	13½	10½	11
1983-84	12	8	10
1984-85	10	9	9

Money Supply £M3
(% change on year earlier)

1982 Q1	14½	13½	13½
1983 Q1	11	12	11½
1984 Q1	9	8½	9½
1985 Q1	7	7	8

M1
(% change on year earlier)

1982 Q1	9	7	7
1983 Q1	11	11	12½
1984 Q1	13	13	13½
1985 Q1	13	10	11½

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Policy assumptions

17. In general, we have maintained the same policy assumptions as in the forecast published in the Autumn Statement:

(i) Short-term interest rates are assumed to be set so that, as far as possible, the monetary aggregates (a simple average of broad and narrow) will stay within the MTFS ranges, while taking account of other factors, including the level of the exchange rate, affecting monetary conditions.

(ii) Public Expenditure control totals are as in the forthcoming White Paper. The expenditure forecasts here differ from the White Paper on account of different economic assumptions, different judgments about shortfall etc. A detailed reconciliation is given in Section IX.

(iii) Direct and indirect taxes are assumed to be revalorised by $5\frac{1}{2}$ per cent (the rise in the RPI between December 1981 and December 1982) in the 1983 Budget.

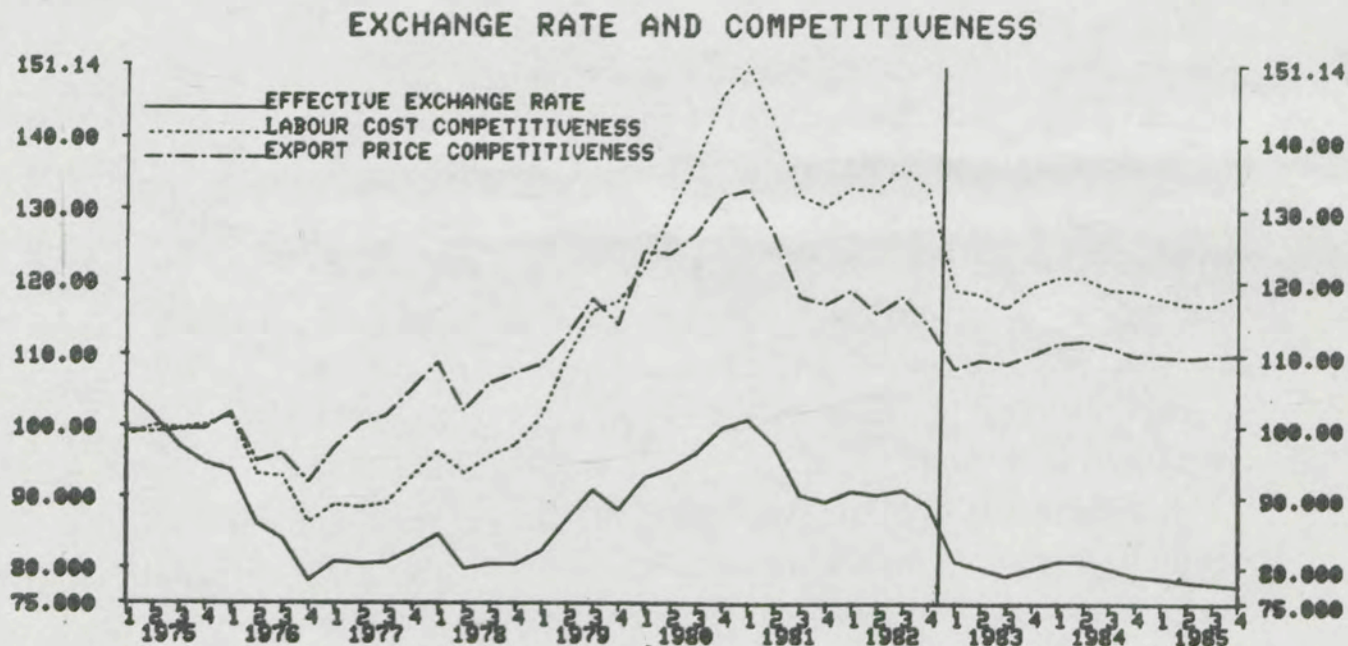
(iv) The PSBR in 1983-84 is constrained to £8 billion, and thereafter to 2 per cent of GDP, by means of a fiscal adjustment, taken by convention on personal income tax. This means that the forecast already takes credit for a 1983 budget in which, on top of revalorisation, there is a reduction in personal income tax of some £2 billion. A variant of the forecast with no fiscal adjustment in 1983-84 is discussed on page 4. Note that the fiscal adjustment is defined in terms of its effect on the PSBR: thus the fiscal adjustment estimated at about £2 billion in both 1983-84 and 1984-85 provides scope for cuts in income tax worth (in terms of income tax revenue) around £2 billion in 1983-84 and £2 $\frac{1}{2}$ billion in 1984-85, the difference in the second year reflecting the usual feedbacks to the Exchequer from activity, interest payments etc.

Exchange rate

18. In common with many outside forecasters we have been expecting a decline in sterling for some time, partly because we did not regard as sustainable the levels of competitiveness prevailing in 1981 and 1982 - the need for some improvement has been common ground - but more because we did not see the adjustment coming about solely through productivity and wage changes.

19. We treat part of the recent fall as a reflection of election fears. Our assumption of unchanged policies after the next election - ie the re-election of the present Government - suggests to us that perhaps after a further period of (by recent standards, mild) weakness for much of 1983, the exchange rate may strengthen after the election, with a level in 1984 of perhaps around 80. Reduced pressures on the rate for the rest of 1983 may allow a small fall in interest rates.

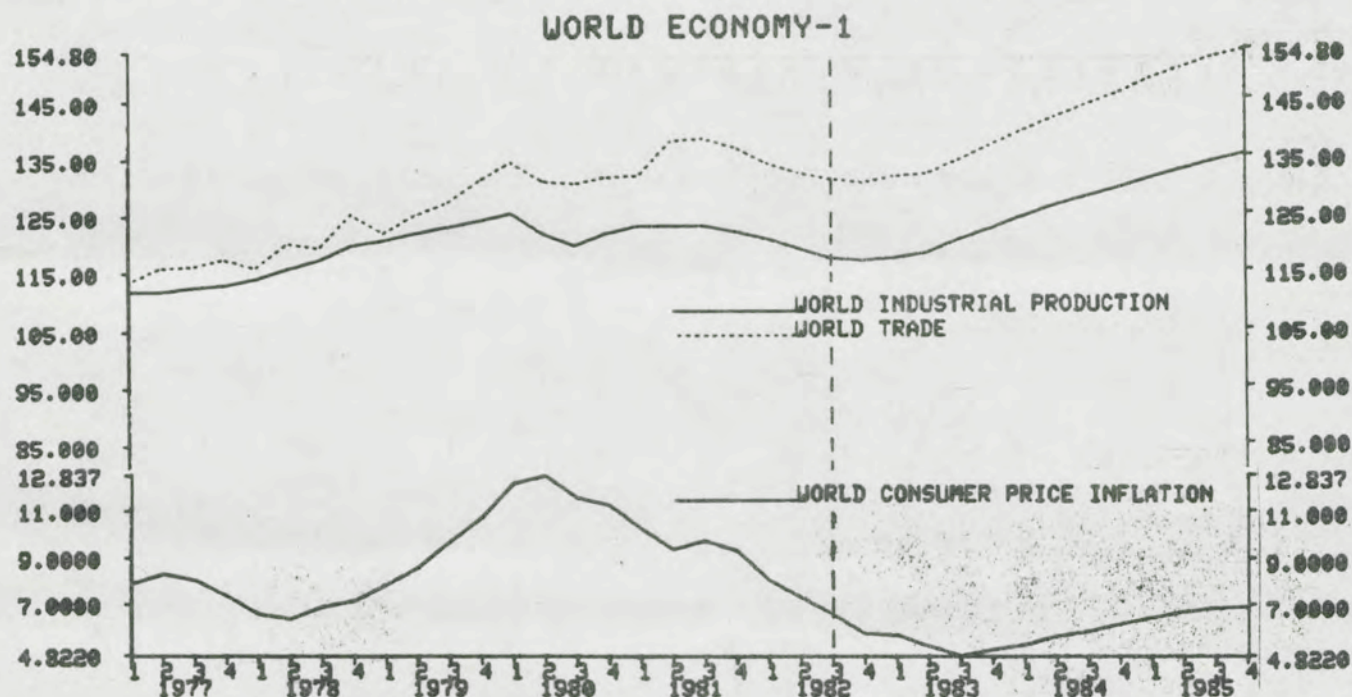
20. Now that the rate has fallen, the prospects for competitiveness and for the current account are improved, though we still see the current account in only small surplus. The chances of a substantial further fall are thus probably reduced. The chart below shows the view on the exchange rate and on competitiveness embodied in the forecast.



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The world economy

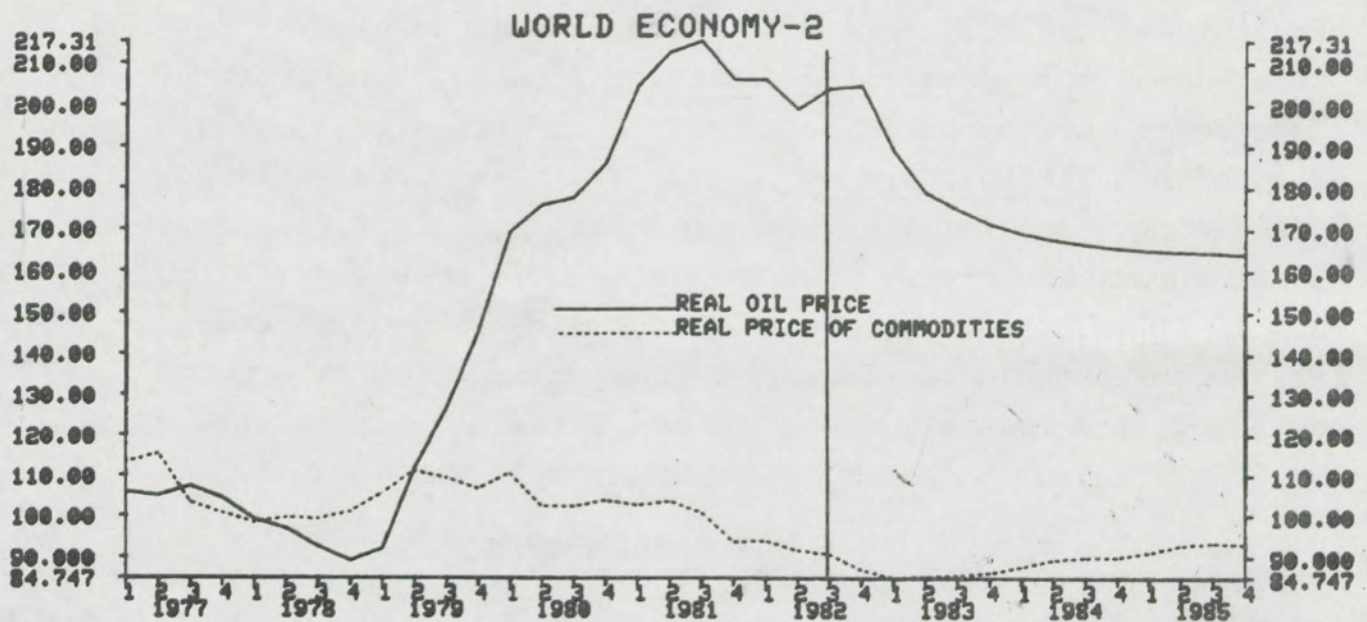
21. A paper for Chevening described recent developments and future prospects for the world economy; the Report on World Economic Prospects is being circulated about now. The forecasts continue to point to a moderate recovery as a result of easier monetary policies (notably in the US), lower inflation and a lessening of the debt problems of some developing countries. Hopes of recovery have been postponed: but the extent of the fall in inflation and the extent of the adjustments that are being made in the current recession provide increasing scope for a pick up in activity. The timing nevertheless remains very uncertain. The recovery could be delayed further - but if it is, then, particularly if policy becomes more expansionary, the recovery could be sharper than expected. On the central forecast, the recovery in output and profitability is not likely to be sufficient to begin to reduce unemployment.



22. We have allowed for the recent weakness in oil demand - likely to recover only very slowly - to be reflected in a 7 per cent (\$2) cut in the average dollar oil price in the next few months, with larger falls in real oil prices as the dollar continues to decline. (We shall review this judgment nearer to the budget). By comparison with the forecast in the Autumn Statement, recovery comes a little later; and oil prices are a little lower. As the world economy

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recovers, so too, in a muted way, do commodity prices with the major exception of oil. Hence the upturn in inflation, worldwide, is very limited.



