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HER MAJESTY'S TREASURY

SHORT TERM ECONOMIC POLICY GROUP

ECONOMIC PROSPECTS

I attach the report on the June Economic Forecast. It is for discussion at the meeting of the Group on Wednesday 21 July 1982 at 3.00 pm.

I should be grateful if recipients of the report would note that it is for their personal use only.

C J MOWL.

H M Treasury

CONFIDENTIAL

REPORT ON THE
JUNE 1982 ECONOMIC FORECAST

CONTENTS

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Introduction and summary

This forecast updates the budget assessment on broadly the same policy assumptions.

2. The world economy is now expected to recover more gradually; in the US output in the first quarter was 2 per cent below a year earlier, but preliminary indications are of a slight rise in the second quarter. Inflation has moved down another notch. Continued concern about inflation is leading most industrialised countries to try to maintain stringent policies. Low commodity prices, and in some cases high interest payments on overseas debts, are limiting producers' purchasing power. These factors suggest that the prospect for world activity and trade is for no more than a modest recovery by past standards.

3. Developments overseas have contributed both to the fall in inflation and to the hesitation in the UK recovery so far this year.

4. The main message of this forecast, as in most forecasts over the last year and more, is that the UK economy is likely to see further reductions in inflation for a time and a modest recovery in output. The chances of a major fall in unemployment are poor.

5. This was also the main message of the budget forecast. The principal difference between the two forecasts is that the most widely used measure of inflation, the Retail Prices Index, is likely to show a smaller rise this year than expected at budget time. But our view of 1983 inflation is little changed.

6. We think that the lower level of public expenditure in 1981-82 will continue to some extent in 1982-83, and this coupled with higher oil prices and revenues, may be enough to offset, or more than offset, the cost of the Falklands operation and leave the PSBR for 1982-83 close to the budget forecast. But with substantial changes to the accounts on both sides, and very little evidence so far, we cannot have very much confidence in this judgment. Experience of in year PSBR forecasts shows that only limited improvements are typically made between budget and summer.

7. The prospects for the PSBR depend critically on:

(a) the public expenditure plans; and

(b) the extent to which actual spending exceeds these plans (as in 1980-81) or falls short (as in 1981-82).

8. For 1983-84 there are major uncertainties on both accounts. For the purposes of this forecast we have taken the existing plans as our starting point, but as the later section on the public sector shows there are many difficult judgments involved in forecasting actual expenditure.

9. Our interpretation of the plans, together with the MTFS assumption of an £8½ billion PSBR in 1983-84, implies a fiscal adjustment (reduction in taxes going beyond revalorisation) of £1 billion. Essential points to note:

(i) This figure is subject to the margins of error of £4 billions and more that surround PSBR forecasts.

(ii) Subsequent changes to the Public Expenditure plans, together with a fixed £8½ billion PSBR, could easily imply an increase in taxation in 1983.

10. Interest rates in the UK have already fallen more than allowed for in the budget forecast, and we expect them to go down over the next year. But this depends on what happens to US rates and to the exchange rate, as well as on policy decisions. A slower rate of inflation, reduced saving, and a less pronounced push by the banks into new markets are all factors making for lower growth of the broad monetary aggregates; but the continued fall forecast for interest rates is liable to push growth of interest-sensitive M1 back into double figures.

11. The forecast is summarised in the table on page 4.

12. The published Industry Act forecasts, with the average errors from earlier forecasts set alongside the forecast numbers, demonstrate the wide range of possible outcomes. Forecasts are typically presented as point estimates (rather than as wide ranges), with the danger that small changes in the forecasts,

well within the usual error margins, can take on too much significance. One example is output, where we are now forecasting 1 per cent growth between 1981 and 1982, rather than the 1½ per cent in the budget forecast. This difference should be set against the average margin of error of 1 per cent from earlier forecasts, and the differences in the CSO estimates for the past: quite often the differences between the annual growth rates of some of the CSO's three GDP measures is 1 per cent or more.

Policy assumptions

13. Fiscal policy: for 1982-83 we adopt the tax rates and allowances specified in the budget, together with our interpretation of the public expenditure plans (see below), leaving the PSBR to emerge, unconstrained, from the forecasts.

14. For the later years we make the conventional assumption of full revalorisation of the tax system; in addition we stick to the PSBR path in the MTFS, the constraint being achieved by variations in taxes (assumed to be personal income taxes).

15. For public expenditure, the published plans (as amended by the budget) are the starting point. We assume a full allocation of the contingency reserve in all years. We make no specific allowance for the public expenditure or other costs of a major, prolonged stoppage on the railways or elsewhere. There are the usual rules about uprating social security benefits in line with prices, and balancing the National Insurance Fund, from 1983-84 onwards, by varying contribution rates.

16. For the purposes of the forecast, monetary policy has to be specified more precisely than in the MTFS. We assume that short-term interest rates will be set so that in each year monetary growth, as measured by a weighted average of the principal broad and narrow aggregates (giving equal weight to broad and narrow measures) stays within the MTFS ranges.

SUMMARY TABLE AND COMPARISON OF FORECASTS

Money Supply £M3
(Per cent change on year earlier)

	Budget/ MTFS	June Forecast
1982 Q1	14½	13½
1983 Q1	11	10
1984 Q1	9	8½
1985 Q1	7	7½

PSBR
(£bn and per cent of money GDP)

	Budget/ MTFS	June Forecast
1981-82	10½(4)	9 (3½)
1982-83	9½(3½)	9 (3¼)
1983-84	8½(3)	8½(2¾)
1984-85	6½(2)	7 (2)

Interest Rate
(3 month inter-bank)

	Budget/ MTFS	June Forecast
1981-82	14	14
1982-83	13½	12½
1983-84	12	11
1984-85	10	10

Exchange Rate
(1975 = 100)

	Budget/ MTFS	June Forecast
1981 Q4	90	90
1982 Q4	88½	89
1983 Q4	84½	85
1984 Q4	82	83

Total output (GDP)
(Per cent change on year earlier)

	Budget/ MTFS	June Forecast
1981	-2	-2
1982	1½	1
1983	2½	2
1984	3	2

Money supply M1
(per cent change on year earlier)

	Budget/ MTFS	June Forecast
1982 Q1	9	7
1983 Q1	10½	10
1984 Q1	13½	12½
1985 Q1	13½	12

Nominal GDP (market prices)
(Per cent change on year earlier)

	Budget/ MTFS	June Forecast
1981	10	10
1982	10½	9½
1983	9	9½
1984	10	10½

Inflation
(RPI, per cent change on year earlier)

	Budget/ MTFS	June Forecast
1981 Q4	12	12
1982 Q4	9	7¾
1983 Q4	7	7¾
1984 Q4	6	8½

Average Earnings
(per cent change on year earlier)

	Budget/ MTFS	June Forecast
1981 Q3	12½	11½
1982 Q3	9	10
1983 Q3	8½	8
1984 Q3	7½	10

Unemployment
(millions, UK seasonally adjusted excluding school leavers)

	Budget/ MTFS	June Forecast
1981 Q4	2.8	2.8
1982 Q4	3.0	3.0
1983 Q4	3.0	3.1
1984 Q4	3.0	3.2

Current balance, £bn

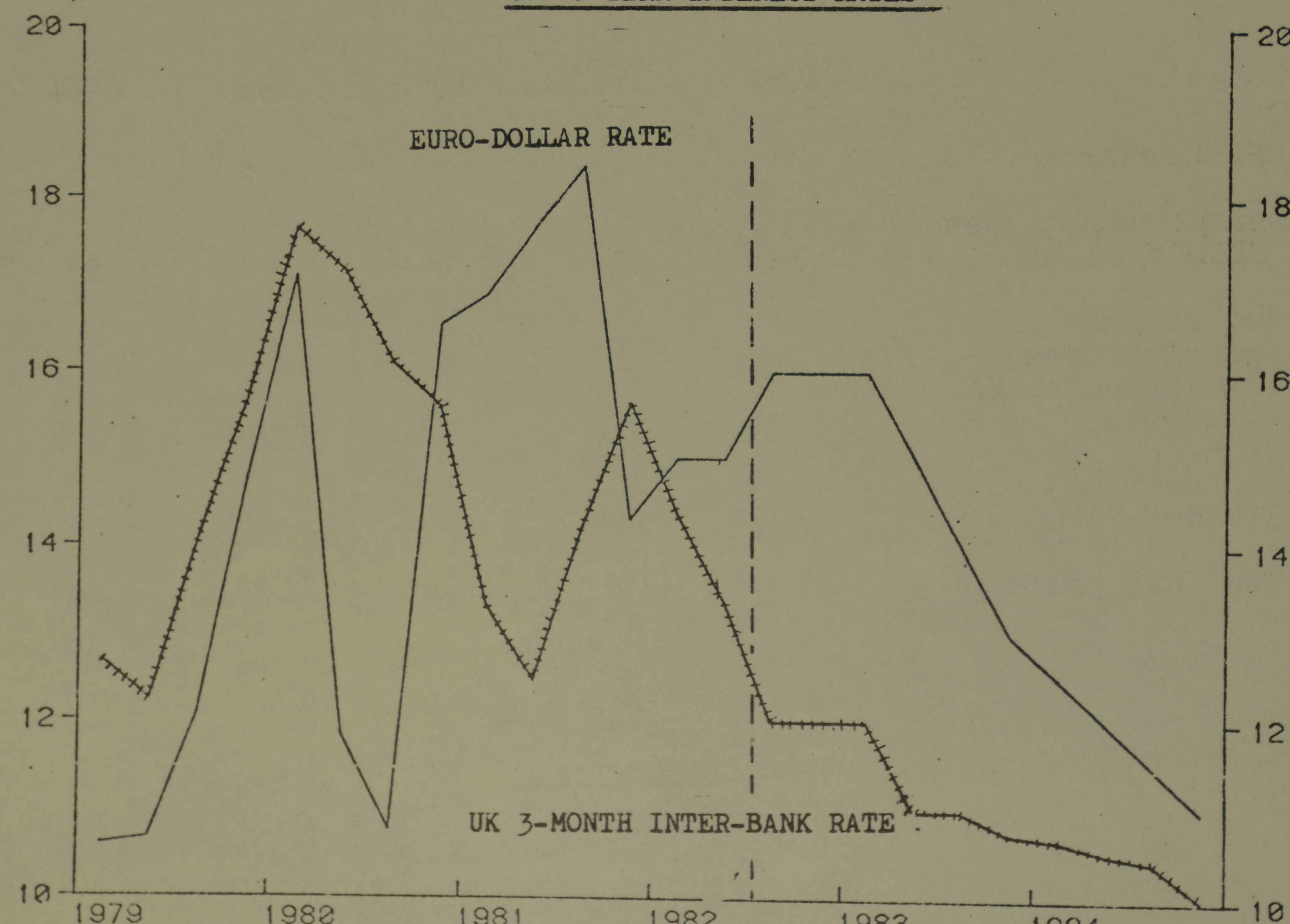
	Budget/ MTFS	June Forecast
1981	8½	7
1982	4	2
1983	3	½
1984	3½	2½

World economic prospects

17. The level of activity in the United States economy appears currently to be slightly lower than had been earlier expected; and, partly as a result, the inflation rate has come down more. Nominal GDP may rise only 5 per cent this year, about half last year's rate. Even so, the demand for money has not been much reduced and the Federal Reserve's attempts at control of the narrow monetary aggregates has kept interest rates high. In recent weeks continued lack of agreement on restraining the budget deficit has increased interest rates and pushed the dollar to new heights on the foreign exchange markets.

18. We assume that monetary policy in the US is less tight than the stated targets, that current levels of interest rates are broadly maintained for the next nine months or so, and then fall gradually. The pattern of US and UK interest rates, past and forecast, is shown in the chart below. On June 29, Eurodollar rates were at 16 per cent, and UK short rates at 13 per cent.

