

PRIME MINISTER

BALANCE OF PAYMENTS

Thankyou
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You asked why the balance of payments deficit for March was so large when the growth in retail sales is slowing down and the corporate sector is running a large financial deficit.

The March Trade Figures

As you know, the monthly deficit in March was £ 3/4 billion higher than in February at £2.2 billion.

Exports fell only slightly from the February figure. But the growth in exports in volume and value terms does appear to have flattened out in recent months following the surge in the second half of last year. This is consistent with the FSPR forecast which projected a fairly sharp slowdown in export growth throughout this year.

The increase in the deficit in March is therefore almost entirely accounted for by higher imports. Imports were at a record high. About half the rise in imports is accounted for by erratics - mainly higher imports of aircraft.

Most other categories of imports also rose in March.

- (i) However, the rise in imports of consumer goods including cars was small - in fact in value terms they fell. So these import figures are not obviously inconsistent with the latest data showing less buoyant retail sales and car registrations.
- (ii) Imports of capital goods also rose, but remain below the levels in the middle of last year.
- (iii) The big rises in imports in March were in basic materials, fuels and semi-manufactures, i.e., categories which will, in part, feed through into higher exports later. These are the same categories

which accounted for a fall in imports during the fourth quarter of last year as firms appeared to begin reducing stock levels. So the recovery may indicate some rebuilding of stocks by firms - quite possibly in reaction to involuntary destocking in 1989Q4 as retail demand remained more buoyant than they had expected. This is consistent with firms adjusting stocks to target levels, consistent with their expectations of retail and export demand.

To put the figures in some perspective, the longer term volume trends remain quite favourable. Exports (including erratics) are 8% higher in the first quarter than a year ago, compared with a 2% rise in imports. While the visible trade deficit for the first quarter of this year is larger than in 1989Q4, it is still well below the high figures at the end of 1988 and in the first half of 1989.

The Quality of the Statistics

You also asked about the reliability of the figures. I will need to pursue this further. However, my understanding is that the visible trade statistics are quite reliable (albeit erratic from month to month). The invisible figures, however, are much less reliable. Indeed there is no monthly information on invisibles at all - the figures are based on a partial quarterly survey. The allocation of the balancing item is also important.

The CSO are preparing to undertake more work on these areas, particularly on capital flows and services. There would be a danger, however, in the CSO allocating the balancing item without careful consideration: if it went to capital inflows, it would only worsen the invisible balance. I am checking on whether revisions of this kind have had an effect on this month's figures.

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20 April 1990

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