23. The table below summarises the main elements of the forecast:

per cent changes per annum

	1973-80	1981	1982	1983	1984	1985
GDP (major 6)	2½	1½	-1	1½	3½	3½
World trade in manufactures (UK weighted)	5½	3½	-3	1½	7	6
Imports into less developed countries (volume, including OPEC)	7½	9	-5½	-½	8	7½
Consumer prices (major 6)	9½	10	7	5½	6	7
Real oil prices	26½	18½	-3	-12½	-6½	-1½

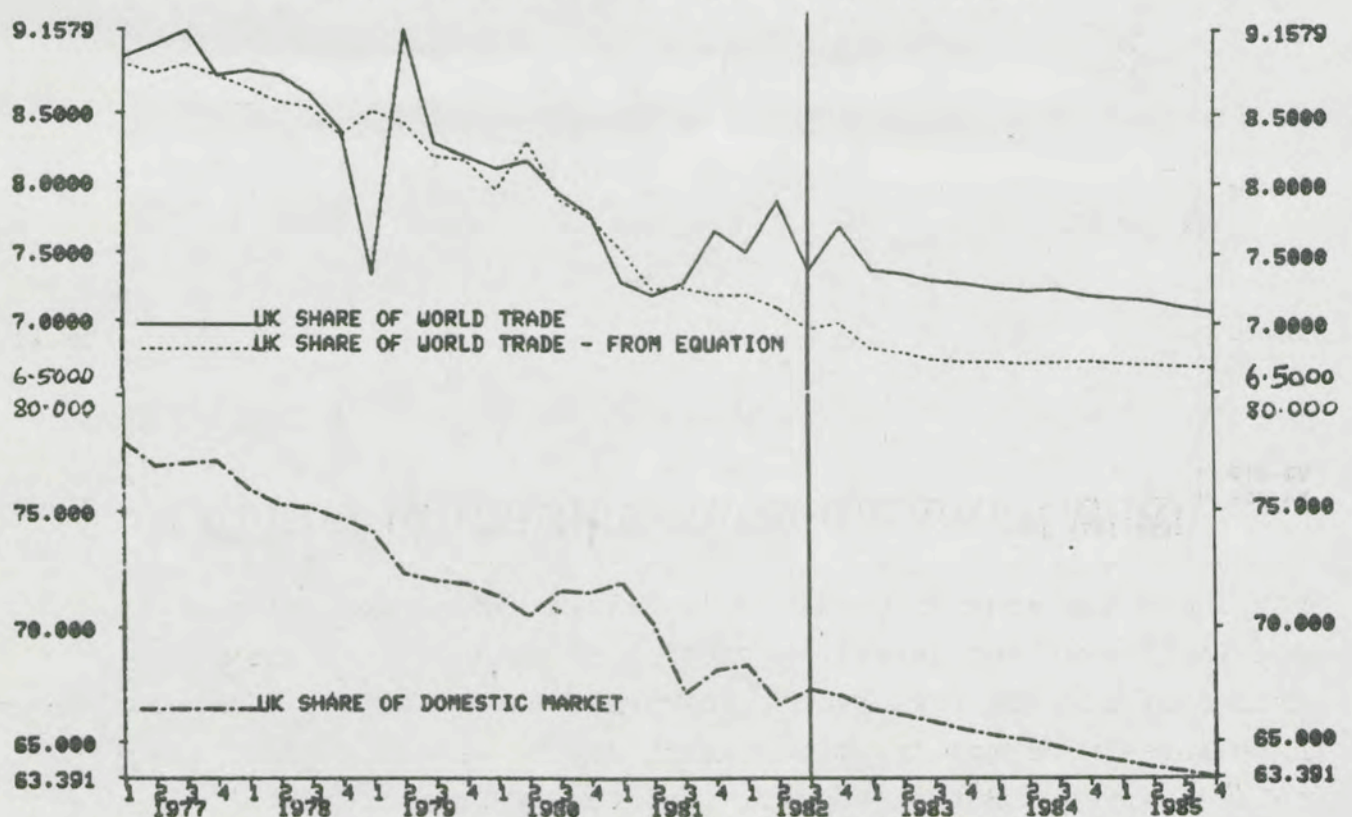
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UK Trade

24. UK exports rose in October and November, but monthly figures have been very erratic and the forward indicators are gloomy. The chart below shows that UK export volumes have done better than expected since the middle of 1981, perhaps in part because of the greater than expected gain in export price competitiveness and perhaps because spare capacity in UK manufacturing has encouraged higher production, at least for export, on low profit margins. To the extent that recent performance implies that adverse competitiveness had less effect in 1981 and 1982, or reflected low demand, then the recent improvement in performance may be partially reversed. On the other hand, recent behaviour may herald better performance in the future with continued aggressive pricing behaviour. We have given slightly more weight to the former, and the forecast allows most but not all of the higher level of exports to continue over the forecast period, and the recent gains in competitiveness are forecast nearly to halt the decline in the UK share of trade in manufactures.

25. Better competitiveness and a better performance in the second half of 1982 implies that UK exports will be higher by the end of 1983 than forecast in the Autumn Statement, despite a lower level of world trade. But the upward trend in import penetration must be expected to continue, though it should be damped by the lower exchange rate.

TRADE PERFORMANCE IN MANUFACTURES

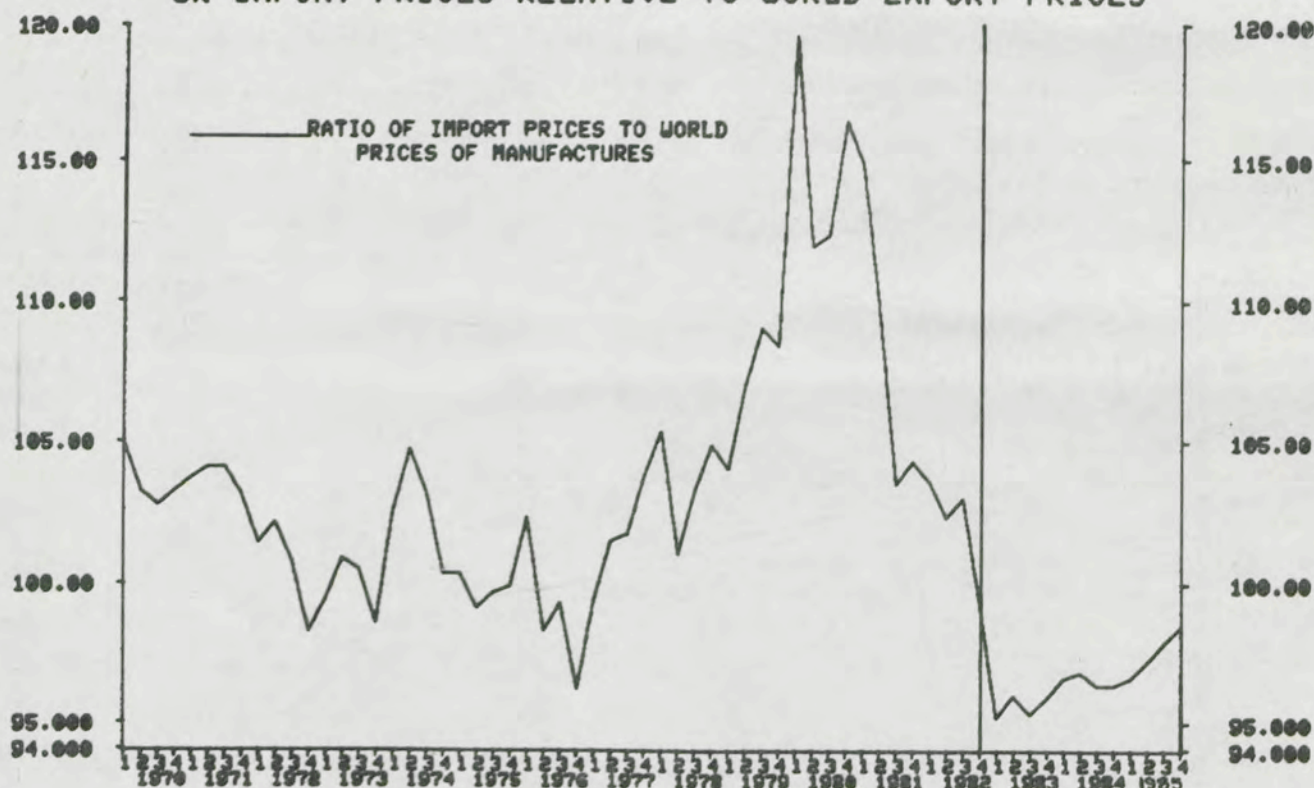


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26. An important issue - especially for inflation and the balance of payments - is the extent to which the lower exchange rate will affect prices charged in the UK by foreign suppliers. Analysis of the sixties and seventies shows that importers normally price their goods giving some weight to prices charged by domestic producers (the converse proposition about the pricing policy of UK producers, though clearly true in some areas such as steel and chemicals, has proved less easy to establish). Thus when the exchange rate increases as it did up to early 1981, importers raised their prices by enough to give them high profits but by less than domestic producers. (UK exporters appear to do the same in overseas markets).

27. The fall in the exchange rate since early 1981 has been accompanied by a smaller than expected rise in import prices (and in our export prices). An important question in relation to the recent fall in the rate is how much further importers will cut their margins after the recent fall in the exchange rate. The chart below relates the prices charged by the UK's foreign suppliers to prices charged in other markets.

UK IMPORT PRICES RELATIVE TO WORLD EXPORT PRICES



28. There are many difficulties in making these comparisons, especially over the correct weighting of manufactures and semi-manufactures. The very recent sharp movements may owe something to the swings in commodity prices which may be weighted differently in the two series. But it appears that foreign suppliers are not now charging significantly higher prices in the UK than elsewhere; that

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the scope for a further major reduction in importers' profit margins is limited; and that the recent fall in sterling is likely to be more fully reflected in prices than was the 1981 fall in sterling. In relation to domestic prices, however, import prices are likely to remain relatively high (the index of import price competitiveness, which averaged close to 100 in the 1970s, is forecast at or near 120 for the forecast period).

29. Since the Autumn Statement forecast was published, the current account of the balance of payments has been stronger than expected, despite the delay to the EC refund (in the forecast, this is assumed to benefit the current account in the first quarter of 1983; whereas most of the benefit to the PSBR was gained in the final quarter of 1982; as a result of differing accounting treatments).

30. Whereas we expect the volume of imports to resume its rise in 1983 as domestic demand continues to grow, the volume of exports is liable to fall back for a quarter or two, in line with recent survey evidence, and reflecting our judgment that the Q4 level was above trend and as the world economy picks up only slowly. With UK demand rising faster than that of most other countries the visible balance is forecast to move into deficit in 1983, before stabilising thereafter as the full effects of the gain in competitiveness come through. On invisibles, there continues to be a prospect of a rising net benefit from IPD flows as we continue to have current account surpluses (and hence net capital outflows) and as world activity and profitability pick up; and the services account is likely to benefit from both the upturn and the gain in competitiveness.

£bn	1981	1982	1983	1984
Visible balance	3	1½	-2½	-3
Invisibles	3	2½	3½	5
Current account	6	4	1	2

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Inflation

31. At the time of the budget, inflation was expected to come down: using the RPI measure it has come down faster than expected; on other measures it is close to the forecast rate.

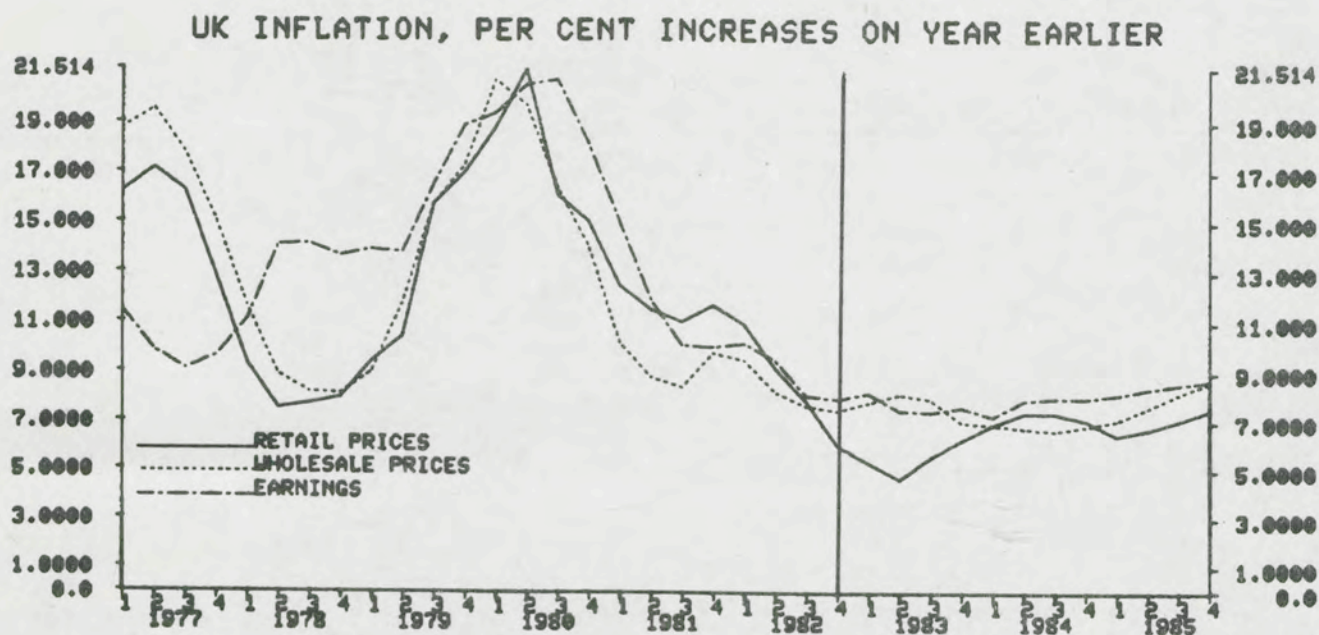
Annual rates of inflation, per cent

	Fourth quarter 1981		Fourth quarter 1982
		Forecast at budget time	Provisional Estimate of outturn
1) RPI	12	9	6 $\frac{1}{4}$
2) RPI excluding food, housing & NIs	10 $\frac{1}{2}$	7	6
3) Wholesale prices (excluding food, drink & tobacco)	10	7	7 $\frac{1}{2}$
4) GDP deflator	10	7	[7 $\frac{1}{2}$]

32. The RPI was affected by several factors not typical of prices in general - in particular big falls in seasonal food prices and in interest rates. While commodity prices, world wide, were generally lower than expected, and the exchange rate, for most of the year, higher than expected, oil prices have been higher. The December RPI was 5 $\frac{1}{2}$ per cent up on a year earlier; a further decline, perhaps to 5 per cent, is expected in January.

33. The general rate of inflation - as measured by wholesale prices of manufactures or by expenditure prices in total - is probably now in the 6-7 per cent range, well above the estimated rise of about 3 per cent in labour costs between the fourth quarters of 1981 and 1982 (this includes the first reduction in NIS), and the rise of only 2 per cent or so in import prices.