SHORT TERM INTEREST RATES



19. By the end of 1983, nominal US rates could be down to 12-13 per cent; and real rates (pre-tax) to 5-6 per cent. After tax interest rates would be considerably lower. There is a risk that adherence to the Fed's monetary targets will not allow US interest rates to come down as forecast; and that high nominal and real interest rates will inhibit growth and reduce inflation in 1983 more than allowed for in this forecast. A variant on these lines will be explored in the Report on World Economic Prospects.

20. Moderate recovery in the major industrial countries - reflecting an increase in real incomes, the stock cycle and some fall in interest rates - is forecast for 1983, but without perhaps much or any further fall in inflation. Commodity prices look like remaining weak, restricting developing countries' ability to import. Unemployment in the industrialised countries seems more likely to rise than to fall, although much less rapidly than in the past two years. The forecast is summarised in the following table:

per cent changes on a year earlier

	1980	1981	1982	1983	1984
GNP (major 7)	1	1½	0	3	3
Unemployment, (level) OECD millions	19	22	26	27	28
World trade in manufactures (weighted by UK markets)	4½	4½	2½	4	5½
Consumer prices (major 7)	12½	10½	8	7½	8
Real oil price	+50	+19	-4	-6	-4

Inflation and activity

21. Inflation is falling quite sharply in the UK and elsewhere in the world. Low pressure of demand at home and abroad, rapid increases in productivity and strong competitive pressures from imports have continued to keep down price increases in the UK. Thus much of the substantial rise in productivity over the past eighteen months or so (over and above what would have been expected at this stage in the cycle) has been reflected in lower prices rather than higher profits. The RPI, with its substantial content of administered and food prices, together with the mortgage interest rate, is not the best indicator of the underlying rate of inflation. For manufactured goods, the wholesale output price index gives a better picture: inflation measured in this way, by comparison with a year earlier, is now around 8 per cent and falling, having been 10 per cent at the end of 1981.

22. The forecast published in the FSBR showed the annual rate of increase in the RPI falling to 9 per cent by the last quarter of 1982 and $7\frac{1}{2}$ per cent by the second quarter of 1983. Progress so far has been quicker than expected - and the $7\frac{1}{2}$ per cent rate might be achieved by the end of this year - but our assessment of prospects for 1983 and beyond is for this progress not to be sustained.

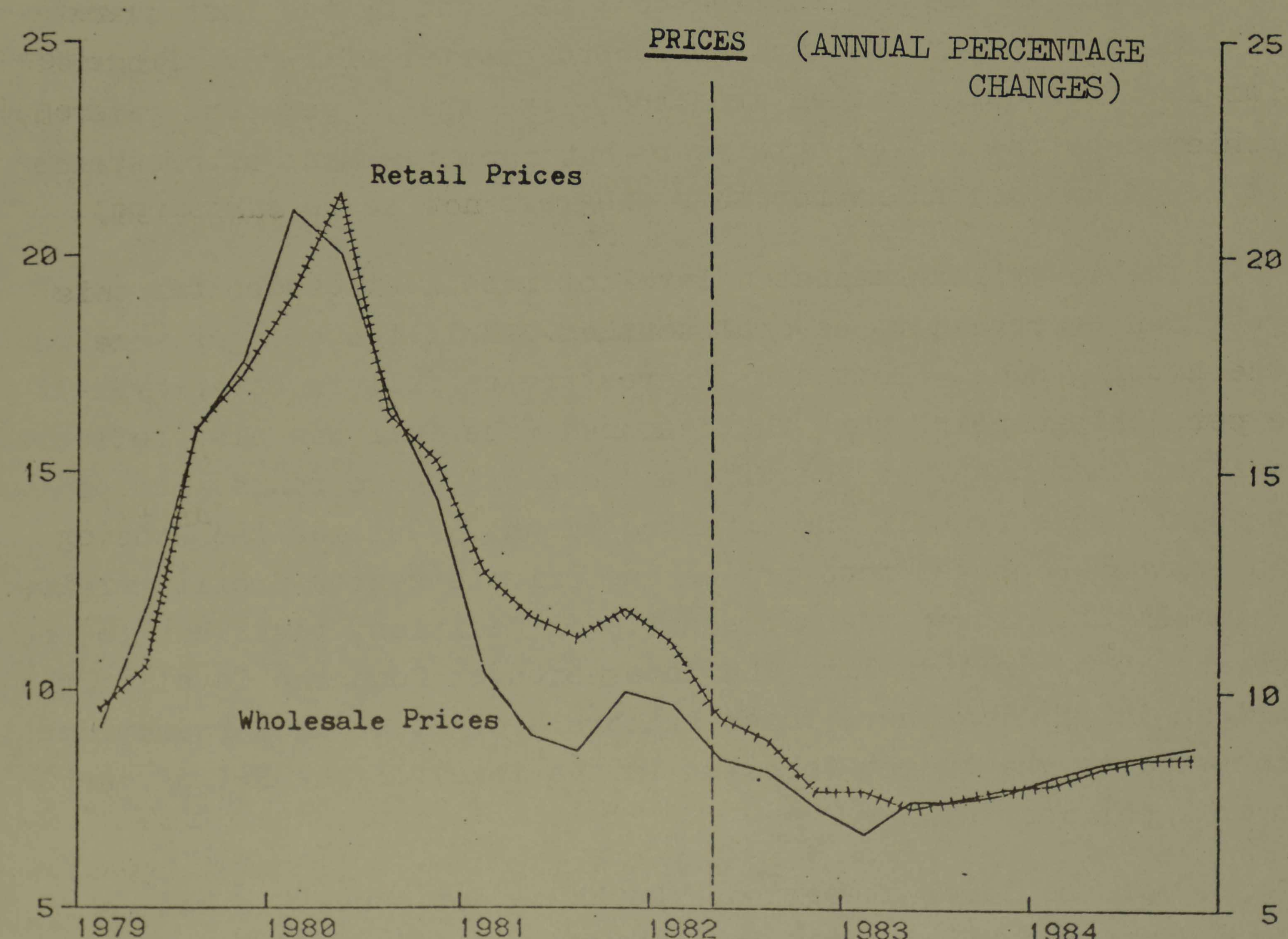
23. The lower than expected level of retail prices so far this year can be traced to several sources. Half the changes were on the housing side. Mortgage interest rates fell in March by half a per centage point more than assumed (the fall was also reflected quicker than usual in the RPI) and council house rents, net of rebates, rose by half the expected amount. Outside the housing index, non-seasonal food prices and private sector profit margins were slightly lower than forecast. In addition, revisions to the weights used in compiling the index brought down the level of the RPI in 1982. Together, these factors brought about a reduction compared to the budget forecast in the level of the RPI of just over 1 per cent by May.

24. Over the forecast period, the UK cannot expect to get as much benefit as recently from improvements in the terms of trade

between manufactures and commodities. At home, the recovery in output together with the forecast fall in the exchange rate should lift some of the pressures on profit margins.

25. With further cuts in the mortgage rate forecast over the next year, the annual rate of growth in the RPI should drop further, perhaps to 7¾ per cent by the end of 1982 and a little further in the first half of 1983. Beyond then, rising import costs will contribute to a flattening out in the inflation rate, with perhaps some tendency to rise gently. Because of the modest scale of recovery (by comparison with eg 1963-64, or 1972-73) we do not expect very much rise in inflation. If however the exchange rate were to fall faster, then the pick up in inflation would be stronger; equally, if the exchange rate were to stay near its present level, we would expect to see a further reduction in the inflation rate by the end of 1983 or in 1984.

26. The chart shows the movements of retail and wholesale prices.



27. Earnings growth over the current pay round is put at 9½-10 per cent (including about 1 per cent for extra overtime), similar to earlier Treasury forecasts and like the previous year close to the rise in retail prices through the round. It is, however, higher than in many of our competitors (where the average is currently about 7 per cent). It means that the gain in cost competitiveness since early 1981 can be viewed as a result of the fall in the exchange rate; and the gain in profitability by companies' retaining some of the improvements in productivity. Partly because of lower settlements, partly because of less drift, earnings growth in the public services has been less than elsewhere.

%

	Total economy		Earnings growth	
year ending	Wage settlements	Earnings growth	Public services	Private sector plus nationalised industries
Third quarter 1981	9	11½	9	12
" " 1982 (estimate)	7	9½-10	9	10
" " 1983 (forecast)	6	8	8	8
" " 1984 (")	8	10	10	10

28. The current pay round is not yet complete, but we assume that settlements continue at the 7 per cent average established last autumn. For the next pay round - running from the autumn of 1982 to the summer of 1983 - the following factors are relevant:

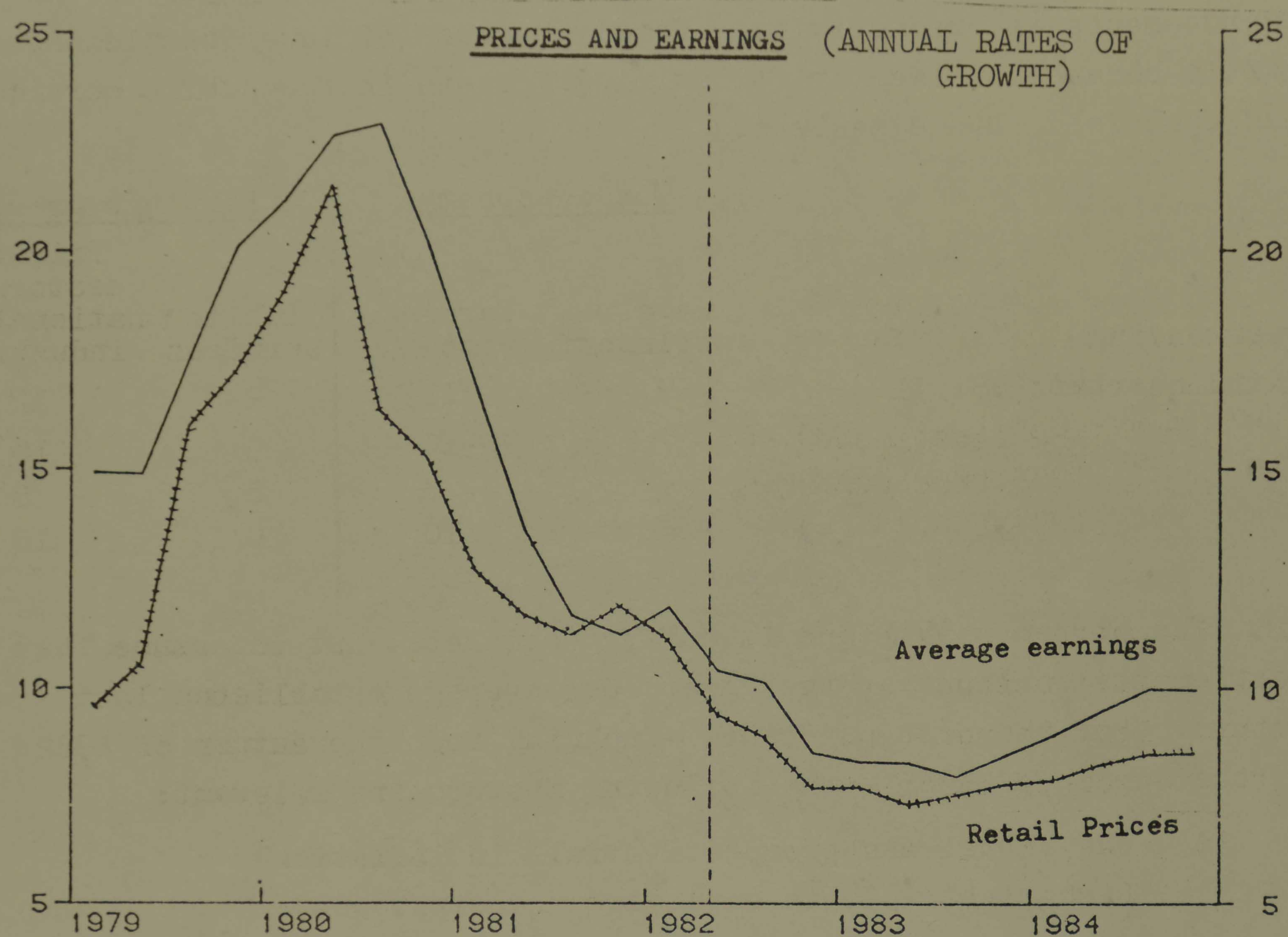
i) the actual and prospective fall in inflation (important to both employers and employees);

ii) the actual and prospective change in the real income position of both employers and employees;

iii) the level of demand for both labour and goods.

