UNITED KINGDOM
ECONOMY AT A GLANCE

-- The UK economy has become a leader among the larger European economies following a 5-year trend of sustained, modest growth. GDP grew by 4.7% in 1987, but growth is expected to drop back to approximately 3.9% in 1988. Consumer spending remains robust.

-- Unemployment has dropped below the sensitive 3 million mark and now stands at 8.2%, the lowest since 1982. However, concentrations of unemployment in the inner cities and the traditional industries, such as coal, steel, and shipbuilding in the North of England and Scotland continue to prompt charges that Mrs. Thatcher is presiding over a divided Britain. Further modest declines in the unemployment rate are projected to continue.

-- Inflation is at its lowest rate in 19 years. The Retail Price Index increased by only 3.4% in 1987. The price outlook is reasonably good, but inflation is expected to grow by 4.5% by the end of 1988. A combination of high average earnings growth (7.5% per year) and small productivity gains are expected to provide a continuing inflationary push.

-- Even though the British economy is booming, some observers believe it may be overheating and thus lead to inflationary problems and larger balance of payment deficits. The current account has dropped into a substantial deficit (5.6 billion pounds), spurred by continuing consumer demand for exports.

-- Buoyant corporate tax and VAT revenues have allowed HMG to increase revenue and reduce government spending and still sharply cut income taxes.

-- The British Treasury implements monetary policy aggresively in pursuit of shifting economic targets. Exchange rate targeting and interest rate manipulation (which have moved up recently from 7.5% to 11%) are the primary tools in monetary policy.

-- Britain is running a $4-5 billion trade surplus with the U.S., but a firmer sterling could shift the balance in the opposite direction.

-- Britain and the U.S. remain the largest single investors in each other's economies.

UNITED KINGDOM: KEY ECONOMIC INDICATORS
(Billion Pounds - Unless Otherwise Stated)

INCOME, PRODUCTION, EMPLOYMENT	1985	1986	1987
GDP, Current Prices (a)	354.3	378.9	406.6
GDP, 1980 Prices (a)	221.0	227.7	236.1
Per Capita GDP, Current Prices (pounds)	5,342.0	5,621.0	6,031.0
Investment, 1980 Prices, s.a.			
Total fixed capital formation	46.4	46.5	49.3
Plant & Machinery (a)	17.8	17.5	18.0
Real Personal Disposal Income (a)	170.1	177.4	184.9
Indices (1980 = 100)			
Industrial Production	108.1	110.14	114.0
Average Earnings	171.7	185.3	197.7
Working Population (Million workers)	27.7	27.9	27.9
Unemployment Rate (%)	11.3	11.5	10.4
MONEY AND PRICES			
Gold & Foreign Exchange Reserves (b) (billions of dollars)	14.2	22.4	23.5
Sterling M3 (Broad Money percent change) Q3/Q3	14.1	19.0	20.1
Interest Rate (%) yr avg (c)	10.4	9.7	9.4
Indices:			
Producer's Output Prices (1980 = 100)	141.1	147.7	153.5
Consumer Prices (1980 = 100)	141.5	146.3	152.7(b)
Volume of Retail Sales (s.a. 1980 = 100)	116.4	122.6	134.4(d)
EXCHANGE RATE (POUNDS/$1.00) dec. avg.	0.691	0.695	0.563(d)
trade weighted exchange rate index (1975 = 100) December average rate	79.1	68.5	75.4(d)
BALANCE OF PAYMENTS			
Exports	78.9	73.1	79.7
U.S. Share - percent	14.9	14.3	13.4
Imports	84.9	86.2	90.3
U.S. Share - percent	11.7	9.9	9.8
Invisible Balance	5.1	7.5	8.5
Current Balance	2.9	-1.0	-1.8

FOOTNOTES:
(a) for 1987 projected from three quarters of actual data
(b) end of third quarter
(c) London clearing bank base rate
(d) end of November

U.K. Problems and Prospects

Overview

o Thatcher has made a difference. Industrial production is expanding steadily; GNP will rise over 4% this year and near that in 1989; inflation is around 4%; the budget is balanced, or in surplus if proceeds of privatization are counted; and unemployment is about 9% on a standardized OECD/U.S. basis.

o Overheating is a mild threat as is a current account deficit near $10 bn. in 1988. Interest rates may have to rise to stem demand, but this may push up the pound and hurt exports.

What to Do?

o Stay the course, and tighten monetary policy if inflation indicators rise.

o Labor market reforms already carried out should be applauded; e.g., requiring secret ballots on strike votes, limiting secondary boycotts/picketing, making unions responsible for illegal actions (walkouts) of their members, restriciting uses of union funds, giving inducements to link pay to profits, and encouraging unions to permit greater labor flexibility on the shop floor.

-- Other labor reforms to improve the mobility and flexibility of labor should be studied and pursued, including perhaps some changes in education.

o In the housing market, reform has begun with 14% of public housing sold to the private sector; but more needs doing.

-- Nearly 25% of the population lives in public housing with access to such housing rationed. That distorts rental and sales prices in the private sector.

-- Controls on rents, zoning problems, building codes, and illiquid mortgage markets also limit the supply of housing, which in turn constrains regional labor mobility.

o As 1992 approaches, Mrs. Thatcher emphasizes achieving a quality single market, not one with the "worst common denominator," and strongly opposes the EC re-regulating or re-centralizing what she has de-regulated.

-- UK's financial sector has capacity to lead the merger and acquistion process needed to achieve EC integration once EC internal barriers are dismantled, but the recent EC trend toward restraints on mergers could undermine the process.

-- U.S. should support UK's push for openness, simplicity, efficiency in EC business and labor rules, tax agreements, monetary policies, standards, foreign trade, etc.