34. Although the forecast is very uncertain, we do not expect any major change in the general inflation rate over the forecast period. In 1983, lower oil prices and slower growth in wage costs (helped by reductions in NIS) may broadly offset the effects of the recent fall in the exchange rate and allow some further rebuilding of profit margins. In 1984, although there may not be much further change in the exchange rate there is liable to be some recovery in commodity prices, and at home there could be a slightly faster growth in costs.



35. These movements in the general rate of inflation will probably continue to be exaggerated by the retail prices index. On the basis of a budget which allows for revalorisation of the specific duties, the rate could be at 5 per cent or below in April, May and June. But, as comparison is made with the corresponding months in 1982 - some of which were favourably affected by falls in the mortgage rate and seasonal food prices - and as the effects of the recent fall in the exchange rate are felt, the RPI annual rate is likely to rise again, reaching perhaps $6\frac{1}{2}$ per cent by the fourth quarter of 1983.*

36. The slowdown in earnings growth has lagged behind the fall in the rate of price inflation. The current pay round could yield an outcome on earnings of around 7 per cent (with settlements in the $5-5\frac{1}{2}$ range). For the next, 1983-84, round we have tentatively forecast earnings growth of 8 per cent, as the inflation rate (measured by the RPI) moves up and there is a clear improvement in profitability and competitiveness, and so a relaxation in the financial constraints on the company sector.

*As table 7 at the back makes clear the prices charged by nationalised industries are forecast to rise a little more slowly than other retail prices from now on.

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per cent		Average earnings	Public services settlements	Cash provision for pay
<u>Pay rounds</u> (to Q3)	<u>Settlements</u> (whole economy, underlying)			
		(underlying)	(underlying)	(for following financial year)
1980-81	8½	11	8	6
1981-82	7	9	6½	4
1982-83	5-5½	7	5	3½
1983-84	6-6½	8	6	n a

37. There are a number of risks to this forecast. One is that for 1983 we have underestimated the speed and extent of the feed through from the exchange rate fall. Beyond then, worries have been expressed by a number of forecasters about the risks of a more rapid upturn in inflation in response to the better financial position of companies and the possibility of higher spending by the private sector following the rebuilding of its real stocks of financial wealth over the last two years. An opposite risk is that we have, as before, underestimated the downward pressures on inflation in a world where the UK is still less competitive than for almost all the 1970s, and where a substantial margin of spare capacity at home and abroad continues to limit profits.

38. Real average take-home pay has been squeezed in the 1980-81 and 1981-82 pay rounds by about 3 per cent and 1 per cent respectively. The earnings forecast is consistent with an increase in real take-home pay of 3-4 per cent in the current round following by a small further increase in 1983-84, both helped by the assumed fiscal adjustments.

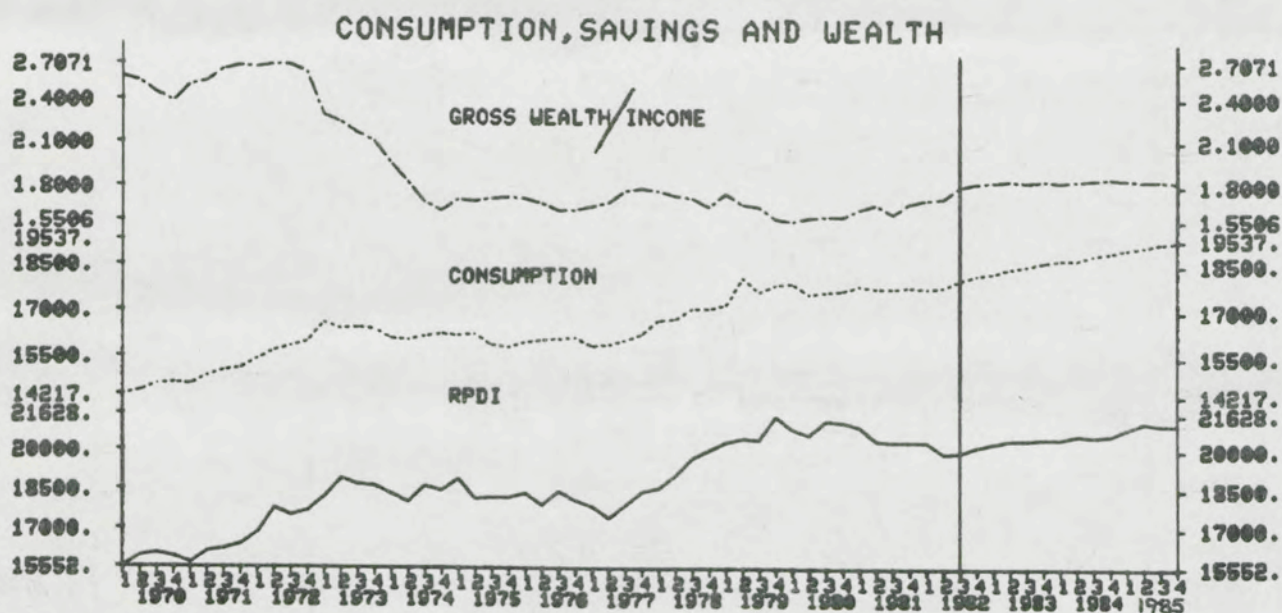
39. Looked at from the employers' side, labour costs are increasing only slowly at the moment, helped by cuts in NIS. After a rise of 2 per cent forecast for 1983, we expect a considerably faster rise, perhaps about 6 per cent, in 1984 as the growth in productivity slows down, there are no further cuts in NIS (by assumption) and the growth of money earnings edges up.

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Domestic demand and output

40. Consumer demand is clearly rising quite strongly now, with expenditure on both durables and non-durables well up on a year ago. Much of the increase has come in durables and reflects the abolition of HP controls in July and, perhaps, the continuing high level of bank borrowing and the fall in interest rates in the second half of 1982. Moreover, real personal incomes probably stopped falling in mid 1982 and have since been rising.

41. The chart below shows that the fall in real incomes since the peak in 1980 has been accompanied by little change in consumer spending until recently: as the rate of inflation came down and as the stock of bank borrowing built up, consumers were prepared to save less. From 15½ per cent in 1980 the savings ratio has fallen in recent quarters to below 10 per cent.

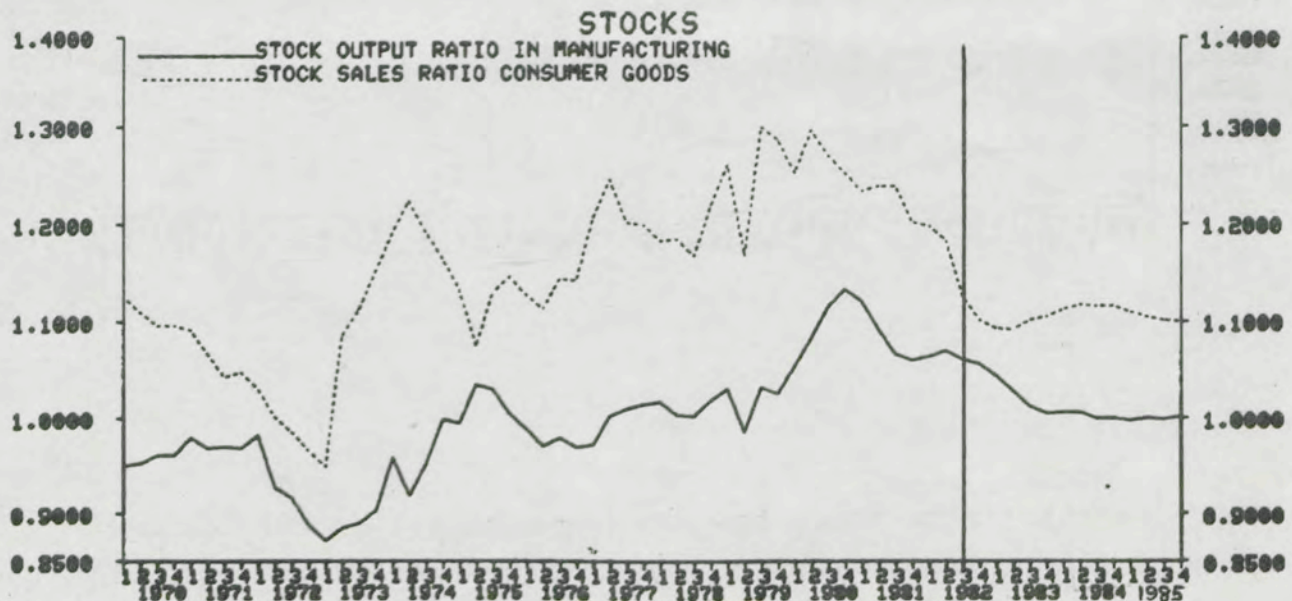


42. The chart also shows how the personal sector has begun to rebuild its financial wealth: the ratio of wealth to income has been

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rising over the last year or two, and is forecast to rise further over the next year, before levelling off. Lower interest rates (which increase the value of fixed-interest securities and equities) and high borrowing more than offset the fall in the flow of savings. It is still very uncertain how far consumers wish to go in rebuilding their stocks of wealth: we have assumed that they have learnt to live with the position since 1974, and do not wish to return to the much higher stocks (in relation to income) of the late 1960s and early 1970s. If this is correct then consumers will be content to save a lower proportion of their income than in recent years: at about 9 per cent, the forecast savings ratio is close to the average for the period 1965-1972, compared to 13 per cent in the period 1973-1981.

43. Spending by companies faltered in the second half of 1982 as the boom in consumption gave manufacturers and distributors an opportunity to run off some apparently unwanted stocks. At least, that is our interpretation: there is no sign as yet of rising consumer demand being reflected in domestic production of manufactures, nor even in higher imports. The fall in stocks in the second half of 1982 helps to make the stock/output ratio look less above normal, though the apparent upward trend in the series in the 1970s makes that a difficult judgment.



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44. Indications from the investment intentions survey suggest that industrial investment will rise again in 1983 and 1984, probably reflecting the expected growth in the economy and helped by the fall in nominal (though not real) interest rates in 1982. Within the total manufacturing investment could level out in the course of 1983.

45. A major question is how to interpret the large rebound in the liquidity and financial position of companies since early 1980. Already they have fully reversed the reduction in the gross liquidity ratio sustained in 1979-80 as inflation rose, and this may suggest scope for either reduced borrowing, or increased spending, over the forecast period. A sharper rebound of company spending than is in the forecast, with less of a deceleration in borrowing, is certainly possible, but our view is that companies will remain fairly cautious given the experience of the last few years, the continuing level of real interest rates and the competitive disadvantages still faced by many companies.

46. The prospects for domestic demand are summarised in the table below:

per cent increases on a year earlier	1981	1982	1983	1984	1985
Personal consumption	$\frac{1}{2}$	1	3	2	2
Change in Stockbuilding (as per cent of level of GDP)	0	1	1	$\frac{1}{2}$	0
Fixed investment (public and private)	-8	3	$3\frac{1}{2}$	4	$3\frac{1}{2}$
Public consumption	0	1	$\frac{1}{2}$	1	$\frac{1}{2}$
Total domestic demand	$-1\frac{1}{2}$	$2\frac{1}{2}$	$3\frac{1}{2}$	$2\frac{1}{2}$	2

47. With better competitiveness and profitability, the prospects for meeting a good part of this demand from higher production at home have increased - despite recent low figures for manufacturing output. By 1984 higher output for export is forecast to be making a significant contribution.

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	1981	1982	1983	1984	1985
Exports of goods and services	-2	0	0	5	4½
Imports of goods and services	0	4	3½	5½	4
Gross Domestic Output	-2½	½	2	2½	2
Manufacturing output	-6½	-½	0	2	1½

48. There are various risks. On the demand side the increase in company spending could be greater (see paragraph 45 above). Alternatively the increase in personal consumption could be slower, perhaps reflecting a greater desire to save; and with the world economy as forecast, this could lead to slower growth of UK demand and output for a time, before picking up more strongly in 1984. On the supply side, the response to higher demand could be stronger on imports, particularly for manufactures where we have tended to overestimate the level of output in recent forecasts.

Employment and unemployment

49. The discovery by DE that the working population in mid 1981 was $\frac{3}{4}$ million more than first thought has implications for:

(i) productivity. Mainly outside manufacturing, the latest estimates no longer suggest any above average productivity gains (but those in manufacturing are confirmed, as is the contrast between the broad sectors).

(ii) activity rates. The drop in the labour force suggested by previous estimates is now no longer apparent. Hence the number who lost their jobs over the period 1979-81 matches quite closely the increase in unemployment.

50. The recovery in the economy over the forecast period, together with the improved profitability and financial position of companies, suggest that the fall in employment could now be over, though there will probably be some further falls in manufacturing. The labour force is probably rising: while it is clear that the population of working age is continuing to rise by some 200,000 a year, the trend in activity rates is much less clear - we have assumed little change. On this forecast, unemployment is a little more likely to rise than to fall.