29. One interpretation of past experience (the relationship on the Treasury model explaining earnings growth) suggests that the fall in inflation, combined with the low level of output, could result in a further substantial cut in the level of wage settlements in the next pay round. Partly because this relationship looks like being too optimistic for the current pay round, we have discounted its results for the next pay round, when we expect only a small further fall in the growth rate of earnings. In later years, recovery in output and companies' real income, as profitability picks up, points to a faster growth in earnings, partly offset by the

assumption of personal income tax cuts made possible by the positive fiscal adjustment. Other forecasters, with the exception of the Bank of England team, see an acceleration in 1982-83 or in later years. The chart shows the relationship between changes in earnings and changes in prices.



30. These judgments about pay, together with the rest of the forecast, imply the following:

Per cent changes on a year earlier

	Whole economy			Private sector	
	Retail prices	Earnings	Real take-home pay	Labour costs per employee	Labour costs per unit of output
1980 Q3	16½	23	4½	22	22
1981 Q3	11	11½	-1½	12½	6½
1982 Q3	9	10	- ½	9	4½
1983 Q3	7½	8	½	8	5
1984 Q3	8½	10	2½	10	7½

31. Thus real take home pay has fallen only a little over the past two years, and mainly because of the failure to index tax allowances in the 1981 Budget. Earnings growth (before tax) has kept up with price rises, even though settlements in late 1980 and late 1981 were concluded at levels well below the (backward looking) rate of inflation at the time.

Activity

32. In the first half of 1982, total output in the economy was perhaps ½ per cent higher than a year earlier, or ¼ per cent excluding NS oil. Manufacturing output, up 2 per cent, was the main factor. On the demand side, there was a big turnround in stockbuilding and a rise in fixed investment, though most of the rise in demand was met from higher imports.

33. Over the forecast period, the sources of growth of demand include:

i) consumers' expenditure. Initially, while real incomes are subdued, and the inflation rate falls, there is scope for reducing savings (a rise in equity and gilt prices allows consumers' wealth to rise in line with incomes). Later, big rises in North Sea tax receipts allow for tax reductions within the PSBR constraint and so higher personal after tax incomes and higher consumption.

ii) private investment, as profitability and the prospects for growth in demand improve, and as interest rates fall.

iii) in 1983 and afterwards, exports, as world trade expands and competitiveness improves.

34. The rise in output should be encouraged by a rise in profitability on both home and export sales. In the short term, the CSO's cyclical indicators are pointing to a recovery in output, as are most business surveys and forecasts. But much of this information is qualitative and very imprecise about the strength of recovery.

35. By comparison with the budget forecast and the MTFS projections we expect a slightly lower level of output in total and for the manufacturing sector, both for 1982 and 1983.

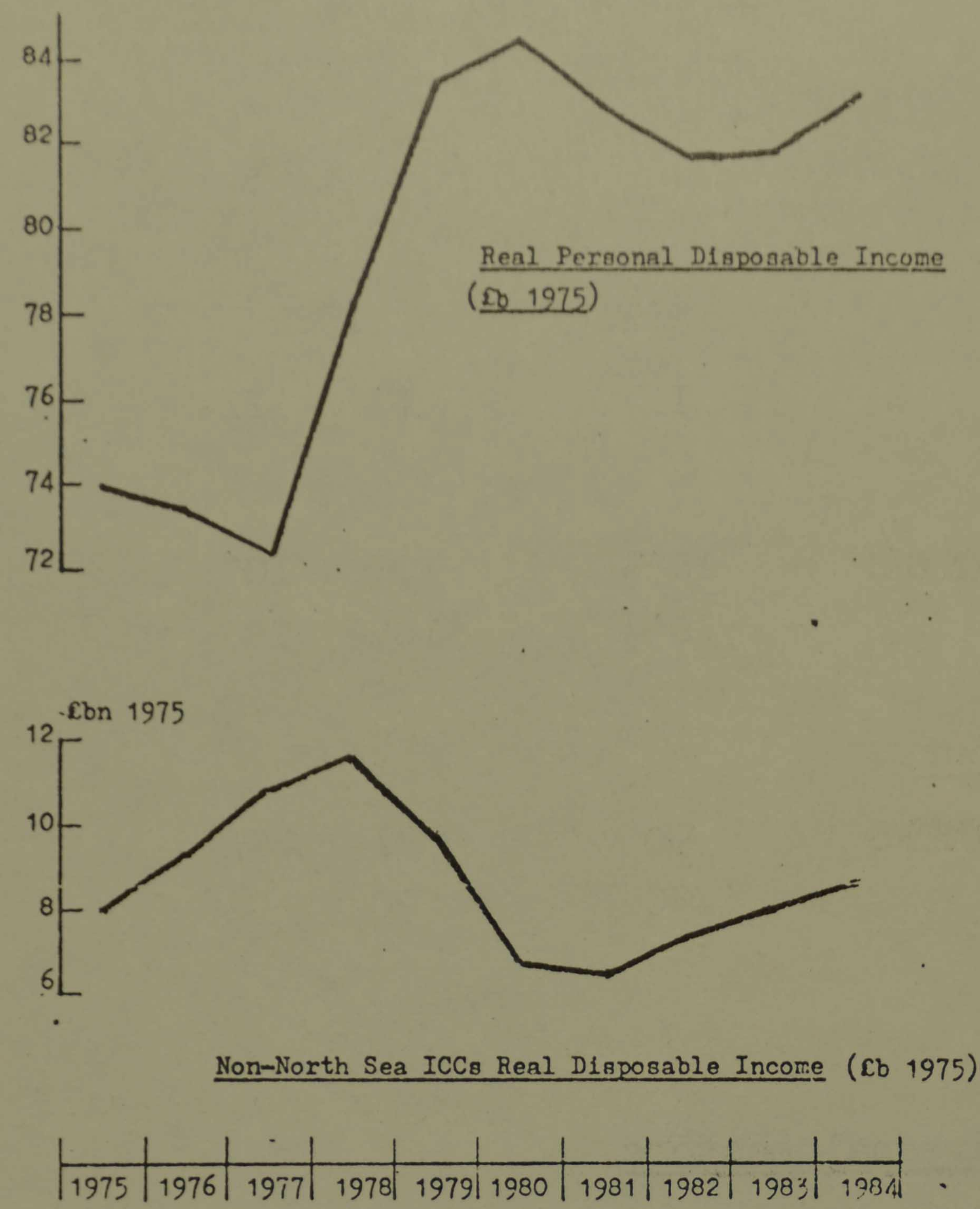
1975 = 100	1981 II	1982 I	1982 II	1983 I	1983 II
<u>Total output</u>					
Budget forecast/MTFS	105½	106	107	108	110
June	105½	105½	107	107½	109
<u>Manufacturing output</u>					
Budget forecast/MTFS	90	91	92	93	94
June	90	90	91½	91½	92½

<u>The company and personal sectors</u>

36. In the second half of 1980 and through 1981, companies reduced stocks and laid off labour in a partly successful attempt to remain profitable and to avert major cash flow problems. By the end of 1981 and early 1982, there were clear signs of some improvement in profits, from very low levels, but the absence of further destocking, coupled with the continued strength of investment spending, led to some renewed deficits and substantial borrowing (especially in the period October 1981 to March 1982 when delayed tax revenues were being paid).

37. A combination of a moderate 1982-83 pay round, more profitable exports as the pound falls gently, faster recovery of output, and less rapid rises in public sector charges make for a further recovery in the profit share, from 5 per cent in 1981 to 7 per cent by 1984 - still below the 9 per cent recorded in 1979.

38. The chart overleaf compares the real income, after tax, of persons with that of industrial and commercial companies (excluding North Sea).



39. Falling interest rates and the rise in profits allow some rise in investment to be financed without much increase in the financial deficit or in borrowing. Companies, in this forecast, manage to recoup some of the losses to persons incurred in the 1979-80 pay round and its aftermath. We assume that Industrial and commercial (ex North Sea) companies, who are investing quite heavily in relation to their disposable income, will be prepared to run small (¾ per cent of GDP) financial deficits over the whole period 1982-1984, equivalent to some £2 billion a year.

40. In the <u>labour market</u>, latest figures of unemployment, vacancies and hours worked show clear evidence of the hesitation in recovery over the last six months. We still expect the demand for labour to pick up later this year and combined with apparently little changed labour supply (despite the rise in the population of working size) should produce a further slowing down in the growth of unemployment later this year. Sometime next year unemployment could be near a plateau:

Unemployment, millions

	UK wide	GB narrow	
	forecast	forecast	assumption used in PEWP
1981-82	2.9	2.6	2.6
1982-83	3.1	2.85	2.9
1983-84	3.25	3.0	2.9
1984-85	3.3	3.1	2.9

41. This view of unemployment rests, not very securely, on an interpretation of the productivity increase over the past eighteen months as, mainly, a step increase in the level of productivity. We have also raised our estimate of the trend productivity growth rate. For the private, non-oil, sector of the economy, plus nationalised industries, this trend was 3 per cent a year up to about 1974; 1 per cent a year 1974-79 and faster since then. For the future we have assumed 2 per cent.

Public expenditure, the PSBR and the fiscal stance

The planning total in recent White Papers and in the current forecast is shown below:

£bn cash	1980-81	1981-82	1982-83	1983-84	1984-85
1. 1981 PEWP (cash equivalent)	93.3	104.8	110.2	113.9	-
2. 1982 PEWP	93.5	106.1	115.2	121.1	128.4
3. 1982 FSBR	93.5	105.2	114.9	120.4	127.6
4. Treasury forecast June 1982	(93.5)	104.6	114½	121	131½
5. Treasury forecast June 1982, cost terms 1980-81 prices	(93.5)	94.3	95½	94½	95

42. The table on page 17 shows in more detail the derivation of the planning total in this forecast from the plans as they stood at budget time. The main points to note are:

(i) Local authority overspend, consistent we think with a small rise (½ per cent) in volume, is put at around £1 billion in 1982-83 although there are difficulties over definition and measurement. The overspend is bigger in 1983-84, partly because inflation does not come down further (as implied in the plans).

RECONCILIATION OF PLANNING TOTALS

£bn cash	1982-83	1983-84
1. Cmnd 8494 Planning Total	115.2	121.1
2. Budget Adjustments	- 0.3	- 0.7
3. Planning Total after Budget adjustments (1982 FSBR)	114.9	120.4
less LA overspend	- 0.5	- 0.5
less Special Asset Sales	0.6	0.6
less Contingency Reserve	- 2.4	- 4.0
add back Shortfall	0.5	0.5
4. Programmes (1982 FSBR)	113.1	117.0
Changes incorporated in June Forecast (central case)		
5. Special Asset Sales	- ½	- ½
6. LA overspend	1	1½
7. Contingency Reserve	2½	3
8. Changes due to different economic assumptions (including prices) and shortfall	- 1½	-
9. Sum of Forecast Changes (5 + 6 + 7 + 8)	1½	4
10. Planning Total in June Forecast	114½	121

(ii) Nationalised industries' external borrowing: although "allocated" £0.9 billion of the contingency reserve this year, we think that rising surpluses, as prices for some industries rise in real terms, and the usual investment shortfall, will lead to not all the £0.9 billion being required, as in 1981-82. Very tentatively, because of variations in trading conditions at home and abroad, as well as the risk of industrial disputes, we put the claim on the reserve at around half the £0.9 billion, without allowing for the effects of a major industrial dispute, which could be costly.

(iii) Central government expenditure: we allow both for shortfall on cash limited and other items, and, particularly in 1984-85, higher prices feeding through into higher expenditure.