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Public expenditure and the PSBR

51. Our starting point is the planning total in the forthcoming White Paper. This compares with earlier estimates of public expenditure as follows:

	Planning Total, £ billion, cash			
	1981-82	1982-83	1983-84	1984-85
1981 PEWP	104½	110	113½	-
1982 PEWP	105½	114½	120	127½
1982 Autumn Statement	105	114½	120	-
1983 PEWP	104½	113	119½	126½
1983 JANUARY FORECAST	104½	112½	118½	125½

52. The reduction in the expected rate of inflation after the 1982 PEWP led to an upward revision in the future level of public expenditure when measured in cost terms - compare the first and second lines of the table below

	Planning Totals			
	Cost terms, 1981-82 prices, £ billion			
	1981-82	1982-83	1983-84	1984-85
1982 PEWP	105½	106½	104½	104
1983 PEWP	104½	105	106	105
JANUARY 1983 FORECAST	104½	105	105	104

53. The forecast updates the economic assumptions and shortfall judgments used in the PEWP.

54. The table below shows how the judgments made in the forecast lead to a forecast level of cash public expenditure in total that is a little lower than in the PEWP in both 1982-83 and 1983-84. In other words, the net allowance for shortfall is higher in the forecast. The table identifies the main areas where shortfall is expected: in 1983-84, apart from the usual tendency for the operation of cash limit ceilings to lead to underspending, the nationalised industries are the main element:

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	£ billion, cash	
	1982-83	1983-84
1. Public Expenditure Planning Total as in 1983 White Paper	113	119½
2. Net shortfall allowance in 1983 White Paper	-1	-1¼
3. Public expenditure plans (including CR) <u>before</u> shortfall	114	120¾
4. Shortfall in forecast	-1¾	-2¼
of which		
i) nationalised industries	-¼	-1¼ (of which ¾ from the contingency reserve)
ii) local authorities (current <u>and</u> capital)	-½	0
iii) Central government cash limits	-1	-1
5. Planning total in forecast (= 3 + 4 + other adjustments)	112¼	118½

55. Lines 1 and 3 in this table include the £1½ billion contingency reserve ^{in 1983-84.} In constructing the forecast we have assumed that half of this is allocated to nationalised industries, half to other areas of public expenditure. The latter we assume to be fully spent. But the nationalised industries, their surpluses benefiting from rising demand rather than big rises in prices, should be able to finance their investment - as always likely to be well below **plans** - with much the same level of external finance as in the current year, leaving them undershooting their EFLs and not requiring their allocation of the contingency reserve (the sum of these two being the £1¼ billion in line 4 i)). In 1982-83 ^{set at budget time} the industries are underspending their EFLs/by perhaps £½ billion; whereas at budget time, their share of the £2¼ billion contingency reserve amounted to £900 million, none of which (net) seems likely to be needed nor allocated to other contingencies, despite the policy changes last November.

56. This forecast does not allow for the effects of extra expenditure measures which might be announced in the budget or later: even if these were financed out of the contingency reserve -

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leaving the public expenditure control totals intact - they could well, depending on their size, reduce the amount of shortfall in the forecast and so reduce the scope for fiscal adjustment.

57. Other points to note include:

- i) The forecast allows for continued overspending on current, and underspending on capital, by local authorities, as usual on the basis of unchanged policies.
- ii) The forecast allows for an uprating of social security benefits in November 1983 in line with the forecast rise in prices ($6\frac{1}{2}$ per cent) less £180 million in 1983-84 allowed for recovery of overshoot.
- iii) In the later years of the forecast, particularly 1985-86, the inflation rate is above what was in mind when the public expenditure figures were constructed. As usual, we have assumed that this will result in a squeeze on volumes but only up to a maximum of 2 per cent, beyond which cash expenditure is assumed to increase.

PSBR

58. Between April and December 1982, the PSBR amounted to £7½ billion. It is usual for borrowing to be small, sometimes negative, in the final quarter of the financial year but this year various measures announced in November - worth about £1 billion though there was some effect before the end of 1982 - make it likely that the total for the financial year 1982-83 will rise to around £8 billion, consistent with the seasonally adjusted outturn of £5.3 billion (annual rate £7 billion) to end December. Our projections take into account detailed work on the central Government accounts by Accounts Division.

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59. Prospects for 1983-84 and 1984-85 are summarised in the table below, set out in a format similar to table 1.8 in the Autumn Statement:

£billion (per cent change)	1982-83	1983-84	1984-85
General Government expenditure	129½(+ 8½)	136½(+ 5½)	145½(+ 6½)
General Government receipts (on the basis of revalorisation only)	120½(+ 9)	130(+ 8)	140½(+ 8½)
Implied fiscal adjustment* (+ implies tax cuts)	-	+2	+2
General Government Borrowing Requirement	9	8½	7
PSBR: £billion	8	8	6½
as % of GDP	3	2¾	2
Money GDP	274 (+ 8)	298 (+ 8½)	326(+ 9½)

60. The projected rise in the public expenditure planning total, under 6 per cent, is less than the rise in money GDP, with hardly any increase at all in debt interest payments (not part of the planning total). Public sector revenues, before fiscal adjustment but after revalorisation, are expected to rise at much the same rate as money GDP.

61. Important influences on the movement of receipts between 1982-83 and 1983-84 include:

- i) the lower rate of NIS;
- ii) the full year revenue effects of taxing unemployment benefit;
- iii) the increase in National Insurance contribution rates;
- iv) the switch in receipts from the duty on spirits out of 1982-83 into 1983-84;
- v) the 20 per cent rise forecast for corporation tax receipts in response to the increase in profits in 1982.

* effect on the PSBR

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Customs and Excise expect to recover in 1983-84 a further £1½ billion of tax receipts delayed by the Civil Service dispute, a similar amount to that estimated for 1982-83.

62. Oil revenues in sterling are forecast to be a little higher in 1983-84 than forecast at the time of the Autumn Statement, with the lower level of sterling more than offsetting a lower world oil price. Forecasts of oil revenues, described much more fully in a separate note by Mr Powell, are as follows:

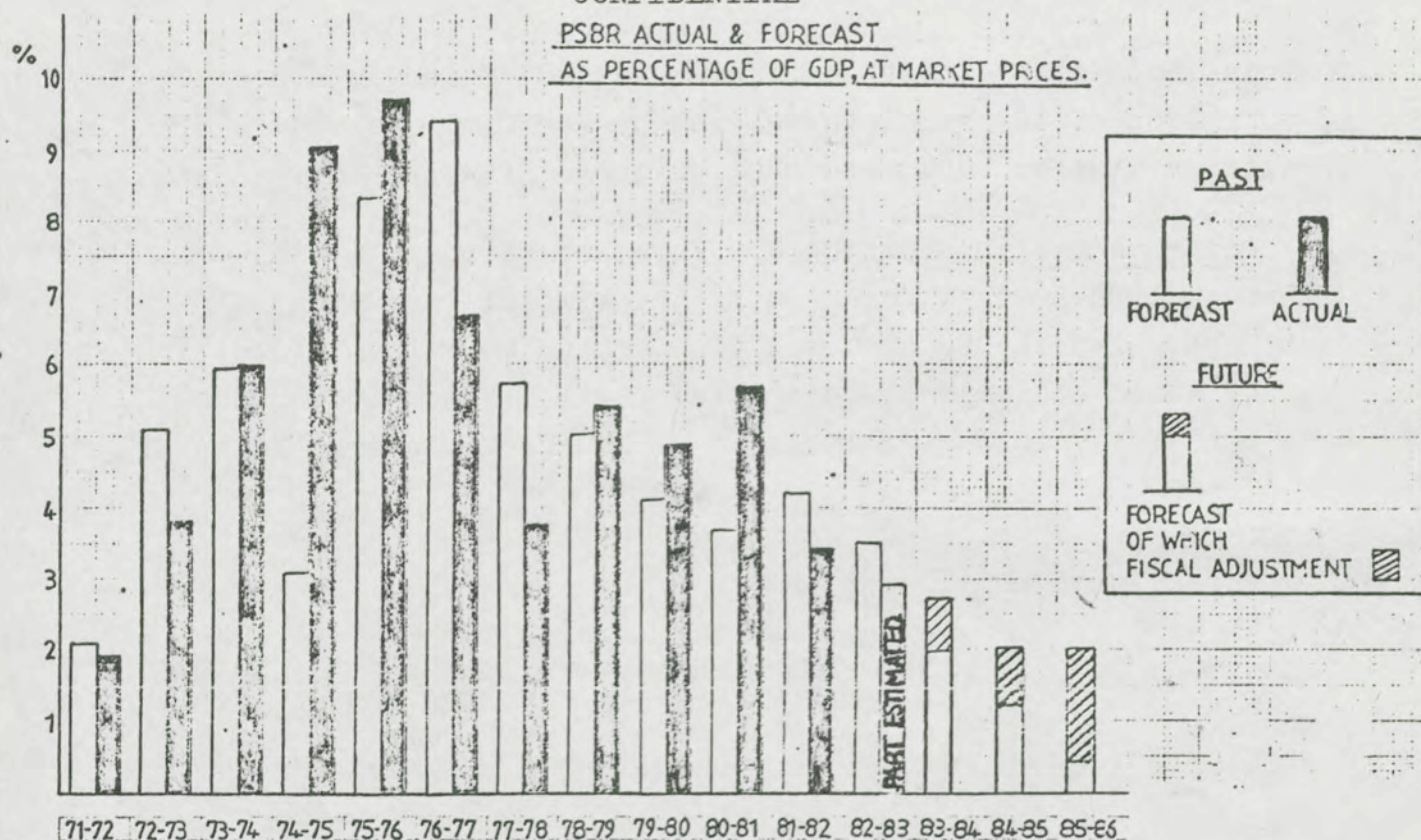
	£ billion		
	FSBR/MTFS MARCH 1982	AUTUMN STATEMENT NOVEMBER 1982	JANUARY 1983
1982-83	6	7	7½
1983-84	6	7½	8
1984-85	8	-	8½

63. Users of forecasts should be aware of the substantial margins of error surrounding our assessments of the PSBR and fiscal adjustment. The average margin of error on the PSBR, based on forecasts over the last fifteen years, is about 1½ per cent of GDP. In the forecast published with the Budget this will probably be shown as £4½ billion. The chart below shows errors on forecasts made at budget time: in the past, the PSBR turned out substantially higher than forecast in 1974-75 and 1980-81, when the economy moved sharply into recession and when public sector wages rose rapidly. Conversely the PSBR turned out under forecast in 1976-77 and 1977-78 (and to a much lesser extent 1981-82 and 1982-83), periods of some cyclical recovery in the economy. Methods of forecasting the PSBR now attempt to give more weight to these cyclical factors.

64. Given the margins of error, an outturn within £2-3 billion of the forecast (as in 1981-82 and, we expect, 1982-83) must be accounted satisfactory: either a good or a lucky forecast.

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65. Fiscal policy is often defined in terms of its effect on the flow of public sector revenues and expenditures; but changes in the stock of public sector debt may also have effects on, for example, decisions to spend. Such changes reflect not only borrowing in each year but also the change in the rate of inflation (and in some versions, reductions in the market value of public sector debt as interest rates change). The effect of inflation on the stock of public sector debt outstanding is often known as the inflation tax.

66. The table below shows the actual PSBR as a percentage of GDP, and one definition of the "real" PSBR defined as the actual PSBR less the inflation tax:

	percentage of GDP					
	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
PSBR	5	5½	3½	3	2¾	2
Inflation tax (using RPI)	7¼	4	3½	2¾	2½	2¼
"Real" PSBR	-2¼	1½	0	¼	¼	-¼

In this table a positive "real" PSBR indicates that policy is less restrictive than a negative "real" PSBR.

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Flows of funds

67. The flows of savings and investment in the economy have important implications for the stocks of assets held by each sector and for the desire to borrow from banks and hence for the monetary aggregates.

68. Throughout the 1970s the personal sector ran a financial surplus, and the public sector a deficit, with companies generally close to balance. These patterns are reflected in the sectoral balance sheets: in terms of financial assets, the personal sector has long been a net creditor, the public sector a net debtor. Part at least of the explanation for this pattern of sectoral flows lies in the incidence of inflation: the higher it is, the more savings are required (by the personal sector) simply to maintain the real value of stocks of financial assets; and conversely (for the public sector) the larger the deficit can be without increasing the real value of financial liabilities. The table below shows the fall in the personal sector financial surplus that has already taken place up to 1982.

Financial surplus/deficits, per cent of GDP

	1973-1979 average	1980	1981	1982	1983	1984
Personal sector	5	8	6½	4	3½	3
Company sector	-½	-1½	-½	-½	½	0
of which industrial & commercial companies (excluding North Sea)	½	-1	½	0	½	½
Public sector	-5	-4½	-3	-2	-3	-2
Overseas sector (the reverse of the current account)	½	-1½	-2½	-1½	-½	-½

69. These figures tell us what the various sectors actually did; but not necessarily what the sectors wanted to do - and since one sector's deficit is another's surplus (by definition) there can be a significant difference between the two. Note that the forecasts for 1983 and 1984 already take account of a fiscal adjustment whose direct impact on the personal sector's disposable income is about 1 per cent in 1984 (and about ¾ per cent of GDP).

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70. The 1980 recession can be regarded, in large part, as an attempt by industrial and commercial companies to reduce the large financial deficit in prospect as a result of the rise in interest rates and the big loss in competitiveness (which would tend to increase the surplus of the personal and overseas sector). Quick and large scale action - destocking and laying off labour - left the public sector deficit increased and the overseas sector in deficit in 1980.

71. Over the forecast period, the gain in competitiveness should enable industrial and commercial companies to stay in modest surplus while the personal sector's surplus is reduced - though as the chart on page 17 makes clear, this should be consistent with the maintenance of a roughly constant wealth/income ratio for the personal sector as a whole. The margins of error surrounding forecasts (and best estimates) of sector financial balances are very wide. But the general message is that financial pressures on companies are likely to ease significantly, with the attendant risk that there will be less incentive to limit cost increases; while the personal sector is likely to run smaller surpluses than has been typical of recent years. To a very considerable extent, the imbalances so evident in 1980 are being corrected.