(iv) The contingency reserve in 1982-83 of £2½ billion is fully allocated. In 1983-84 the £3 billion figure in line 7 should be taken in conjunction with the £1½ billion LA overspend (line 6) <u>and</u> some increases because of higher prices and other economic assumptions (contained in line 8, and offsetting the assumed shortfall in that year). Taken together, these three items exceed the £4 billion reserve in the published plans.

(v) The main forecast shows a small <u>rise</u> in public expenditure in cost terms in 1982-83; and a small <u>fall</u> in 1983-84.

<u>The PSBR</u>

43. On the <u>revenue</u> side we assume full revalorisation of income tax allowances and thresholds, and of specific duties. The resulting change in tax receipts in 1983-84 is as follows:

	£ billion
income tax	-1.4
specific duties (including VED)	+1.0

44. As usual we assume that National Insurance contribution rates are set for 1983-84 and beyond in order to balance the fund. GAD estimates, based on the economic assumptions in this forecast, point to little change needed in the current rates in April 1983; and to a balance on the fund (taking account of strike recovery) in the current financial year 1982-83. This compares with a GAD forecast, soon to be published, of a deficit on the fund this year of £350 million, based on earlier economic assumptions (higher earnings growth leading to higher contribution income is the main reason why we now think the fund balance will be better).

45. The PSBR reflects mainly the movements in the planning total and in receipts:

£ billion (per cent change on a year earlier)

	1980-81	1981-82	1982-83	1983-84	1984-85
Planning total	93½ (+21)	104½(12)	114½(9½)	121(5½)	131½(8½)
General Government receipts	94½ (20)	111(17)	121 (9½)	130 (7)*	143(10)*
PSBR	13	9	9	8½	7
Fiscal adjustment	-	-	-	-1	-3
Oil revenues (before ACT set off)	4	6½	6½	7	10

*after fiscal adjustment

46. The figures in the Red Book for the outturn year 1981-82 overstated the PSBR by over £1½ billion. Sufficient information is still not available to provide a full explanation of this shortfall in terms of economic categories, but higher Inland Revenue receipts and lower Central Government expenditure on goods and services each contributed in part. These two effects carry implications for 1982-83 which have been absorbed into the forecast, but many of the other items contributing to the 1981-82 error are unlikely to carry through into 1982-83. Some may even (in the case, for example, of payments being delayed longer than expected) imply adjustments in the opposite direction. In addition, some later information about 1981-82, particularly in respect of National Insurance contributions, pointed to upward revisions in components of the PSBR.

47. The main changes to the revenue side of the PSBR forecast since the Budget have been in respect of North Sea taxes (up £¼ billion), National Insurance Contributions (down £¼ billion) and an additional reflux (about £¼ billion) from taxes delayed because of the Civil Service strike. Our estimate of public expenditure has come down by £½ billion, reflecting in part the fact that the apparently lower strain on Central Government programmes revealed in 1981-82 should permit the additional expenditure on Falklands operations to be accommodated without over-running the Contingency Reserve. Other changes affecting debt interest, Customs & Excise taxes and the National Insurance Fund are broadly offsetting, leaving the PSBR forecast about £¾ billion lower at £8¾ billion.

48. For 1983-84 the prospect is for a similar slight improvement over the Budget projections. The higher level of receipts of personal taxes revealed in 1981-82 is expected to be offset by lower onshore company taxes, but North Sea taxes benefit from higher dollar prices and are projected at £1 billion higher. Public expenditure is forecast at a slightly higher level, reflecting in part a larger amount of overspending by local authorities, but this is not sufficient to prevent a substantial underlying improvement in the PSBR. A fiscal adjustment of about £1 billion is projected to be consistent with a fall in the ratio of the PSBR to GDP to 2¾ per cent.

49. The PSBR has many disadvantages as a measure of fiscal stance; and the composition of the PSBR can be important for the level of interest rates at which it can be financed. The table below shows a number of features which affect the PSBR but which may have much less influence on activity or on interest rates.

£ billion

		1980-81	1981-82	1982-83	1983-84	1984-85
1	PSBR	13.2	9	9	8½	7
2	Civil Service strike (retiming effects only)	+½	+¾	-1¼	-	-
3	Issue of indexed gilts (PSBR lower by)	-	0.1	0.3	0.5	0.6
4	Asset sales, including forward oil	-0.4	+0.2	-0.7	-0.7	-0.6
5	PSBR adjusted for rows 2-4 1-2+3-4	13.1	8	11	9½	8

50. For those who like to take into account, as part of fiscal policy, the inflation tax, one measure of the "real" PSBR, calculated as the nominal PSBR less the erosion in the value of public sector debt, is given in the table below. The more negative is the "real" PSBR, as in 1981-82, the more restrictive fiscal policy may be judged.

£ billion

	1980-81	1981-82	1982-83	1983-84	1984-85
Nominal PSBR	13.2	8.8	9	8½	7
Inflation tax	15.1	14.9	10½	11½	12
"Real" PSBR	-1.9	-6.0	-1½	-3	-5½
(Percentage of GDP)	(-1)	(-2½)	(-½)	(-1)	(-1½)

Interest rates and monetary growth

51. The forecast assumes that short-term interest rates are set so that the average growth of the main monetary aggregates (giving equal weight to both narrow and broad measures) lies within the MTFS ranges: 8-12 per cent in 1982-83, and declining to 6-10 per cent in 1984-85.

52. A path for interest rates which, we think, is consistent with the MTFS ranges is set out below.

(Figures in brackets are the FSBR forecast)

	3 month Eurodollar rate	3 month UK interest rate	inflation rate (deflator for TFE)
	%	%	% change over a year earlier
1981-82	16.4	14.2	9.3
1982-83	15¾ (17)	12¼ (13½)	7¼ (8)
1983-84	13½	11	8
1984-85	11½	10	8

53. Last year, the rapid growth in bank lending to both companies and persons was the major reason for the overshoot of the £M3 target. In 1981-82 industrial and commercial companies borrowed nearly £8 billion in total, much more than we had expected, and increased their (gross) liquidity levels. Over the forecast period, we expect some slowdown in the growth of bank lending to companies, as the build up of liquidity fades. Rapid growth in bank lending to persons has reflected in part the desire of the banks to capture a significant portion of the mortgage market. On credit for consumption, the banks' share of new business has declined recently from very high levels. We expect bank lending to persons to grow less rapidly, as the push into new markets abates: after growth of about 38 per cent in 1981-82, it might decline to 23 per cent this year, and to lower rates over the later part of the period.

54. We regard the behaviour of the broader monetary aggregates, £M3 and PSL2, as more closely related to that of the whole portfolio of private sector wealth than to current transactions. Over recent years, changes in £M3 have not been closely related to money incomes:

	per cent changes on a year earlier		
	£M3	Nominal GDP	Gross wealth excluding revaluations
1980 Q1	13	22½	14
1981 Q1	17	10	20
1982 Q1	13½	10	20
1983 Q1	10	9	11¼
1984 Q1	8¾	10	9
1985 Q1	7½	10½	8

55. It is not easy to forecast changes in wealth, which depend on the borrowing and savings behaviour of both companies and persons; nor is the proportion of wealth held in the form of £M3 easily predictable. Over the forecast period, the decline in the growth of bank lending, together with a fall in the personal sector savings ratio partly because of the lower rate of inflation, points to slower growth of financial wealth and so to slower growth of the broad aggregates, £M3 and PSL2.

56. The narrow aggregates, Mo and M1, have been growing slowly over the past year or so. In the case of Mo (mostly cash) there is now clear evidence of a substantial shift away from the payment of wages in cash; and we expect this shift to continue and to lead to continuing slow growth of Mo over the next few years. But for M1, slower than expected growth over the past year followed growth over the previous year which was higher than can easily be explained.

57. The current level of M1 is very close to what we would expect, on the basis of past experience, which suggests a strong relationship with interest rates. Because the interest-bearing part of M1 has been expanding rapidly, we expect the responsiveness of M1 to changes in interest rates to be lower than on average in the past. Nevertheless the fall in short rates from 15 per cent in late 1981 to 10 per cent in 1984-85 is likely, on past experience especially that of 1977-78, to lead to a more rapid rise in M1.

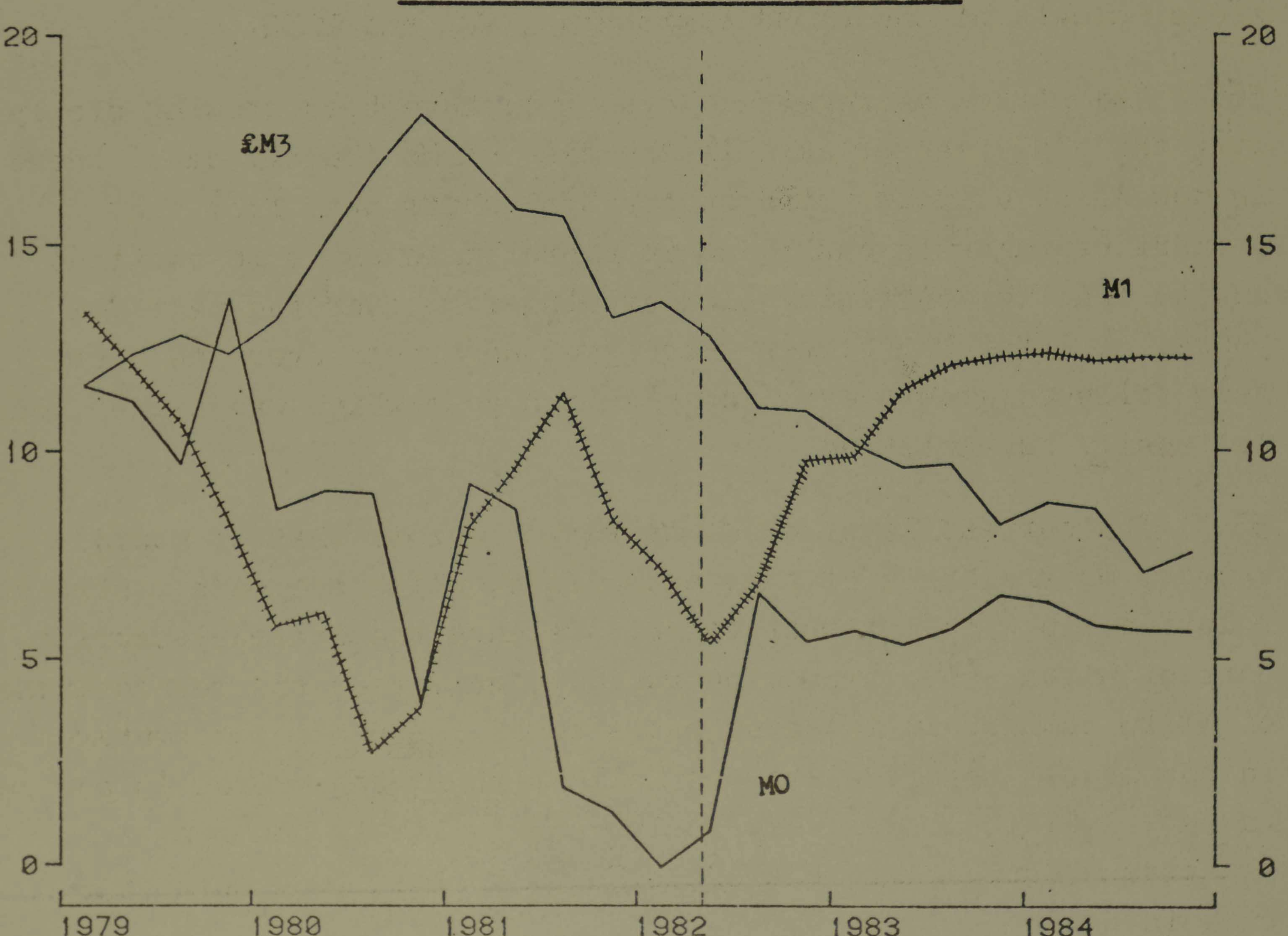
58. The forecast of monetary aggregates is summarised below. Some words of warning are in order. Our inability fully to explain past experience, the need to change estimated relationships in this area, and the knowledge that institutional change can be both rapid and pervasive combine to make our forecast of monetary aggregates, and our interpretation of them, very uncertain. Errors of 5 per cent and more have occurred from time to time.

Per cent changes on a year earlier

	Mo	M1	£M3	PSL2	MTFS range
1982 Q1	4¼	7	13½	11	
1983 Q1	5¾	10	10	9¾	8-12
1984 Q1	6¼	12½	8¾	8½	7-11
1985 Q1	6¼	12	7½	8	6-10

59. The chart below shows the growth rates of Mo, M1 and £M3 (over the forecast period the growth of PSL2 is very close to that of £M3).

MONETARY AGGREGATES - GROWTH RATES



60. Funding policy in the forecast is such as to produce virtually zero overfunding* in 1982-83 and slight (£1-1½ billion) underfunding in the next two years. There is a need for a further small increase in money market assistance in 1982-83, but thereafter some running down should be possible if local authorities can be induced to switch some medium term borrowing from the banks to central government as the forecast envisages.

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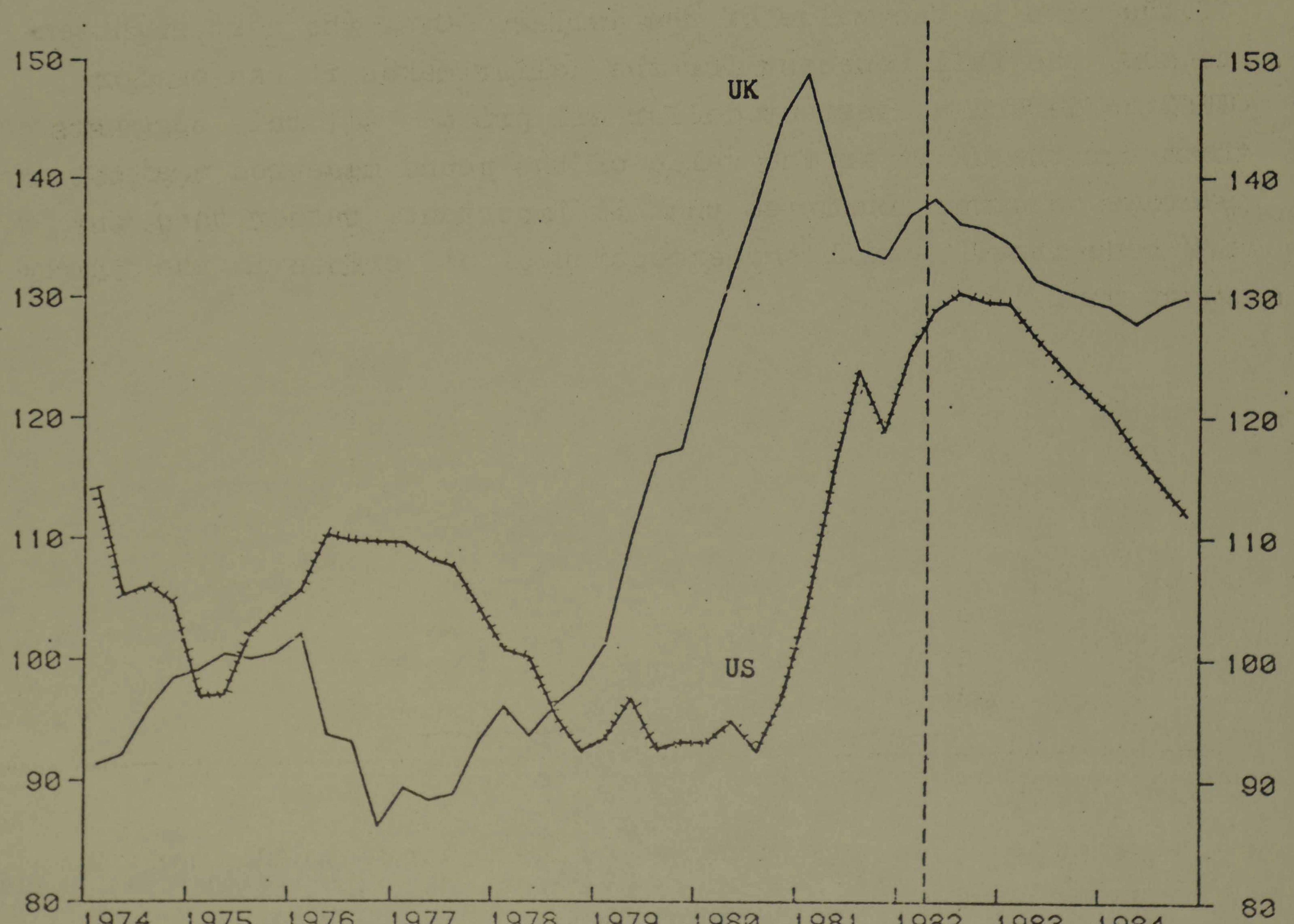
*PSBR less sales of central government debt to the non-bank private sector.

Exchange rates, competitiveness and world prices

61. For both the UK and the US, recent years have seen a period of sharply deteriorating competitiveness. But the timing has been different: in the UK, the deterioration took place up to early 1981 and there has been an improvement since; whereas in the US the deterioration has taken place over the last two years. Moreover, in the UK, the loss of competitiveness reflected in large part a rapid growth of unit labour costs; in the US, mainly a rise in the dollar (currently, late June 1982, 30 per cent higher than in 1980). For both countries we are inclined to think that over the forecast period as a whole exchange rates are more likely to go down than up, partly because of the tendency to move into deficits (or smaller surpluses) on the balance of payments. Moreover the domestic price and wage level tends to adjust downwards slowly and painfully, making it difficult to restore competitiveness through this route alone, even with tight fiscal and monetary policies.

62. The chart below shows the forecast improvement in labour cost competitiveness in the US and the UK: in both cases a fall in the exchange rate is the main influence.



US & UK LABOUR COST COMPETITIVENESS

63. The stability of sterling during the uncertainty created by the Falklands conflict, and more recently, suggests considerable underlying strength. Nevertheless, partly because of the fall in the current account surplus, and continued capital outflow, we think that the pound, currently around 91 on its trade weighted measure, could fall to 85 by the end of 1983, though we would stress the high margins of error in exchange rate forecasts.

64. World prices, such as oil and gold, are usually set and quoted in dollars. When the value of the dollar has changed by 30 per cent over the last two years, that can be misleading. In general, commodity prices are set in auction markets and changes in the value of the dollar will be fully reflected in the quoted dollar prices and will not affect much the price quoted in some basket of currencies (eg SDRs). Oil is perhaps something of an exception, with OPEC able to exercise at least in the short run some control over dollar prices through substantial cuts in production. Thus oil prices, in real terms, have probably been higher than they would otherwise have been in 1982 as a result of the rise in the value of the dollar. Over the next eighteen months, the fall forecast for the dollar makes it easier for OPEC to defend a constant dollar oil price. All this suggests that for the UK it is the value of the pound measured against an average of other countries that is important, rather than the £/$ rate itself - with the exception of oil prices in the fairly short run.

Trade and the balance of payments

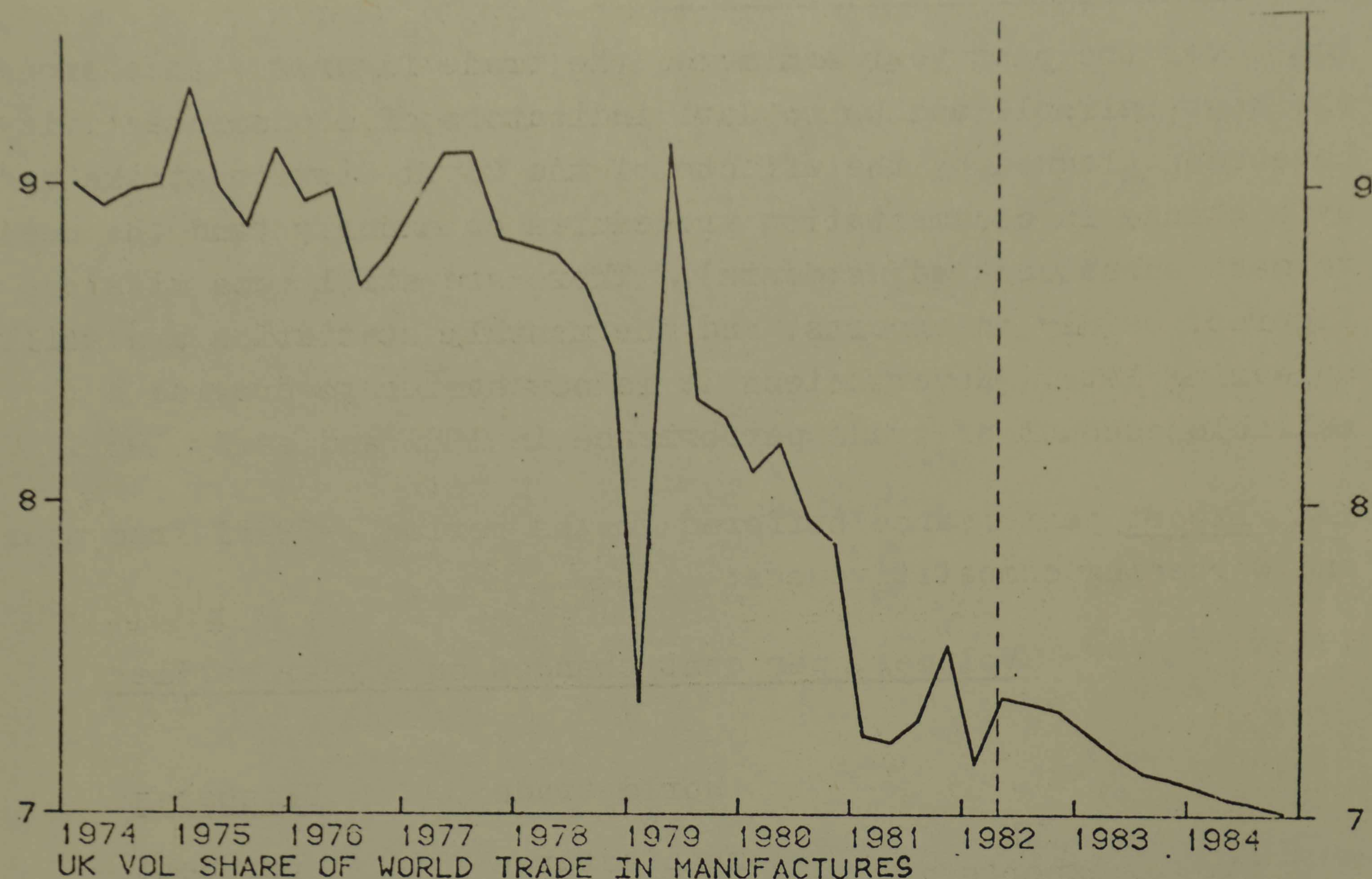
65. Over the past year and more, the trade figures - once among the most reliable and up to date indicators of economic activity - have been plagued by the effects of the Civil Service strike and by a change in documentation procedures on exports (and the need to make subsequent adjustments). There are still some missing figures, mainly on exports, and the monthly statistics are still appearing late. Nevertheless it is now easier to provide a reliable account of trade performance in 1981 and early 1982.

66. Export performance suffered in the period 1979-81 from poor and worsening competitiveness:

Volumes, per cent changes on a year earlier

	UK exports of manufactures	World trade in manufactures (UK weighted)	UK shares per cent volume	UK shares per cent value
1979	0.2	5.1	8.3	9.1
1980	1.1	4.3	8.0	9.7
1981	-4.5	4.5	7.3	8.6
1982	2.0	2.4	7.3	8.0
1983	2.1	3.9	7.2	7.6
1984	3.6	5.5	7.0	7.3

67. The fall in exports has not been as big as would have been expected in 1979 or 1980, given the sharp loss of competitiveness that actually occurred. Nevertheless the most recent trade figures (January to April 1982), the downturn in export optimism in the CBI surveys, and the generally weaker state of world demand have led us to revise downwards our forecast for 1982 from what now looks to be an over-optimistic assessment at budget time. Gradually, over the forecast period, the recovery in world trade and the improvement in competitiveness lead to an expansion of UK exports, though during the remainder of 1982 relatively little growth seems likely. The chart overleaf shows the path of the UK share of world trade, in volume terms.