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Interest rates and monetary aggregates*

72. The monetary forecast has been constructed on essentially the same assumptions as the autumn forecasts. Short-term interest rates are set so as to ensure that average monetary growth lies within the MTFs range

per cent

1983-84

1984-85 and future years

7-11

6-10

The weights attached to individual aggregates are as before:

per cent

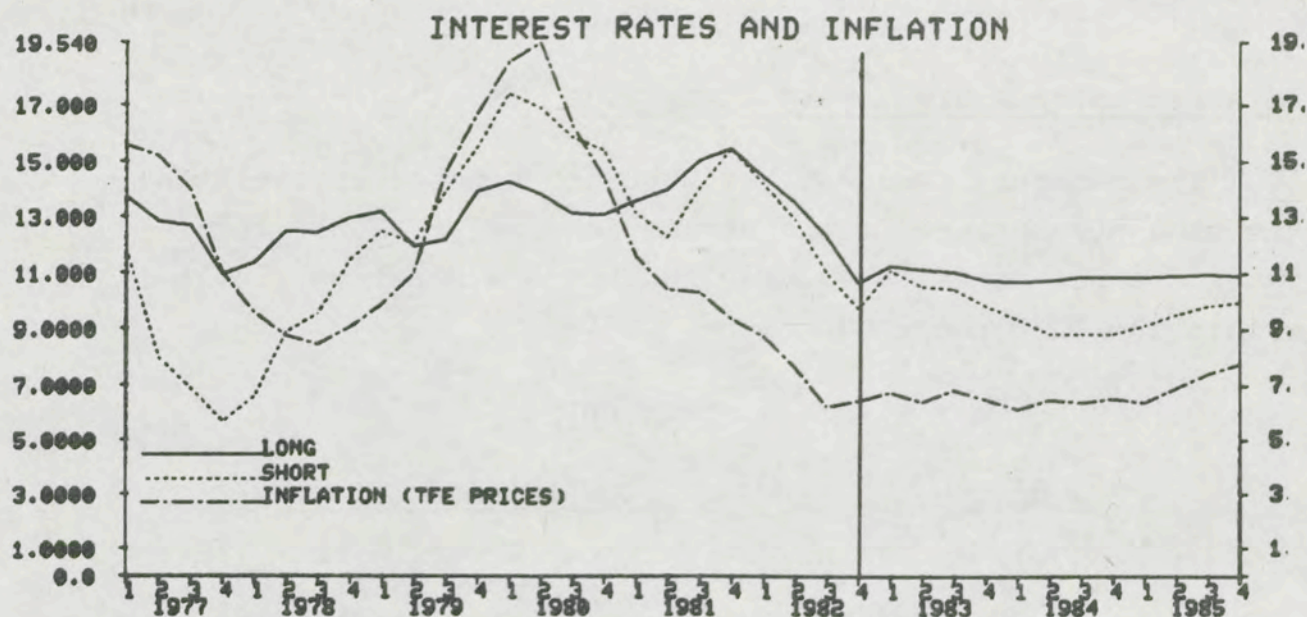
MO	10
M1	40
£M3	25
PSL2	25

In addition the path of interest rates is assumed to be set so as to avoid sharp changes in the exchange rate; and funding policy assumes that overfunding is avoided.

73. The path of interest rates is set out below:

	World basket (short rates)	3-month interbank	UK long rates	UK inflation through the year (The deflator for total final expenditure)
	per cent			
1981-82	14	14	15	9
1982-83	11	11½	12	7
1983-84	8½	10	11	6½
1984-85	8½	9	11	6½
1985-86	8½	10	11	8

*This section of the forecast is prepared jointly with the Bank of England.



74. With interest rates in other countries expected to come down a little further, and with low UK inflation, we see UK interest rates in the near future as being a little more likely to fall than to rise. The uncertainties likely to remain in financial markets suggest that a major fall in interest rates is not very likely in the run up to the general election. With inflation remaining low in 1984, lower nominal and real rates would seem possible then.

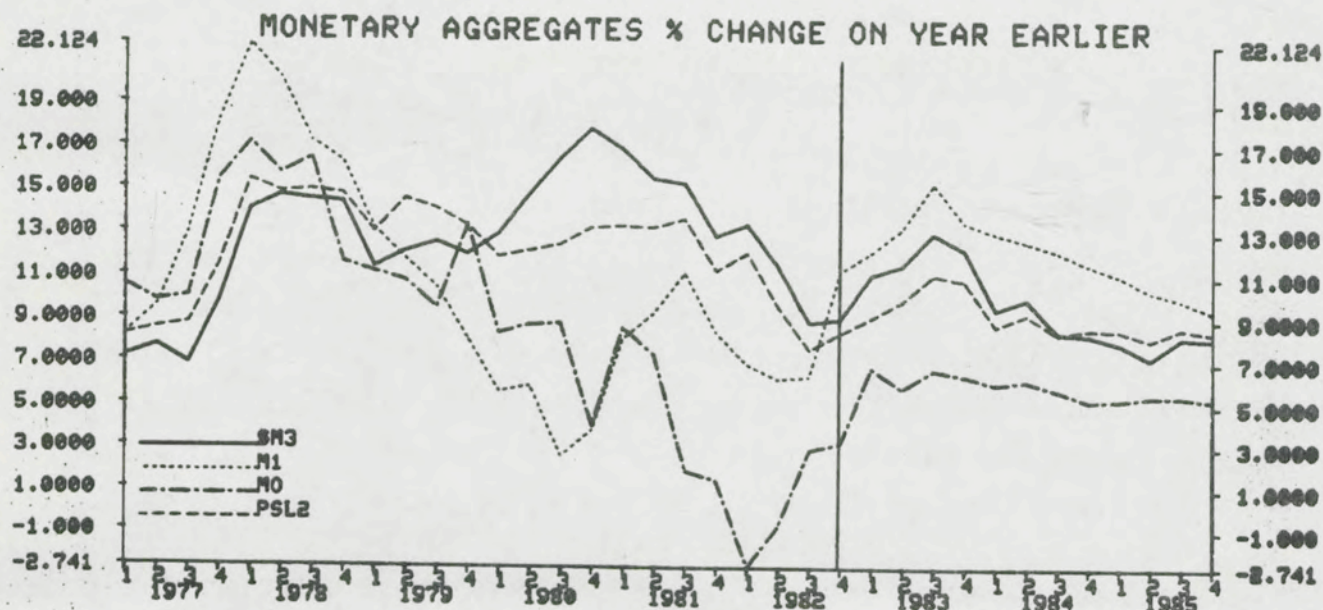
75. The pattern of financial balances in the forecast should favour a fall in broad monetary growth. The growth of company borrowing should fall further as companies move into financial surplus, while the decline in the personal surplus is more likely to be reflected in slower growth of bank and building society deposits. It is likely that the growth rate of personal bank borrowing will fall from the present exceptionally high level relative to income, though past experience leads us to be cautious about this judgment.

76. For neither sector do we expect the build-up of wealth and liquidity ratios to continue at recent rapid rates. Total bank lending is expected to decelerate in each of the next two years, as also is the private sector's overall financial surplus - the counterpart of a weaker current account (and a lower PSBR in 1984-85). With progressively slower growth of gross financial wealth in the next two years, the deceleration of £M3 in the last year should continue.

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77. The chart below shows the past and forecast growth of the main monetary aggregates (we do not have sufficient data on M2 to enable any analysis or forecasting to be possible):



78. At the time of the Autumn Statement, it was thought likely that the growth of both £M3 and M1 in the current financial year would be around the top of the target range of 8-12 per cent. The latest monthly forecast suggests that this is still likely, with M1 - more responsive to the large cuts in interest rates since late 1981 - growing perhaps rather faster than £M3. In 1983-84, we expect to see continued substantial growth of M1, perhaps over 13 per cent, as the response to the lower level of interest rates is continued. Growth in £M3 should be rather slower than for M1.

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79. The table below shows the growth of the two main monetary aggregates and of the weighted average described in paragraph 72 above.

	M1	£M3	Weighted average of M0, M1, £M3, PSLR2 per cent per annum	MTFS range
1981-82	7	13½	9	-
1982-83	12½	11½	10½	8-12
1983-84	13½	9½	10½	7-11
1984-85	11½	8	9½	6-10
1985-86	9	8	8	[6-10]

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ANNEX: COMPARISON OF FORECASTS

Treasury Forecasts

Table A below compares the current Treasury Forecast with the last two Budget Forecasts, the internal October Forecast and the one published in the Autumn Statement.

2. Previous comparisons have revealed successive downward revisions to the output and inflation forecasts, partly due to a progressively more pessimistic view of the prospects for a recovery in the world economy. On this occasion however, despite a further postponement of the world recovery shown by the world trade in manufactures figures in the table, the forecasts of UK output and inflation are now higher than those made last autumn. The main reasons for faster output growth in 1983 compared with what was previously expected are a somewhat bigger increase in personal consumption, a larger turnaround in stockbuilding between 1982 and 1983 due to more de-stocking in the second half of 1982, and a larger contribution from net trade. The last factor owes much to improved competitiveness following the recent fall in the exchange rate. The fall in the rate is probably the most important new piece of information in this forecast and is responsible for the upward revision to the inflation forecast.

Outside Forecasts

3. Table 3 compares the current Treasury forecast with three outside forecasts and a "consensus" obtained by averaging all the major outside forecasts. While some of the outside forecasts envisaged a fall in sterling through 1983 none expected the size of fall which has already occurred. It is likely therefore that there will be upward revisions to both the rate of inflation and the growth of output in 1983. The latest Treasury forecast does indeed have faster output growth in 1983 than the consensus, but the inflation forecasts are similar. This suggests that the Treasury has a more optimistic view of the other influences on inflation, probably on commodity (including oil) prices, and import prices more generally.

4. The Bank of England forecast quoted is the "lower exchange rate" variant of their December forecast, in which an effective rate of 82 throughout 1983 was assumed. The difference between the Treasury and Bank forecasts of output are fairly minor, but the Bank are forecasting faster inflation at the end of 1983 probably because they are forecasting higher oil prices, higher importers' margins, and higher earnings.

5. There is little difference between Treasury and outside forecasts of the PSBR in 1982-83 though not all the outsiders will have taken full account of the Autumn Statement. Forecasts of the 1983-84 PSBR depend partly on what is assumed about the Budget. Most of the major forecasters with the exception of NIESR assume some fiscal adjustment over and above revalorisation. Only the LBS come up with a PSBR significantly in excess of the Autumn Statement's £8 billion.

COMPARISON OF TREASURY FORECASTS

TABLE A

	1981 FSBR/MTFS	1982 FSBR/MTFS	OCTOBER 1982	AUTUMN STATEMENT	JANUARY 1983
<u>Money Supply £M*</u>					
(% Change on year earlier)					
1982 Q1	8.0	14.5 (15.5)	13.4	13.4	13.7
1983 Q1	7.0	11.1 (11.6)	11.9	12.2	11.3
1984 Q1	6.0	8.9 (9.2)	8.2	8.4	9.7
1985 Q1	6.0	7.0 (7.3)	6.4	6.8	8.1
<u>PSPR</u>					
(£b and % of money GDP)					
1981-82	10.6 (4.3)	10.6 (4.2)	8.8 (3.5)	8.8 (3.5)	8.7 (3.4)
1982-83	8.9 (3.3)	9.5 (3.4)	8.0 (2.9)	9.0 (3.3)	7.9 (2.9)
1983-84	6.0 (2.0)	8.4 (2.8)	8.5 (2.9)	8.1 (2.8)	8.0 (2.7)
1984-85	3.3 (1.0)	6.7 (2.0)	6.5 (2.0)	6.5 (2.0)	6.5 (2.0)
<u>Nominal GDP (mp)</u>					
(% Change on year earlier)					
1981	10.2	10.1	9.7	9.7	9.7
1982	10.1	10.6	8.6	8.9	8.5
1983	9.8	9.2	7.8	6.9	8.0
1984	9.8	9.9	9.1	8.9	9.6
<u>RPI</u>					
(% Change on year earlier)					
1981 Q4	10.2	11.9	11.9	11.9	11.9
1982 Q4	7.5	9.0	6.2	6.1	6.2
1983 Q4	7.4	7.1	5.6	4.7	6.4
1984 Q4	7.0	6.0	6.9	7.0	7.2
<u>Interest Rates</u>					
A Short Term					
1981-82	12.2	14.2	14.2	14.2	14.2
1982-83	11.5	13.5	10.7	10.4	11.4
1983-84	9.9	11.9	8.8	8.0	10.2
1984-85	9.0	10.2	9.4	8.9	9.1
B Long Term					
1981-82	13.3	15.0	14.9	14.9	14.9
1982-83	12.9	14.0	11.8	11.4	12.1
1983-84	11.3	12.6	10.3	9.6	11.1
1984-85	10.7	11.4	11.1	10.5	11.0
<u>World Trade in Manufactures</u>					
<u>UK Weighted</u>					
% Change on year earlier					
1981	3.0	4.1	4.5	4.3	3.3
1982	6.4	4.0	- 0.7	- 2.0	- 3.1
1983	7.3	4.6	3.2	2.7	1.3
1984	6.8	5.5	5.6	5.9	6.8
<u>UK Exports of Goods and Services</u>					
(% change on year earlier)					
1981	- 5.3	- 1.5	- 1.9	- 1.9	- 2.2
1982	- 0.4	3.3	- 0.8	- 0.9	- 0.1
1983	3.4	3.7	1.2	0.2	- 0.1
1984	4.8	4.4	4.2	4.9	5.2

The 1981 FSBR/MTFS was based on the old monetary sector.