68. On the import side, the absence of trade figures meant that we did not become aware until late in the year of the very sharp rebound in imports that took place around mid year. For manufactures, the path of import penetration looks as follows:

	Import Penetration, per cent
1975 Q4	20½
1979 Q4	28
1980 Q4	28½
1981 Q4	32
1982 Q4	33
1983 Q4	34½
1984 Q4	35½

Thus the strong upward trend was halted only very briefly by the 1980/81 recession. A low pressure of demand and improving competitiveness explain why the proportion rises only slowly over the forecast period.

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69. Other areas of the export trade - particularly oil - have been more buoyant; rising import penetration is not a problem outside manufactures; and while the terms of trade may deteriorate a little, they continue very favourable by comparison with 1978 or 1979. All these factors together with a rising surplus on invisibles should help to maintain the current account of the balance of payments in surplus - implying a continuing build-up abroad of UK-owned assets. The forecast is summarised in the table below:

£bn

	Visible balance	Invisible balance	Current Account
1980	1	2	3
1981	3½	3½	7
1982	0	2	2
1983	-2½	3	½
1984	-3½	6	2½

ANNEX : COMPARISON OF FORECASTS

Treasury Forecasts

Table A below compares the current forecast with some of the Treasury Forecasts made over the last year or so. The forecasts were not all constructed on the same set of assumptions about government policy and differences in these assumptions account for some of the differences between the forecasts.

2. The main interest is in how the prospect has changed since the Budget. The current forecast of total output growth, as measured by GDP, is lower than the figures in the Budget Projections. The lower growth now forecast for 1982 mainly reflects the hesitation in output growth which occurred in the first quarter of this year. The forecast for the later years is lower than the MTFS, mainly because the latter was more in the nature of an assumption than a forecast - our forecast judgements have changed very little. The story on inflation is similar - lower inflation in 1982 due to lower than expected price increases in recent months but higher inflation at the end of 1983 and in 1984 than assumed in the MTFS. The current forecast for mid-1983 is however very close to the published forecast of 7½ per cent.

3. The PSBR forecast for 1982-83 has been revised down since the Budget but the new forecast is still well within the error margin of the original forecast. The PSBR in 1983-84 and 1984-85 is the same as in the MTFS, by assumption - any change in public sector receipts and payments shows up in the size of the fiscal adjustment which is little different in 1983-84 and somewhat higher in the following year. Slightly lower short-term interest rates are now forecast for the current and next financial years, partly because of lower nominal GDP and partly because of lower US interest rates. Despite lower interest rates, £M3 is expected to grow somewhat more slowly mainly as a result of a lower forecast of private sector financial wealth, in turn due to a lower current account surplus.

Outside Forecasts

4. Table B below compares the current Treasury Forecast with two recent outside forecasts - Phillips and Drew and NIESR were chosen because they are genuine post Budget forecasts - and a "consensus" forecast obtained by averaging all the major outside forecasts. The Treasury Forecast is very much in line with the consensus forecast as regards the prospects for growth, but somewhat more optimistic on the outlook for inflation. The consensus forecast implies little further deceleration this year in the year on year inflation rate and no deceleration next year. Although the outsiders see a slightly stronger sterling exchange rate, only one or two show

decreases in the rate of growth of earnings and some have increases. Apart from inflation the only other notable difference between the Treasury and the consensus is that we now envisage a quicker erosion of the balance of payments current account surplus.

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COMPARISON OF TREASURY FORECASTS

TABLE A

	1981 FSBR/MTFS	JANUARY 1982 FORECAST	1982 FSBR/MTFS	JUNE FORECAST
Money Supply £M3*				
(% Change on year earlier)				
1982 Q1	8.0	16.2	14.5 (15.5)	13.6
1983 Q1	7.0	11.0	11.1 (11.6)	10.1
1984 Q1	6.0	9.0	8.9 (9.2)	8.7
1985 Q1	6.0	8.3	7.0 (7.3)	7.5
PSBR				
(£b and % of money GDP)				
1981-82	10.6(4.3)	10.1(4.0)	10.6 (4.2)	8.9 (3.5)
1982-83	8.9(3.3)	7.5(2.7)	9.5 (3.4)	8.8 (3.2)
1983-84	6.0(2.0)	6.2(2.0)	8.4 (2.8)	8.4 (2.8)
1984-85	3.3(1.0)	6.8(2.0)	6.7 (2.0)	6.8 (2.0)
Nominal GDP (mp)				
(% change on year earlier)				
1981	10.2	9.9	10.1	9.8
1982	10.1	11.1	10.6	9.5
1983	9.8	9.1	9.2	9.3
1984	9.8	10.5	9.9	10.5
RPI				
(% change on year earlier)				
1981 Q4	10.2	11.9	11.9	11.9
1982 Q4	7.5	9.8	9.0	7.7
1983 Q4	7.4	7.5	7.1	7.8
1984 Q4	7.0	7.8	6.0	8.5
Interest Rates				
A short Term				
1981-82	12.2	14.4	14.2	14.2
1982-83	11.5	14.0	13.5	12.3
1983-84	9.9	11.9	11.9	10.9
1984-85	9.0	10.2	10.2	10.2
B Long Term				
1981-82	13.3	15.2	15.0	14.9
1982-83	12.9	14.7	14.0	13.1
1983-84	11.3	13.0	12.6	11.8
1984-85	10.7	11.7	11.4	11.1
Private Sector Financial Wealth Excluding Revaluations				
(% Change on year earlier)				
A Gross Wealth				
1982 Q1	11.7	19.8	18.7	20.0
1983 Q1	8.7	11.2	12.6	11.3
1984 Q1	6.7	8.4	9.0	9.1
1985 Q1	5.5	7.5	7.6	8.1
B Net Wealth				
1982 Q1	11.3	18.6	15.1	12.3
1983 Q1	6.7	10.4	12.0	10.4
1984 Q1	4.2	7.4	7.4	7.9
1985 Q1	2.8	6.8	6.0	7.2

* The 1981 FSBR/MTFS, and January Forecasts, were based on the old monetary sector. The 1982 FSBR/MTFS and current Forecasts are based on the new monetary sector - Forecasts based on the old definition are in brackets.

TABLE A (continued)	1981 FSBR/MTFS	JANUARY 1982 FORECAST	1982 FSBR/MTFS	JUNE FORECAST
Average Earnings (private cyclically adjusted - % change on year earlier)				
1981 Q3	9.8	13.0	13.6	12.5
1982 Q3	6.9	9.0	9.0	9.0
1983 Q3	6.0	8.5	8.3	8.0
1984 Q3	5.4	10.0	7.4	10.0
Effective Exchange Rate 1975 = 100				
1981	101.2	94.9	94.9	94.9
1982	100.4	87.4	88.5	89.9
1983	98.9	82.4	84.6	86.2
1984	96.7	78.9	81.9	83.5
Labour Cost Competitiveness (Ratio of UK to competitors costs 1975 = 100)				
1981 Q4	151.3	140.2	139.3	133.3
1982 Q4	150.8	131.8	136.2	135.7
1983 Q4	145.7	125.8	130.3	129.8
1984 Q4	145.2	125.8	129.8	130.0
Current Balance (£b)				
1981	2.8	7.5	8.3	7.1
1982	-0.8	3.8	4.2	2.0
1983	-1.4	3.3	2.9	0.4
1984	-0.4	3.8	3.3	2.5
Manufacturing Output (% change on year earlier)				
1981	-6.6	-5.7	-6.4	- 6.2
1982	1.5	4.5	3.2	2.0
1983	0.9	1.1	2.2	1.4
1984	1.2	0.8	1.9	0.9
GDP Volume (fc) (% change on year earlier)				
1981	-2.0	-1.8	-2.0	- 2.2
1982	1.2	1.2	1.4	1.0
1983	2.3	1.5	2.4	2.0
1984	2.2	2.3	2.8	2.1
Unemployment (UK sa excl school leavers - millions)				
1981 Q4	2.7	2.8	2.8	2.8
1982 Q4	2.9	3.1	3.0	3.0
1983 Q4	2.8	3.2	3.0	3.1
1984 Q4	2.8	3.2	3.0	3.2
I & C Companies' Financial Surplus/Deficit				
1981	-0.9	1.2	1.4	1.4
1982	-4.7	-1.4	0.2	- 1.7
1983	-2.4	-1.5	-1.8	- 0.6
1984	-0.9	0.6	-0.9	- 0.9

TABLE B

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COMPARISONS WITH OUTSIDE FORECASTS

	Phillips & Drew June 1982	NIESR May 1982	Consensus forecast	Treasury June
1) £M3, % change on year earlier				
1983 Q1 1984 Q1	10 (11)	10 9.5	10.8 10.1	10.1 8.7
2) £M1, % change over year earlier				
1982 Q1 1983 Q1 1984 Q1	9.3 7.5 (9.5)	8.5 11.0 10.3	- 9.3 10.1	7.1 9.9 12.4
3) Interest rates, short-term, % (Treasury bill rate)				
1982 Q4 1983 Q4	12.0 13.0	NA NA	11.4 11.8	11.7 10.5
4) PSBR, £bn				
1982-83 1983-84	9.4 9½	7.9 7.1	9 7.9	8.8 8.4
5) Exchange rate, 1975 = 100				
1982 Q4 1983 Q4	88 86	90 90	88.8 87.8	88.9 84.8
6) Current Account, £bn				
1982 1983	3.0 1.6	6.2 8.6	3.4 2.0	2.0 0.4
7) Average earnings, % change on year earlier				
1982 1983	9.9 10.8	10.5 9.5	9.9 10.0	10.2 8.2
8) RPI, % change on year earlier				
1982 Q4 1983 Q4	8.8 9.0	9 8	9.2 9.4	7.77 7.8
9) RPDI, % change on year earlier				
1982 1983	-0.3 2.5	-1.3 0.4	-1.3 1.3	-1.2 0.2

	Phillips & Drew June 1982	NIESR May 1982	Consensus forecast	Treasury June
10) Import volume, goods & services %				
1982	8.6	9.0	7.9	6.6
1983	6.1	3.5	5.8	4.6
11) Export volume, goods & services %				
1982	3.0	3.4	2.6	0.3
1983	4.4	4.9	4.0	3.3
12) GDP volume, % change on year earlier				
1982	1.5	1.0	1.2	1.0
1983	2.4	1.1	2.3	2.0
13) Unemployment, million, Q4				
1982	2.9	3.0	2.9	3.0
1983	2.9	3.3	3.0	3.1

"Consensus" covers: National Institute
London Business School
Phillips and Drew
Simon and Coates
St James
Cambridge Econometrics
Cambridge Economic Policy Group
Liverpool
CBI

(but results are not reported for some variables by some forecasters)

JUNE FORECAST

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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 RATES 3-MONTH INTER BANK	12 20-YEAR GILTS	13 £M3 % CHANGE OVER PREV. YEAR
1980	107.6	1647	22.1	18.0	12163	5.38	3133	-1786	17768	96.10	16.63	13.79	15.8
1981	105.2	2539	14.2	11.9	11225	4.52	7074	1383	15670	94.87	13.92	14.71	15.4
1982	106.3	2903	9.6	9.2	5189	1.91	1982	-1684	13667	89.92	12.93	13.61	12.0
1983	108.5	3095	8.3	7.6	9469	3.19	402	-615	12434	86.17	11.19	12.06	9.4
1984	110.7	3177	9.6	8.3	6615	2.01	2514	-937	12602	83.51	10.42	11.26	8.0
1980/81	106.4	1877	21.6	16.3	13197	5.70	5600	-362	19036	98.20	15.55	13.61	16.8
1981/82	105.3	2673	12.4	11.5	8875	3.49	5057	-179	14997	92.31	14.18	14.92	14.5
1982/83	106.8	2958	9.0	8.4	8845	3.18	1647	-1198	13140	89.19	12.34	13.12	11.2
1983/84	109.0	3130	8.4	7.6	8358	2.75	606	-784	12149	85.17	10.86	11.77	9.0
1984/85	111.3	3192	9.9	8.3	6768	2.01	2722	-687	12964	82.96	10.18	11.11	7.7
1980 QTR 1	110.3	1361	20.4	19.1	350	0.65	103	-437	3216	93.00	17.66	14.48	13.2
QTR 2	108.0	1493	23.6	21.5	3771	6.76	127	-983	4489	94.50	17.16	14.05	15.1
QTR 3	106.6	1719	24.2	16.4	4161	7.24	979	-573	4997	96.70	16.11	13.33	16.8
QTR 4	105.7	2015	20.3	15.3	3881	6.62	1924	207	5067	100.20	15.60	13.30	18.1
1981 QTR 1	105.2	2281	18.7	12.7	1384	2.32	2570	987	4484	101.40	13.33	13.78	17.1
QTR 2	104.8	2492	14.4	11.7	6409	10.49	2466	746	4181	97.80	12.47	14.18	15.8
QTR 3	105.3	2641	12.5	11.2	3110	4.93	681	287	3705	90.60	14.22	15.20	15.7
QTR 4	105.7	2751	11.8	11.9	322	0.50	1357	-637	3300	89.70	15.65	15.67	13.2
1982 QTR 1	105.5	2817	11.0	11.1	-966	-1.47	553	-575	3811	91.14	14.38	14.64	13.6
QTR 2	105.8	2877	9.8	9.4	1518	2.26	599	-953	3397	90.30	13.36	13.74	12.8
QTR 3	106.6	2957	9.0	8.9	2415	3.50	421	-77	3418	89.34	12.00	13.14	11.0
QTR 4	107.3	2963	8.7	7.7	2222	3.17	409	-79	3041	88.89	12.00	12.91	10.9
1983 QTR 1	107.3	3036	8.5	7.7	2690	3.76	218	-89	3284	88.23	12.00	12.66	10.1
QTR 2	108.1	3087	8.2	7.3	2451	3.34	122	-152	3262	86.02	11.00	12.09	9.6
QTR 3	109.0	3116	8.0	7.5	2433	3.22	8	-81	3107	85.61	11.00	11.88	9.7
QTR 4	109.5	3143	8.5	7.8	1895	2.47	54	-293	2781	84.81	10.75	11.63	8.2
1984 QTR 1	109.6	3176	9.0	7.9	1579	2.01	422	-258	2999	84.24	10.68	11.47	8.7
QTR 2	110.7	3165	9.5	8.3	2047	2.52	540	-528	3323	82.98	10.54	11.33	8.6
QTR 3	111.2	3184	10.0	8.5	1508	1.80	785	-54	3305	83.67	10.45	11.22	7.1
QTR 4	111.4	3181	10.0	8.5	1481	1.75	767	-97	2975	83.15	10.03	11.03	7.5
1985 QTR 1	111.9	3236	10.0	8.0	1732	1.99	630	-8	3361	82.02	9.71	10.86	7.5

(1) 'NARROW' EXCLUDES SCHOOL LEAVERS

(2) FINANCIAL YEAR SEASONALLY ADJUSTED

JUNE FORECAST

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TABLE 2 PRIVATE SECTOR FINANCIAL SUMMARY

PERCENTAGE CHANGES ON PREVIOUS YEAR (EXCEPT COL. 12)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	TFE DEFLATOR	REAL TFE	REAL GDP	NOMINAL GDPM	PRIVATE SECTOR FINANCIAL WEALTH EXCLUDING REVALUATIONS		PRIVATE SECTOR FINANCIAL WEALTH INCLUDING REVALUATIONS		BANK LENDING TO PRIVATE SECTOR	PRIVATE SECTOR HOLDINGS OF GILTS			£M3	REAL MONEY SUPPLY	M1
					NET	GROSS	NET	GROSS		EXCL. REVALS.	INCL. REVALS.	AS A % OF GROSS WEALTH			
1980	17.15	-2.18	-2.31	16.73	11.51	15.98	9.44	15.02	23.10	16.81	13.04	25.91	15.85	1.09	4.57
1981	10.66	-1.27	-2.22	9.84	22.65	21.94	19.51	20.55	16.40	14.66	9.08	23.44	15.38	5.61	9.37
1982	7.91	2.42	1.01	9.47	7.86	15.15	13.50	17.61	26.28	10.93	21.94	24.31	12.03	1.36	7.26
1983	7.56	2.46	2.02	9.31	9.90	10.51	15.19	12.81	13.81	8.05	17.59	25.33	9.39	-0.74	11.45
1984	8.32	2.53	2.09	10.51	7.36	8.62	10.43	9.99	10.79	5.95	11.35	25.65	7.97	-2.78	12.27
1980/81	15.53	-4.34	-3.97	13.67	14.46	17.42	15.24	17.84	21.62	16.38	17.90	26.02	16.78	5.68	5.19
1981/82	10.02	0.78	-0.97	9.83	20.20	21.93	16.11	20.10	18.26	13.24	6.38	23.05	14.53	3.30	9.08
1982/83	7.41	2.26	1.35	9.23	7.38	12.97	14.18	15.93	23.83	10.37	23.38	24.53	11.18	1.22	7.96
1983/84	7.78	2.54	2.13	9.55	9.30	9.96	14.49	12.24	12.68	7.50	16.86	25.54	9.05	-1.33	12.07
1984/85	8.34	2.49	2.09	10.66	7.17	8.39	9.70	9.52	10.25	5.46	9.88	25.63	7.67	-3.04	12.23
1980 QTR 1	18.53	3.76	2.14	22.63	10.26	14.31	2.75	10.66	23.81	18.59	4.94	25.34	13.19	-4.51	5.77
QTR 2	19.90	-3.82	-3.51	17.36	13.20	16.40	12.30	15.96	22.99	17.03	15.39	26.14	15.06	-4.04	6.10
QTR 3	16.40	-3.38	-3.24	15.22	9.75	16.17	7.90	15.26	23.71	16.32	12.98	26.44	16.75	0.30	2.71
QTR 4	14.66	-5.02	-4.52	12.59	12.82	17.03	14.63	17.88	22.00	15.31	18.65	25.67	18.13	3.03	3.82
1981 QTR 1	11.77	-5.16	-4.62	10.03	22.08	20.07	26.43	22.03	18.23	16.88	24.61	25.87	17.08	4.74	8.16
QTR 2	10.37	-2.53	-3.01	9.40	24.12	23.61	21.57	22.43	12.63	15.78	11.26	23.76	15.84	4.05	9.61
QTR 3	10.38	0.35	-1.24	9.81	26.06	22.23	18.14	18.60	14.61	12.68	-1.04	22.06	15.67	4.79	11.41
QTR 4	9.80	2.44	0.09	10.10	18.35	21.86	13.03	19.43	19.97	13.30	3.82	22.31	13.20	3.10	8.32
1982 QTR 1	9.34	2.95	0.35	9.97	12.29	20.01	12.39	20.06	25.01	11.21	11.39	24.01	13.59	3.88	7.13
QTR 2	8.24	3.22	0.93	10.08	5.49	13.86	8.78	15.38	31.71	10.26	16.67	24.02	12.75	4.17	5.33
QTR 3	7.64	1.91	1.28	9.55	4.60	14.34	14.24	18.74	27.39	12.09	32.04	24.53	11.02	3.14	6.80
QTR 4	6.64	1.62	1.49	8.36	9.09	12.40	18.55	16.50	21.69	10.17	28.52	24.62	10.94	4.04	9.77
1983 QTR 1	7.21	2.31	1.69	8.98	10.35	11.28	15.12	13.37	16.46	8.95	17.64	24.91	10.12	2.71	9.85
QTR 2	7.52	2.16	2.21	9.17	10.76	10.94	17.17	13.72	13.83	8.34	19.94	25.34	9.59	1.93	11.47
QTR 3	7.56	2.84	2.20	9.47	9.79	10.32	14.85	12.54	13.41	7.43	16.50	25.39	9.68	1.97	12.10
QTR 4	7.90	2.54	1.99	9.61	8.72	9.51	13.74	11.72	11.82	7.49	16.47	25.66	8.23	0.30	12.29
1984 QTR 1	8.10	2.62	2.11	9.93	7.91	9.08	12.48	11.10	11.77	6.73	14.86	25.75	8.74	0.60	12.38
QTR 2	8.26	2.85	2.43	10.68	7.34	8.91	10.34	10.25	11.57	6.43	11.74	25.68	8.60	0.32	12.17
QTR 3	8.42	2.44	2.02	10.74	7.10	8.32	9.63	9.45	10.07	5.85	10.31	25.59	7.07	-1.25	12.27
QTR 4	8.51	2.20	1.78	10.65	7.09	8.19	9.41	9.24	9.84	4.80	8.86	25.58	7.55	-0.89	12.24
1985 QTR 1	8.20	2.47	2.12	10.59	7.15	8.14	9.45	9.18	9.60	4.75	8.77	25.66	7.49	-0.66	12.22

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TABLE 3 MONEY SUPPLY COUNTERPARTS 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	DOM C.PARTS	NET EXTE-RNALS	NON-DEP LIABS	RES.	INCR. IN £M3	GDP BASED	GNP BASED	%CHG GDP BASED	%CHG GNP BASED	M1 VELO-CITY	%CHG
1980	12210	7428	1229	660	10025	12918	-560	1361	651	11648	3.19	3.68	0.76	1.17	7.03	11.62
1981	10641	7559	4138	-753	11063	10710	222	1604	691	10019	3.04	3.46	-4.80	-6.23	7.06	0.43
1982	5691	5762	3142	-208	15267	12252	-2921	1779	1847	9399	2.97	3.37	-2.28	-2.41	7.20	2.06
1983	9519	5300	2290	635	10129	11423	-1865	1720	1	7839	2.97	3.36	-0.07	-0.27	7.06	-1.92
1984	6665	7613	1403	436	9424	10637	-1094	1760	2	7785	3.03	3.44	2.35	2.26	6.95	-1.57
1980/81	12995	8267	2093	307	8932	11260	720	1127	404	11257	3.14	3.62	-2.67	-2.55	7.05	8.06
1981/82	3644	6675	4283	-328	14374	12328	-2013	1736	1846	10485	3.01	3.41	-4.11	-5.95	7.10	0.68
1982/83	9231	5717	2750	359	12469	12874	-2775	1814	589	8874	2.96	3.36	-1.76	-1.36	7.19	1.17
1983/84	8408	4885	1640	457	10387	11813	-1673	1700	1	8441	2.97	3.37	0.46	0.35	7.02	-2.25
1984/85	6818	3605	1453	421	9462	10801	-1156	1780	-1	7864	3.06	3.46	2.78	2.59	6.93	-1.39
1980 QTR 1	502	1793	419	-301	3155	1746	105	517	351	1685	3.29	3.81	8.34	8.86	6.87	15.93
QTR 2	3596	1844	176	357	2428	3647	-393	260	440	3434	3.22	3.77	2.01	3.86	6.94	10.62
QTR 3	4144	2236	202	352	2696	4050	-641	331	-3	3075	3.17	3.62	-1.31	-2.43	7.17	12.17
QTR 4	3968	1555	432	252	1746	3475	369	253	-137	3454	3.09	3.54	-4.69	-5.09	7.12	8.45
1981 QTR 1	1237	2632	1293	-654	2062	88	1395	283	104	1294	3.09	3.57	-6.02	-6.30	6.99	1.73
QTR 2	6079	2097	1352	350	797	3077	-109	466	660	3162	3.04	3.46	-5.56	-8.33	6.93	-0.19
QTR 3	3007	905	673	-415	3059	4903	-683	618	-162	3440	3.01	3.39	-5.07	-6.32	7.07	-1.44
QTR 4	268	1925	830	-34	5145	2642	-371	237	89	2123	3.01	3.40	-2.74	-3.85	7.23	1.64
1982 QTR 1	-710	1748	1378	-229	5373	1766	-850	415	1259	1760	2.99	3.39	-3.18	-5.16	7.17	2.66
QTR 2	1567	1360	314	-136	3915	3944	-1233	464	673	2920	2.97	3.39	-2.37	-1.89	7.24	4.51
QTR 3	2441	1491	550	141	3096	3355	-392	450	-85	2428	2.97	3.37	-1.33	-0.53	7.25	2.57
QTR 4	2383	1163	900	16	2893	3187	-446	450	0	2291	2.94	3.34	-2.33	-1.91	7.14	-1.29
1983 QTR 1	2840	1703	986	338	2575	2389	-704	450	1	1235	2.96	3.35	-1.04	-1.09	7.12	-0.80
QTR 2	2501	1101	488	185	2468	3195	-39	420	0	2736	2.96	3.37	-0.39	-0.69	7.09	-2.07
QTR 3	2333	1147	452	63	3176	3847	-687	420	0	2740	2.97	3.37	-0.19	0.04	7.08	-2.34
QTR 4	1345	1349	364	49	1910	1993	-435	430	0	1128	2.97	3.36	1.28	0.67	6.97	-2.39
1984 QTR 1	1729	1288	336	160	2833	2779	-512	430	1	1837	2.99	3.40	1.09	1.40	6.96	-2.18
QTR 2	2097	1069	374	101	2578	3131	145	440	1	2837	3.01	3.43	1.91	1.90	7.00	-1.33
QTR 3	1408	755	387	89	2129	2306	-460	440	0	1406	3.07	3.47	3.43	2.71	6.99	-1.37
QTR 4	1431	501	306	86	1884	2422	-267	450	0	1705	3.06	3.46	2.89	3.03	6.87	-1.42
1985 QTR 1	1882	1280	386	145	2871	2942	-574	450	-2	1916	3.08	3.49	2.88	2.72	6.86	-1.46