	1981 FSBR/MTFS	1982 FSBR/MTFS	OCTOBER 1982	AUTUMN STATEMENT	JANUARY 1983
<u>Average Earnings</u> (private cyclically adjusted - % change on year earlier)					
1981 Q3	9.8	13.6	11.4	11.2	9.9
1982 Q3	6.9	9.0	9.7	9.7	10.0
1983 Q3	6.0	8.3	7.2	6.9	7.0
1984 Q3	5.4	7.4	8.5	8.2	8.0
<u>Effective Exchange Rate</u> 1975 = 100					
1981	101.2	94.9	94.9	94.9	94.9
1982	100.4	88.5	90.9	91.3	90.6
1983	98.9	84.6	87.6	89.5	80.0
1984	96.7	81.9	83.4	84.6	80.3
<u>Labour Costs Competitiveness</u> (Ratio of UK to competitors costs 1975 = 100)					
1981 Q4	151.3	139.3	134.4	134.4	131.3
1982 Q4	150.8	136.2	138.4	139.2	133.8
1983 Q4	145.7	130.3	131.1	130.6	120.0
1984 Q4	145.2	129.8	123.6	123.3	119.6
<u>Current Balance</u> (£b)					
1981	2.8	8.3	6.0	6.0	6.1
1982	- 0.8	4.2	3.0	3.7	4.2
1983	- 1.4	2.9	0.6	0.2	1.3
1984	- 0.4	3.3	- 0.6	- 0.3	2.1
<u>Manufacturing Output</u> (% Change on year earlier)					
1981	- 6.6	- 6.4	- 6.3	- 6.4	- 6.4
1982	1.5	3.2	0.2	0.0	- 0.7
1983	0.9	2.2	1.0	0.2	0.1
1984	1.2	1.9	1.5	1.6	2.2
<u>GDP Volume (fc)</u> (% Change on year earlier)					
1981	- 2.0	- 2.0	- 2.4	- 2.4	- 2.4
1982	1.2	1.4	0.7	0.7	0.7
1983	2.3	2.4	1.6	1.3	2.1
1984	2.2	2.8	2.6	2.5	2.4
<u>Unemployment*</u> (UK sa excl school leavers - millions)					
1981 Q4	2.7	2.8	2.8	2.8	2.8
1982 Q4	2.9	3.0	3.1	3.1	3.1
1983 Q4	2.8	3.0	3.4	3.4	3.2
1984 Q4	2.8	3.0	3.4	3.4	3.3
<u>I & C Companies' Financial</u> <u>Surplus/Deficit</u>					
1981	- 0.9	1.4	1.8	1.8	2.0
1982	- 4.7	0.2	- 0.2	- 0.8	1.0
1983	- 2.4	- 1.8	0.4	1.6	2.5
1984	- 0.9	- 0.9	- 0.9	0.5	2.4

*Old Basis

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TABLE B

Comparisons with Outside Forecasts

	Phillips & Drew January 1982	NIESR November 1982	LBS November 1982	Consensus Forecast	Bank of England December 1982 [/]	Treasury January 1983
1. £M3 % Change on year earlier						
1983 Q1	10.0	12.3	11.1	10.4	N.A.	11.3
1984 Q1	10.0	11.5	11.5	10.0	N.A.	9.7
2. £M1 % change over year earlier						
1983 Q1	12.5	12.0	-	12.0	N.A.	12.4
1984 Q1	8.5	12.5	-	10.2	N.A.	13.3
3. Interest rates, short- term % (Treasury bill rate)						
1982 Q4	9.3	NA	9.5	9.7	9.6	9.5
1983 Q4	8.7	NA	9.0	9.2	10.0	9.7
4. PSBR £bn (of which in brackets 1982-3 fiscal adjustment)	8.5	8.0	8.0	7.7	8.5	7.9
1983-4	8.5(2.0)	7.9(0)	9.7(1.5)	7.9(N.A.)	7.9(2.2)	8.0(2.0)
5. Exchange rate 1975 = 100						
1982 Q4	89.6	91.5	91.0	90.5	89.2	89.2
1983 Q4	89.4	92.0	87.0	88.5	82.0	80.0
6. Current Account £bn						
1982	3.4	4.2	2.5	3.0	3.9	4.2
1983	0.4	5.3	1.5	1.1	0.6	1.3
7. Average earnings % change on year earlier						
1982	9.5	9.8	11.3	9.6	9.8	9.1
1983	7.8	8.2	8.0	7.6	8.2	7.8
8. RPI(CPI) % change on year earlier						
1982 Q4	6.3	(7.9)	(7.5)	6.7(7.3)	6.2	6.2
1983 Q4	6.0	(5.1)	(6.7)	6.3(5.9)	<u>/-8.0/</u>	6.4

[/] Lower Exchange Rate Variant

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	Phillips & Drew January 1982	NIESR November 1982	LBS November 1982	Consensus Forecast	Bank of England December 1982 ⁴	Treasury January 1983
9. RPDI % change on year earlier						
1982	- 1.9	- 1.8	- 2.1	- 1.4	- 1.9	- 2.1
1983	1.0	1.1	0.9	1.3	0.6	1.7
10. Import Volume goods and services %						
1982	3.7	3.8	3.7	4.4	4.6	4.1
1983	3.1	3.1	3.8	4.7	5.8	3.7
11. Export Volume goods and services %						
1982	- 0.6	- 0.1	- 0.9	- 0.5	- 0.5	- 0.1
1983	0.8	1.8	3.5	1.4	0.4	- 0.1
12. GDP Volume, % change on year earlier						
1982	0.5	0.3	0.3	0.4	0.4	0.7
1983	1.8	1.0	2.0	1.6	1.9	2.1
13. Unemployment million, Q ⁴						
1982	2.9 ^a	3.1	3.1	3.1	3.1	3.1
1983	3.1 ^a	3.2	3.2	3.2	3.2	3.2

'Consensus' includes: National Institute (Nov)
 London Business School (Nov)
 Phillips & Drew (Jan)
 OECD (Dec)
 St James (Nov)
 Cambridge Econometrics (Dec)
 Cambridge Economic Policy Group (April)
 Liverpool (Dec)
 CBI (Nov)

though results are not reported for some variables by some
 forecasters.

^a New Basis

TABLE 1: SUMMARY

	1 GDP AT CONSTANT PRICES 1975=100	2 UK UNEMP NARROW ADJ(1)	3 CYC.PRIV EARNINGS % CHANGE OVER PREV.YR.	4 RPI % CHANGE OVER PREV. YEAR	5 PSBR(2)	6 PSBR(2) /NOMINAL GDP	7 CURRENT BALANCE	8 ICC'S NAFA	9 PERSONAL NAFA	10 EFFECTIVE EXCHANGE RATE	11 INTEREST 3-MONTH INTER BANK	12 RATES 20-YEAR GILTS	13 EM3 % CHANGE OVER PREV. YEAR
1981	105.4	2539	12.2	11.9	10841	4.36	6121	2032	16317	94.87	13.92	14.71	15.3
1982	106.1	2935	9.9	8.6	5190	1.93	4193	976	10942	90.59	12.15	12.92	10.9
1983	108.4	3143	7.5	5.6	9155	3.14	1253	2515	9910	80.00	10.64	11.22	12.2
1984	111.0	3237	7.9	7.3	6632	2.08	2070	2357	8772	80.25	9.12	10.97	9.2
1985	113.1	3334	8.7	7.1	7523	2.17	1166	1242	9411	78.00	9.77	11.09	8.1
1981/82	105.4	2673	10.8	11.5	8706	3.43	4437	868	15222	92.31	14.18	14.92	14.5
1982/83	106.2	3009	9.3	7.2	7925	2.89	4056	2833	9851	88.05	11.36	12.12	10.3
1983/84	109.2	3158	7.4	6.0	8029	2.69	1050	2062	9548	80.00	10.20	11.07	11.8
1984/85	111.6	3270	8.1	7.2	6509	2.00	2015	2048	8804	79.65	9.07	11.02	8.9
1985/86	113.5	3354	8.9	7.4	7104	2.00	814	583	9482	77.60	10.00	11.10	8.1
1981 QTR 1	105.8	2281	16.5	12.7	2100	3.50	2417	351	4740	101.40	13.33	13.78	17.2
QTR 2	105.1	2482	12.1	11.7	6124	9.98	2002	959	4132	97.80	12.47	14.18	15.8
QTR 3	104.8	2641	9.9	11.2	2507	3.99	205	216	3713	90.60	14.22	15.20	15.5
QTR 4	105.8	2751	10.7	11.9	110	0.17	1497	506	3732	89.70	15.65	15.67	13.1
1982 QTR 1	106.0	2817	10.6	11.1	-35	-0.05	733	-813	3645	91.14	14.38	14.64	13.7
QTR 2	105.9	2877	10.0	9.4	1188	1.78	887	-263	2691	90.60	13.12	13.73	11.7
QTR 3	106.1	2990	10.0	8.0	1616	2.38	1005	787	2161	91.41	11.19	12.49	9.1
QTR 4	106.3	3056	9.0	6.2	2421	3.50	1568	1265	2445	89.20	9.90	10.83	9.3
1983 QTR 1	106.6	3114	8.3	5.5	2700	3.84	596	1044	2554	81.00	11.25	11.43	11.3
QTR 2	108.0	3134	7.7	4.7	1798	2.51	195	445	2622	80.00	10.70	11.29	11.8
QTR 3	109.0	3156	7.0	5.7	2263	3.08	216	467	2441	79.00	10.60	11.23	13.3
QTR 4	109.9	3169	7.2	6.4	2394	3.17	246	559	2293	80.00	10.00	10.91	12.5
1984 QTR 1	110.1	3172	7.5	7.1	1574	2.04	393	591	2192	81.00	9.50	10.87	9.7
QTR 2	110.8	3230	7.7	7.5	1957	2.48	592	516	2592	81.00	9.00	10.92	10.2
QTR 3	111.3	3260	8.0	7.5	1662	2.06	650	823	2074	80.00	9.00	11.03	8.7
QTR 4	111.9	3286	8.2	7.2	1439	1.75	435	427	1914	79.00	9.00	11.06	8.5
1985 QTR 1	112.5	3305	8.4	6.6	1451	1.73	338	282	2224	78.60	9.30	11.06	8.1
QTR 2	113.0	3317	8.6	6.8	2326	2.71	309	413	2794	78.20	9.70	11.10	7.4
QTR 3	113.4	3336	8.8	7.2	1924	2.19	269	384	2299	77.80	10.00	11.12	8.4
QTR 4	113.6	3378	8.9	7.7	1822	2.03	250	163	2094	77.40	10.10	11.09	8.3
1986 QTR 1	113.8	3384	9.1	7.9	1032	1.13	-14	-377	2295	77.00	10.20	11.07	8.4

(1) 'NARROW' EXCLUDES SCHOOL LEAVERS

(2) FINANCIAL YEAR SEASONALLY ADJUSTED

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TABLE 2: PRIVATE SECTOR FINANCIAL SUMMARY

PERCENTAGE CHANGES ON PREVIOUS YEAR (EXCEPT COL. 14)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
	TFE	REAL	REAL	NOMINAL	PRIVATE SECTOR			PRIVATE SECTOR			BANK	PRIVATE SECTOR		REAL		
	DEFLATOR	TFE	GDP	GDPM	FINANCIAL WEALTH			FINANCIAL WEALTH			LENDING	OF GILTS		MONEY		
					EXCLUDING			INCLUDING			TO				SUPPLY	
					REVALUATIONS			REVALUATIONS			PRIVATE	EXCL.	INCL.	AS A %		
					NET	GROSS	DOMESTIC	NET	GROSS	DOMESTIC	SECTOR	REVALS.	REVALS.	OF GROSS		
1981	10.68	-1.62	-2.43	9.73	22.19	21.11	17.37	18.92	19.65	15.31	16.53	14.72	8.89	23.48	5.91	
1982	7.30	1.75	0.66	8.49	2.92	11.96	10.49	10.31	15.29	15.28	28.45	8.81	23.31	25.11	1.52	
1983	6.68	2.54	2.15	8.00	10.01	12.09	12.48	13.32	13.46	14.40	18.58	8.06	13.77	25.18	2.59	
1984	6.47	3.08	2.45	9.61	7.93	9.09	8.52	10.15	10.05	9.88	13.09	7.17	11.01	25.40	-0.46	
1985	7.24	2.45	1.91	8.86	7.12	8.36	7.70	6.80	8.22	7.51	11.15	6.29	5.74	24.82	-1.64	
1981/82	9.94	0.18	-1.39	9.38	18.49	20.04	15.93	14.02	18.02	13.21	18.57	12.82	5.32	23.12	3.94	
1982/83	6.83	1.38	0.76	7.92	3.53	11.28	10.73	12.66	15.39	16.59	27.02	8.46	26.09	25.26	1.86	
1983/84	6.52	3.21	2.83	8.72	9.59	11.21	11.44	12.23	12.29	12.94	16.99	8.10	12.66	25.35	1.67	
1984/85	6.53	2.80	2.17	9.28	7.63	8.77	8.10	9.00	9.36	8.93	12.21	6.64	8.99	25.26	-0.60	
1985/86	7.64	2.21	1.66	8.93	6.97	8.34	7.73	6.61	8.19	7.52	11.14	6.34	5.74	24.69	-1.71	
1981	QTR 1	11.78	-4.55	-3.98	10.78	22.44	20.16	18.25	26.72	22.09	20.90	18.23	16.98	24.61	25.84	4.81
	QTR 2	10.55	-3.30	-3.50	9.44	22.75	22.21	19.11	20.17	21.01	17.48	12.75	15.87	11.26	23.94	4.74
	QTR 3	10.63	-0.02	-1.90	9.60	25.89	21.44	15.26	18.02	17.82	10.32	14.69	12.73	-1.04	22.09	4.44
	QTR 4	9.54	1.54	-0.24	9.15	17.70	20.64	16.87	12.08	18.04	13.31	20.29	13.30	3.11	22.27	3.24
1982	QTR 1	8.87	2.64	0.16	9.33	7.62	15.88	12.47	6.89	15.54	12.00	25.68	9.39	8.07	24.17	4.41
	QTR 2	7.91	3.05	0.74	8.73	2.26	9.24	5.93	4.26	10.16	7.23	31.39	6.23	10.08	23.92	3.50
	QTR 3	6.15	0.80	1.26	7.96	-1.44	12.18	13.67	12.38	18.56	22.95	30.74	10.80	39.66	26.02	2.74
	QTR 4	6.51	0.57	0.49	8.01	3.25	10.54	9.88	17.47	16.79	18.80	26.21	8.84	36.88	26.10	2.59
1983	QTR 1	6.87	1.13	0.55	7.03	10.05	13.14	13.46	16.40	15.90	17.39	21.15	7.98	19.39	24.90	4.15
	QTR 2	6.31	1.94	1.99	7.46	10.69	14.51	16.06	17.93	17.67	20.62	20.82	10.40	23.62	25.13	5.14
	QTR 3	6.90	3.12	2.70	8.39	10.30	10.45	10.21	10.39	10.49	10.27	17.09	6.16	6.31	25.04	5.97
	QTR 4	6.58	3.98	3.34	9.06	8.98	10.27	10.20	9.41	10.46	10.46	15.79	7.68	8.41	25.62	5.55
1984	QTR 1	6.23	3.80	3.29	9.89	8.37	9.60	9.28	11.82	11.10	11.40	14.76	8.15	14.18	25.58	3.25
	QTR 2	6.56	2.98	2.55	10.02	8.09	9.44	8.99	10.85	10.65	10.69	13.82	7.24	12.06	25.45	3.40
	QTR 3	6.49	3.04	2.17	9.67	7.83	8.96	8.33	9.93	9.88	9.62	12.61	7.74	11.41	25.39	2.03
	QTR 4	6.60	2.52	1.80	8.89	7.41	8.34	7.51	8.15	8.66	7.96	11.35	5.56	6.83	25.18	1.80
1985	QTR 1	6.48	2.65	2.18	8.62	7.20	8.33	7.57	7.24	8.35	7.59	11.22	6.01	6.08	25.05	1.55
	QTR 2	7.00	2.63	2.03	8.75	7.16	8.27	7.57	6.65	8.05	7.26	10.92	6.56	5.69	24.90	0.38
	QTR 3	7.55	2.40	1.82	8.94	7.12	8.42	7.83	6.68	8.23	7.56	11.36	6.10	5.34	24.71	0.78
	QTR 4	7.89	2.12	1.60	9.12	6.99	8.40	7.83	6.64	8.25	7.62	11.11	6.47	5.88	24.63	0.41
1986	QTR 1	8.11	1.68	1.20	8.90	6.59	8.27	7.69	6.48	8.22	7.62	11.17	6.23	6.03	24.54	0.25

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TABLE 3: INDUSTRY ACT FORECAST TABLE 2 (% CHANGE ON ONE YEAR EARLIER)

CONSTANT PRICE FORECASTS OF EXPENDITURE, IMPORTS AND GROSS DOMESTIC PRODUCT
\$ MILLION AT 1975 PRICES, SEASONALLY ADJUSTED

	1	2	3	4	5	6	7	8	9	10	11	12	13
	CONSUMERS' EXPEND	GENERAL GOVERNMENT EXPEND ON GOODS & SERVICES FINAL CONSUMPTION	FIXED INVEST	TOTAL	OTHER FIXED INVEST	EXPRTS OF GOODS AND SERVICES	CHANGE IN STOCKS	TOTAL FINAL EXPEND	LESS IMPRTS OF GDS AND SERVICES	LESS ADJUST TO FACTOR COSTS	GDP AT FACTOR COST (EXPEND MEASURE)	PLUS STAT ADJUST	GDP AT FACTOR COST
1981	0.4	-0.0	-28.0	-3.1	-4.8	-2.2		-1.6	-0.3	-0.6	-2.2		-2.4
1982	1.0	1.1	-18.1	-0.5	5.9	-0.1		1.8	4.1	1.1	1.0		0.7
1983	2.9	0.7	11.7	1.5	2.5	-0.1		2.5	3.7	2.8	2.1		2.1
1984	1.8	1.1	26.1	2.9	1.9	5.2		3.1	5.5	2.6	2.3		2.4
1985	2.1	0.6	9.3	1.4	2.6	4.3		2.5	4.1	2.6	1.8		1.9
1981 FIRST HALF	0.3	0.2	-23.1	-2.5	-8.3	-5.6		-3.9	-10.1	0.7	-2.4		-3.7
1981 SECOND HALF	0.6	-0.2	-33.4	-3.7	-1.1	1.3		0.8	10.2	-1.9	-2.0		-1.1
1982 FIRST HALF	-0.1	1.3	-28.5	-1.4	7.3	2.4		2.8	11.6	-0.5	0.5		0.4
1982 SECOND HALF	2.0	0.8	-4.8	0.4	4.6	-2.5		0.7	-2.4	2.6	1.6		0.9
1983 FIRST HALF	3.3	0.5	8.3	1.0	2.7	-1.8		1.5	1.9	2.9	1.2		1.3
1983 SECOND HALF	2.5	1.0	14.9	1.9	2.2	1.5		3.6	5.5	2.8	3.0		3.0
1984 FIRST HALF	1.9	1.3	30.7	3.4	1.2	4.9		3.4	5.9	2.7	2.6		2.9
1984 SECOND HALF	1.7	0.8	22.0	2.5	2.5	5.5		2.8	5.0	2.6	2.0		2.0
1985 FIRST HALF	2.1	0.6	9.8	1.4	3.4	4.8		2.6	4.5	2.8	1.9		2.1
1985 SECOND HALF	2.1	0.6	8.8	1.3	1.7	3.8		2.3	3.7	2.5	1.7		1.7

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TABLE 4: CONSUMERS EXPENDITURE

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	REAL TOTAL	CONSMR DUR- ABLES	EXP. NONDUR- ABLES	REAL PERSNL DISP. INC.	SAVINGS RATIO	CONSMR PRICE INDEX	- - - TOTAL	-% CHANGES -CONSUMPTION- DUR- ABLES	ON PREVIOUS - - - NONDUR- ABLES	PERSNL DISP. INC.	YEAR OF:- CONSMR PRICES	RPDI	WEALTH- INCOME RATIO	-INT" T REAL 1	RATES- NOMI- NAL (3 MTH)
1981	71871	6274	65597	82991	13.40	210.5	0.4	2.8	0.2	8.6	10.9	-2.1	4.85	3.0	13.9
1982	72557	6640	65917	81267	10.72	227.7	1.0	5.8	0.5	5.9	8.2	-2.1	5.10	4.0	12.1
1983	74646	6974	67670	82650	9.69	242.6	2.9	5.0	2.7	8.4	6.6	1.7	5.13	4.1	10.6
1984	76023	7144	68878	83271	8.70	260.2	1.8	2.4	1.8	8.0	7.2	0.7	5.04	1.9	9.1
1985	77626	7269	70356	85122	8.81	278.4	2.1	1.7	2.1	9.3	7.0	2.2	4.92	2.8	9.8
1981/82	71758	6244	65514	82394	12.91	215.6	0.4	3.3	0.1	7.4	10.6	-2.9	4.88	3.6	14.2
1982/83	73113	6816	66296	81247	10.01	231.5	1.9	9.2	1.2	5.9	7.4	-1.4	5.15	4.0	11.4
1983/84	75073	7030	68042	82841	9.38	246.7	2.7	3.1	2.6	8.6	6.5	2.0	5.11	3.7	10.2
1984/85	76389	7172	69215	83668	8.70	264.4	1.8	2.0	1.7	8.3	7.2	1.0	5.02	1.9	9.1
1985/86	78034	7319	70716	85513	8.75	283.4	2.2	2.0	2.2	9.6	7.2	2.2	4.88	2.8	10.0
1981 QTR 1	18040	1571	16469	21176	14.81	201.5	-0.4	-3.6	-0.1	11.8	11.3	0.4	4.85	2.0	13.3
QTR 2	17926	1595	16331	20628	13.10	208.7	1.1	6.9	0.6	9.6	10.9	-1.1	5.03	1.6	12.5
QTR 3	17934	1570	16364	20606	12.97	213.4	0.6	3.8	0.3	6.8	10.9	-3.7	4.66	3.3	14.2
QTR 4	17971	1538	16433	20581	12.68	218.4	0.6	4.6	0.2	6.6	10.8	-3.8	4.89	4.9	15.6
1982 QTR 1	17927	1541	16386	20579	12.89	221.8	-0.6	-1.9	-0.5	6.9	10.0	-2.8	4.97	4.3	14.4
QTR 2	17998	1581	16417	20138	10.63	226.7	0.4	-0.9	0.5	6.1	8.7	-2.4	4.98	4.5	13.1
QTR 3	18242	1768	16474	20164	9.53	229.2	1.7	12.6	0.7	5.1	7.4	-2.1	5.26	3.8	11.2
QTR 4	18390	1750	16640	20386	9.79	233.0	2.3	13.8	1.3	5.7	6.7	-0.9	5.20	3.2	9.9
1983 QTR 1	18483	1717	16765	20559	10.10	237.2	3.1	11.4	2.3	6.8	6.9	-0.1	5.14	4.3	11.2
QTR 2	18614	1736	16877	20702	10.09	240.3	3.4	9.8	2.8	9.0	6.0	2.8	5.15	4.7	10.7
QTR 3	18704	1766	16938	20677	9.54	244.4	2.5	-0.1	2.8	9.3	6.6	2.5	5.13	4.0	10.6
QTR 4	18845	1755	17090	20712	9.02	248.7	2.5	0.3	2.7	8.5	6.8	1.6	5.10	3.2	10.0
1984 QTR 1	18910	1773	17137	20750	8.87	253.2	2.3	3.3	2.2	7.8	6.8	0.9	5.05	2.7	9.5
QTR 2	18908	1794	17113	20859	9.35	258.4	1.6	3.4	1.4	8.3	7.5	0.8	5.02	1.5	9.0
QTR 3	19058	1791	17267	20808	8.41	262.7	1.9	1.4	1.9	8.2	7.5	0.6	5.05	1.5	9.0
QTR 4	19147	1786	17361	20854	8.18	266.6	1.6	1.8	1.6	7.9	7.2	0.7	5.05	1.8	9.0
1985 QTR 1	19276	1801	17474	21147	8.85	269.7	1.9	1.6	2.0	8.6	6.5	1.9	4.98	2.8	9.3
QTR 2	19348	1821	17527	21382	9.51	275.9	2.3	1.5	2.4	9.4	6.8	2.5	4.89	2.9	9.7
QTR 3	19465	1822	17643	21304	8.63	281.3	2.1	1.7	2.2	9.6	7.1	2.4	4.91	2.9	10.0
QTR 4	19537	1825	17712	21289	8.23	286.4	2.0	2.2	2.0	9.7	7.4	2.1	4.90	2.7	10.1
1986 QTR 1	19684	1851	17834	21538	8.61	290.1	2.1	2.7	2.1	9.5	7.6	1.8	4.83	2.6	10.2

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FOOTNOTE 1 COL 14 = COL 15 - COL 11

TABLE 5: EXCHANGE RATES AND COMPETITIVENESS

		1	2	3	4	5	6	7	8
		E X C H A N G E R A T E S			COMPETITIVENESS OF MANUFACTURES				
		EFFECTIVE EXCH. RATE	EXPORT WTD EXCH. RATE	DOLLAR/£ EXCH. RATE	RELATIVE EXPORT PRICES	RELATIVE WHSALE PRICES	RELATIVE N. UNIT LAB. COSTS	IMPORT PRICE COMPET	RELATIVE PROFBLY EXPORTS
1981		94.87	92.823	2.025	124.41	132.19	139.60	123.13	91.32
1982		90.59	89.742	1.751	117.31	129.67	134.57	121.96	90.37
1983		80.00	78.947	1.605	109.65	118.45	119.00	116.24	92.76
1984		80.25	77.569	1.724	111.77	120.33	120.56	117.09	93.17
1985		78.00	74.179	1.758	110.32	117.85	118.20	115.78	93.56
1981	QTR 1	101.40	99.155	2.310	133.61	140.92	151.14	125.40	91.30
	QTR 2	97.80	95.424	2.069	127.63	134.90	143.03	124.89	91.09
	QTR 3	90.60	89.002	1.838	118.74	126.30	132.90	122.58	91.55
	QTR 4	89.70	87.714	1.884	117.68	126.65	131.33	119.67	91.33
1982	QTR 1	91.14	89.590	1.847	119.55	130.05	134.01	122.84	91.26
	QTR 2	90.60	88.961	1.780	116.30	129.12	133.65	120.96	90.39
	QTR 3	91.41	90.305	1.728	118.68	131.23	136.82	121.51	90.34
	QTR 4	89.20	90.113	1.649	114.69	128.27	133.80	122.53	89.51
1983	QTR 1	81.00	80.526	1.596	108.69	119.30	119.77	117.73	91.10
	QTR 2	80.00	79.090	1.595	109.90	118.26	119.01	116.04	92.84
	QTR 3	79.00	77.725	1.599	109.28	117.30	117.21	115.17	93.52
	QTR 4	80.00	78.448	1.632	110.71	118.93	120.01	116.00	93.60
1984	QTR 1	81.00	79.044	1.679	112.30	121.77	121.50	117.94	92.93
	QTR 2	81.00	78.523	1.721	112.62	121.62	121.48	117.59	92.96
	QTR 3	80.00	77.030	1.744	111.62	119.83	119.68	116.78	93.26
	QTR 4	79.00	75.679	1.753	110.55	118.09	119.57	116.03	93.51
1985	QTR 1	78.60	74.905	1.775	110.40	118.37	118.46	116.70	93.16
	QTR 2	78.20	74.420	1.764	110.18	117.76	117.71	116.03	93.33
	QTR 3	77.80	73.936	1.753	110.26	117.59	117.59	115.21	93.73
	QTR 4	77.40	73.455	1.742	110.44	117.69	119.05	115.18	94.02
1986	QTR 1	77.00	72.975	1.731	110.83	118.51	118.57	115.09	94.06

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TABLE 6: BALANCE OF PAYMENTS

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

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	EXPORT GOODS	IMPORT GOODS	VISIB BAL	EXPORT SERV	IMPORT SERV	BAL SERV	TRANSFERS CRED	TRANSFERS DEB	BAL TRANSF	IPD CREDIT	IPD DEBIT	BAL IPD	INVIS BAL	CURRENT BALANCE	CURRENT BALANCE DOLLRS (1)
1981	51071	48092	2979	16751	12638	4113	2501	4483	-1982	10089	9078	1011	3142	6121	12398
1982	55095	53398	1697	17733	13798	3935	3124	5221	-2097	10327	9669	658	2496	4193	7344
1983	59775	61931	-2156	19118	15451	3667	3675	5661	-1986	12058	10329	1728	3409	1253	2010
1984	65602	68837	-3235	21637	16910	4727	3596	5806	-2210	13487	10699	2788	5305	2070	3568
1985	73254	78813	-5559	24521	18843	5678	3800	6325	-2525	15752	12179	3572	6725	1166	2050
1981 QTR 1	11769	10092	1677	4031	2963	1068	585	1120	-535	2224	2017	207	740	2417	5584
QTR 2	12253	11121	1132	4160	3105	1055	496	1062	-566	2353	1972	381	870	2002	4142
QTR 3	13191	13511	-320	4252	3262	990	603	1238	-635	2557	2387	170	525	205	376
QTR 4	13858	13368	490	4308	3308	1000	817	1063	-246	2955	2702	253	1007	1497	2820
1982 QTR 1	13279	12956	323	4422	3333	1089	790	1284	-494	2229	2414	-185	410	733	1353
QTR 2	13745	13620	125	4465	3460	1005	661	1312	-651	2771	2363	408	762	887	1579
QTR 3	13666	13265	401	4423	3450	973	790	1323	-533	2645	2481	164	604	1005	1737
QTR 4	14405	13557	848	4423	3555	868	883	1302	-419	2682	2411	271	720	1568	2585
1983 QTR 1	14452	14566	-114	4545	3730	815	844	1305	-461	2883	2527	356	710	596	950
QTR 2	14748	15327	-579	4704	3823	881	868	1345	-477	2948	2578	370	774	195	310
QTR 3	15119	15814	-695	4874	3917	957	880	1454	-574	3087	2559	528	911	216	345
QTR 4	15456	16224	-768	4995	3981	1014	1083	1557	-474	3140	2665	474	1014	246	401
1984 QTR 1	15829	16577	-748	5129	4069	1060	861	1440	-579	3248	2588	660	1141	393	658
QTR 2	16185	16855	-670	5343	4174	1169	895	1460	-565	3298	2640	658	1262	592	1019
QTR 3	16595	17412	-817	5496	4283	1213	907	1393	-486	3405	2665	740	1467	650	1133
QTR 4	16993	17993	-1000	5669	4384	1285	933	1513	-580	3536	2806	730	1435	435	762
1985 QTR 1	17539	18714	-1175	5853	4510	1343	913	1532	-619	3708	2919	789	1513	338	600
QTR 2	18035	19396	-1361	6042	4654	1388	947	1564	-617	3879	2980	899	1670	309	545
QTR 3	18593	20071	-1478	6228	4787	1441	959	1604	-645	4019	3067	951	1747	269	471
QTR 4	19087	20632	-1545	6398	4892	1506	981	1625	-644	4146	3213	933	1795	250	434
1986 QTR 1	19564	21369	-1805	6521	5014	1507	1053	1650	-597	4268	3387	881	1791	-14	-23

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

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TABLE 7: RETAIL PRICES INDEX AND CONSUMERS EXPENDITURE DEFLATOR

RECORDED AND FORECAST

WEIGHTS(1)	RETAIL PRICES INDEX JANUARY 1974=100					PERCENTAGE CHANGES OVER LAST YEAR FOR RETAIL PRICE INDEX AND COMPONENTS					CONS. EXPD. DEFLATOR (SEAS. ADJ.) INDEX P-C CH ON 1975=100 PREV. YEAR	
	1 FOOD 216	2 HOUSING 128	3 NAT. IND. 73	4 OTHER 585	5 TOTAL 1000	6 FOOD	7 HOUSING	8 NAT. IND.	9 OTHER	10 TOTAL	11	12
1981	277.5	318.2	368.3	286.4	295.0	8.5	18.1	19.5	10.5	11.9	210.5	10.9
1982	299.4	358.2	418.6	306.5	320.4	7.9	12.6	13.6	7.0	8.6	227.7	8.2
1983	311.4	365.8	449.3	327.1	338.2	4.0	2.1	7.4	6.7	5.6	242.6	6.6
1984	328.3	394.9	474.3	353.8	363.0	5.4	7.9	5.5	8.2	7.3	260.2	7.2
1985	351.4	424.2	504.5	379.1	388.8	7.0	7.4	6.4	7.1	7.1	278.4	7.0
1981 QTR 1	268.7	285.2	352.5	274.0	280.4	8.6	18.3	25.7	11.1	12.7	201.5	11.3
QTR 2	277.0	319.9	364.7	285.0	294.0	8.2	17.5	21.9	10.0	11.7	208.7	10.9
QTR 3	278.8	324.0	376.3	290.7	299.1	7.5	16.3	19.2	10.2	11.2	213.4	10.9
QTR 4	285.6	343.7	379.8	295.9	306.5	9.6	20.3	12.5	10.6	11.9	218.4	10.8
1982 QTR 1	297.7	346.7	391.4	298.1	311.6	10.8	21.6	11.0	8.8	11.1	221.8	10.0
QTR 2	304.1	365.0	417.7	305.4	321.5	9.8	14.1	14.5	7.1	9.4	226.7	8.7
QTR 3	297.0	364.6	428.8	309.3	323.0	6.5	12.5	14.0	6.4	8.0	229.2	7.4
QTR 4	298.9	356.7	436.3	313.5	325.4	4.7	3.8	14.9	5.9	6.2	233.0	6.7
1983 QTR 1	305.8	349.0	444.1	317.1	328.6	2.7	0.7	13.5	6.4	5.5	237.2	6.9
QTR 2	311.5	367.9	446.8	324.5	336.8	2.4	0.8	7.0	6.3	4.7	240.3	6.0
QTR 3	312.6	371.4	450.7	330.6	341.3	5.3	1.9	5.1	6.9	5.7	244.4	6.6
QTR 4	315.8	374.9	455.8	336.5	346.3	5.7	5.1	4.5	7.3	6.4	248.7	6.8
1984 QTR 1	322.4	378.5	464.5	341.6	351.8	5.4	8.4	4.6	7.7	7.1	253.2	6.8
QTR 2	328.1	397.5	471.1	352.0	362.0	5.3	8.0	5.4	8.5	7.5	258.4	7.5
QTR 3	329.4	400.3	477.5	358.5	367.0	5.4	7.8	6.0	8.5	7.5	262.7	7.5
QTR 4	333.3	403.2	483.9	363.1	371.3	5.5	7.5	6.2	7.9	7.2	266.6	7.2
1985 QTR 1	341.5	406.2	492.5	364.7	375.0	5.9	7.3	6.0	6.8	6.6	269.7	6.5
QTR 2	349.5	426.6	500.2	376.4	386.8	6.5	7.3	6.2	6.9	6.8	275.9	6.8
QTR 3	353.9	430.1	508.4	384.5	393.5	7.4	7.4	6.5	7.2	7.2	281.3	7.1
QTR 4	360.6	433.8	516.7	390.8	399.7	8.2	7.6	6.8	7.6	7.7	286.4	7.4
1986 QTR 1	370.4	439.6	526.6	393.0	404.6	8.5	8.2	6.9	7.8	7.9	290.1	7.6

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

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TABLE 8: PUBLIC SECTOR -CURRENT AND CAPITAL ACCOUNTS - PART C

	1	2	3	4	5	6	7
	PSBR	- OF WHICH:-	- OF WHICH:-	-	- OF WHICH:-	-	-
		CG COMP	LA COMP	PC COMP	CG OWN AC BORR	LA TOT BORR	PC TOT BORR
1981	10841	10216	1249	-624	9935	583	323
1982	5190	7777	-1949	-638	3851	-565	1905
1983	9155	12237	-2588	-493	8270	-499	1386
1984	6632	8674	-1592	-450	5504	208	920
1985	7523	8805	-881	-400	5565	919	1040
1981/82	8706	7518	1020	168	6325	-115	2497
1982/83	7925	11800	-2700	-1175	7200	-499	1225
1983/84	8029	10753	-2023	-700	7053	-22	1000
1984/85	6509	8380	-1470	-400	5361	230	919
1985/86	7104	8718	-1213	-400	5158	687	1260
1981 QTR 1	2100	2262	36	-198	2706	277	-882
QTR 2	6124	5349	631	144	5179	366	579
QTR 3	2507	2683	296	-472	2290	-66	284
QTR 4	110	-77	286	-98	-239	7	343
1982 QTR 1	-35	-435	-193	594	-903	-421	1291
QTR 2	1188	1313	212	-337	1403	116	-330
QTR 3	1616	2444	-628	-200	771	10	835
QTR 4	2421	4456	-1340	-695	2581	-269	110
1983 QTR 1	2700	3587	-944	57	2445	-355	611
QTR 2	1798	2573	-574	-200	1768	-73	105
QTR 3	2263	3003	-540	-200	1978	-39	325
QTR 4	2394	3074	-530	-150	2079	-29	345
1984 QTR 1	1574	2103	-379	-150	1228	121	225
QTR 2	1957	2486	-429	-100	1692	21	244
QTR 3	1662	2174	-412	-100	1399	38	225
QTR 4	1439	1911	-372	-100	1186	28	226
1985 QTR 1	1451	1809	-257	-100	1085	143	224
QTR 2	2326	2656	-231	-100	1928	219	178
QTR 3	1924	2212	-187	-100	1381	263	281
QTR 4	1822	2128	-206	-100	1170	294	357
1986 QTR 1	1032	1722	-589	-100	678	-88	444

ALL VARIABLES ARE FINANCIAL YEAR SEASONALLY ADJUSTED

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TABLE 9: MONEY SUPPLY COUNTERPARTS TABLE

£ MILLION AT CURRENT PRICES, SEASONALLY ADJUSTED

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	SALES OF PUB. SECTOR DEBT TO NON BANKS							BANK LENDING PRIV. SECTOR	DOM COUNTER -PARTS	NET EXTE- RNALS	NON- DEP LIABS	RES.	INCR. IN £M3	% CHG £M3
	PSBR	GILTS	NATSAV	T+LA BILLS	LA DEPOSITS	CTDS	OTHER							
1981	10581	7658	4003	38	-492	-94	-209	11115	10792	190	1575	506	9913	3.13
1982	4922	6906	3654	43	-782	968	-333	18625	13091	-2171	2409	-575	7936	2.24
1983	9166	5972	2494	-41	-943	218	1	14056	15521	-1750	2575	498	11694	2.96
1984	6646	4413	1823	-32	-300	-135	0	11701	12578	-1474	2125	-14	8965	2.06
1985	7523	5488	1822	18	-132	414	0	12753	12666	-1349	1800	0	9517	2.02
1981/82	8695	6570	4048	62	-144	401	-45	14864	12667	-1077	1472	468	10586	3.24
1982/83	7686	5973	2793	200	-1500	710	-94	16145	15749	-2788	2930	-81	9950	2.74
1983/84	8029	6108	2498	-68	-600	-27	2	13632	13748	-1762	2500	1	9487	2.33
1984/85	6509	4836	1640	-11	-200	131	-1	11891	12005	-1369	1900	-1	8735	1.97
1985/86	7104	5251	1841	28	-107	261	0	13166	12996	-1463	1800	1	9734	2.03
1981 QTR 1	2047	2681	1439	-181	-123	-70	-403	2062	766	1384	282	-172	1696	2.24
QTR 2	5859	2098	1273	-130	1	-124	400	800	3141	-101	466	445	3019	3.90
QTR 3	2523	905	572	163	-41	-141	-371	3068	4504	-692	618	-96	3098	3.85
QTR 4	152	1974	719	186	-329	241	165	5185	2381	-401	209	329	2100	2.51
1982 QTR 1	161	1593	1484	-157	225	425	-239	5811	2641	117	179	-210	2369	2.77
QTR 2	1016	1054	418	-114	-72	-91	-65	3343	3229	-1436	398	437	1832	2.08
QTR 3	1459	3159	631	376	-442	589	-29	5310	2485	-427	782	-11	1265	1.41
QTR 4	2286	1100	1121	-62	-493	45	0	4161	4736	-425	1050	-791	2470	2.71
1983 QTR 1	2925	660	623	0	-493	167	0	3331	5299	-500	700	284	4383	4.68
QTR 2	1731	1685	630	-11	-150	-18	0	3589	3184	-171	625	67	2455	2.51
QTR 3	2172	1150	615	-20	-150	116	1	3419	3879	-549	625	92	2797	2.79
QTR 4	2338	2477	626	-10	-150	-47	0	3717	3159	-530	625	55	2059	2.00
1984 QTR 1	1788	796	627	-27	-150	-78	1	2907	3526	-512	625	-213	2176	2.07
QTR 2	1907	1132	382	1	-50	-83	-1	3216	3742	-91	500	49	3200	2.98
QTR 3	1562	1636	446	-4	-50	-92	1	2693	2318	-419	500	100	1499	1.35
QTR 4	1389	849	368	-2	-50	118	-1	2885	2992	-452	500	50	2090	1.86
1985 QTR 1	1651	1219	444	-6	-50	188	0	3097	2953	-407	400	-200	1946	1.70
QTR 2	2276	1700	502	7	-32	161	0	3245	3183	-71	500	50	2662	2.29
QTR 3	1824	1297	455	8	-25	35	0	3486	3540	-440	500	101	2701	2.27
QTR 4	1772	1272	421	9	-25	30	0	2925	2990	-431	400	49	2208	1.82
1986 QTR 1	1232	982	463	4	-25	35	0	3510	3283	-521	400	-199	2163	1.75

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 9 = COL1-COL2-COL3-COL4-COL5-COL6-COL7+COL8