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 6 = COL1-COL2-COL3-COL4+COL5
GDP-BASED £M3 IS THE RATIO OF GDP AT CURRENT MARKET PRICES EXPRESSED AT AN ANNUAL RATE TO £M3
GNP-BASED £M3 IS THE RATIO OF GNP AT CURRENT MARKET PRICES EXPRESSED AT AN ANNUAL RATE TO THE CENTRED QUARTERLY AVERAGE OF £M3

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TABLE 4 INDUSTRY ACT FORECAST TABLE 2

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	14
		GENERAL GOVERNMENT EXPEND ON GOODS & SERVCS												
	CONSU- MERS' EXPEND	FINAL CONSU- MPTION	FIXED INVEST	TOTAL	OTHER FIXED INVEST	EXPRTS OF GOODS AND SERVCS	CHANGE IN STOCKS	TOTAL FINAL EXPEND	LESS IMPRTS OF GDS AND SERVCS	LESS ADJUST TO FACTOR COSTS	GDP AT FACTOR COST (EXPEND MEASRE)	PLUS STAT ADJUST	GDP AT FACTOR COST	GDP INDEX 1975=100
1980	71477	24216	2930	27146	17786	33064	-2122	147351	34109	12411	100831	519	101350	107.6
1981	71447	24198	2123	26321	17125	32702	-2078	145517	34030	12167	99320	-224	99096	105.2
1982	71408	24576	1962	26538	18209	32799	38	148991	36266	12426	100300	-200	100099	106.3
1983	72512	24931	2009	26939	18989	33868	350	152659	37942	12593	102124	0	102124	108.5
1984	74315	25049	2251	27301	19323	35377	201	156517	39310	12952	104254	0	104254	110.7
1980 FIRST HALF	35823	12045	1516	13561	9029	16827	-516	74724	17707	6178	50839	553	51392	109.2
1980 SECOND HALF	35656	12173	1416	13589	8757	16241	-1608	72635	16406	6235	49994	-33	49961	106.1
1981 FIRST HALF	35871	12094	1165	13259	8400	16059	-1765	71824	16035	6029	49760	-334	49426	105.0
1981 SECOND HALF	35578	12106	960	13066	8725	16647	-315	73701	17999	6140	49562	110	49672	105.5
1982 FIRST HALF	35653	12203	992	13195	9096	16265	-153	74056	17863	6251	49941	-200	49741	105.7
1982 SECOND HALF	35757	12375	972	13347	9113	16538	191	74945	18406	6177	50362	-2	50360	107.0
1983 FIRST HALF	36007	12467	980	13448	9372	16723	162	75712	18753	6245	50713	-2	50711	107.7
1983 SECOND HALF	36507	12466	1030	13496	9617	17149	191	76959	19192	6350	51417	-2	51415	109.2
1984 FIRST HALF	36918	12472	1084	13555	9677	17515	117	77782	19486	6429	51867	-2	51865	110.2
1984 SECOND HALF	37399	12580	1170	13749	9646	17866	86	78746	19828	6525	52393	-1	52392	111.3

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TABLE 5 CONSUMERS EXPENDITURE

	1 REAL CONSMR EXP. TOTAL	2 REAL CONSMR EXP. DUR-ABLES	3 REAL CONSMR EXP. NONDUR-ABLES	4 REAL PERSNL DISP. INC.	5 SAVINGS RATIO	6 CONSMR PRICE INDEX	7 % CHANGES ON PREVIOUS YEAR OF: CONSUMPTION TOTAL	8 CONSUMPTION DUR-ABLES	9 CONSUMPTION NONDUR-ABLES	10 PERSNL DISP. INC.	11 CONSMR PRICES	12 RPDI	13 WEALTH-INCOME RATIO
1980	71477	6280	65197	84496	15.41	189.5	-0.0	-4.8	0.5	17.2	16.0	1.1	4.60
1981	71447	6335	65112	82634	13.54	210.2	-0.0	0.9	-0.1	8.4	10.9	-2.2	4.79
1982	71407	6271	65137	81647	12.54	229.3	-0.1	-1.0	0.0	7.8	9.1	-1.2	4.92
1983	72512	6556	65956	81328	11.39	247.2	1.5	4.6	1.3	8.1	7.8	0.2	5.08
1984	74316	6916	67399	83210	10.69	267.4	2.5	5.5	2.2	10.0	8.2	1.7	5.10
1980/81	71399	6238	65161	84563	15.57	194.6	-1.1	-7.6	-0.4	14.9	14.3	0.6	4.66
1981/82	71233	6278	64955	82136	13.28	215.5	-0.2	0.6	-0.3	7.6	10.8	-2.9	4.81
1982/83	71538	6317	65222	81441	12.16	233.6	0.4	0.6	0.4	7.5	8.4	-0.8	4.96
1983/84	72936	6654	66281	82048	11.11	252.0	2.0	5.3	1.6	8.7	7.9	0.7	5.11
1984/85	74822	7010	67812	83713	10.62	272.4	2.6	5.3	2.3	10.3	8.1	2.0	5.08
1980 QTR 1	18115	1642	16473	21027	13.85	180.5	4.1	10.6	3.5	21.0	17.8	2.7	4.54
QTR 2	17707	1564	16143	20965	15.54	188.3	-3.7	-19.7	-1.8	20.1	19.2	0.8	4.60
QTR 3	17783	1547	16236	21245	16.30	192.6	0.4	4.3	0.0	17.5	14.5	2.7	4.63
QTR 4	17872	1527	16345	21259	15.93	196.7	-0.6	-9.1	0.3	11.2	12.9	-1.5	4.63
1981 QTR 1	18037	1600	16437	21094	14.49	200.8	-0.4	-2.6	-0.2	11.6	11.3	0.3	4.75
QTR 2	17833	1595	16238	20562	13.27	208.5	0.7	2.0	0.6	8.6	10.7	-1.9	4.85
QTR 3	17719	1538	16181	20530	13.69	213.3	-0.4	-0.6	-0.3	7.0	10.8	-3.4	4.72
QTR 4	17858	1602	16256	20448	12.67	218.3	-0.1	4.9	-0.5	6.8	11.0	-3.8	4.83
1982 QTR 1	17823	1543	16280	20596	13.47	222.0	-1.2	-3.6	-1.0	8.0	10.6	-2.4	4.84
QTR 2	17829	1554	16276	20369	12.47	227.9	-0.0	-2.6	0.2	8.3	9.3	-0.9	4.87
QTR 3	17814	1574	16240	20364	12.52	232.4	0.5	2.3	0.4	8.1	8.9	-0.8	4.96
QTR 4	17941	1600	16341	20318	11.70	234.9	0.5	-0.1	0.5	6.9	7.6	-0.6	5.01
1983 QTR 1	17954	1589	16365	20390	11.95	239.2	0.7	3.0	0.5	6.7	7.7	-1.0	5.02
QTR 2	18053	1616	16437	20448	11.71	245.7	1.3	4.0	1.0	8.2	7.8	0.4	5.07
QTR 3	18199	1676	16523	20523	11.32	250.4	2.2	6.5	1.7	8.6	7.8	0.8	5.10
QTR 4	18306	1675	16631	20467	10.56	253.5	2.0	4.7	1.8	8.7	7.9	0.7	5.13
1984 QTR 1	18378	1687	16690	20610	10.83	258.4	2.4	6.2	2.0	9.2	8.0	1.1	5.12
QTR 2	18540	1728	16812	20838	11.03	265.7	2.7	7.0	2.3	10.2	8.1	1.9	5.08
QTR 3	18651	1748	16903	20898	10.75	271.0	2.5	4.2	2.3	10.2	8.2	1.8	5.08
QTR 4	18747	1753	16994	20864	10.15	274.3	2.4	4.7	2.2	10.3	8.2	1.9	5.10
1985 QTR 1	18884	1781	17103	21113	10.55	278.4	2.8	5.6	2.5	10.3	7.7	2.4	5.07

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TABLE 6 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.)	
WEIGHTS(1)	FOOD 216	HOUSING 128	NAT.IND. 73	OTHER 583	TOTAL 1000	FOOD	HOUSING	NAT.IND.	OTHER	TOTAL	INDEX 1975=100	P-C CH ON PREV.YEAR
1980	255.8	269.4	308.3	259.3	263.7	12.1	29.0	25.2	16.8	18.0	189.5	16.0
1981	277.5	318.2	368.3	286.7	295.0	8.5	18.1	19.5	10.6	11.9	210.2	10.9
1982	302.9	359.6	419.1	309.2	322.3	9.1	13.0	13.8	7.8	9.2	229.3	9.1
1983	320.5	377.1	465.3	335.0	346.8	5.8	4.9	11.0	8.4	7.6	247.2	7.8
1984	344.3	401.8	502.5	365.5	375.6	7.4	6.5	8.0	9.1	8.3	267.4	8.2
1980 QTR 1	247.5	241.0	280.4	246.7	248.8	13.1	25.8	19.2	20.0	19.1	180.5	17.8
QTR 2	255.9	272.3	299.3	259.0	263.2	13.6	31.1	26.1	21.9	21.5	188.3	19.2
QTR 3	259.3	278.7	315.7	263.9	268.9	11.8	29.4	26.5	13.8	16.4	192.6	14.5
QTR 4	260.6	285.8	337.7	267.5	273.9	9.9	29.4	28.5	12.3	15.3	196.7	12.9
1981 QTR 1	268.7	285.2	352.5	274.2	280.4	8.6	18.3	25.7	11.1	12.7	200.8	11.3
QTR 2	277.0	319.9	364.7	285.2	294.0	8.2	17.5	21.9	10.1	11.7	208.5	10.7
QTR 3	278.8	324.0	376.3	290.9	299.1	7.5	16.3	19.2	10.2	11.2	213.3	10.8
QTR 4	285.6	343.7	379.8	296.5	306.5	9.6	20.3	12.5	10.8	11.9	218.3	11.0
1982 QTR 1	297.7	346.7	391.4	299.1	311.6	10.8	21.6	11.0	9.1	11.1	222.0	10.6
QTR 2	304.4	364.6	417.3	306.7	321.7	9.9	14.0	14.4	7.5	9.4	227.9	9.3
QTR 3	303.3	363.0	428.9	312.9	325.7	8.8	12.0	14.0	7.6	8.9	232.4	8.9
QTR 4	306.1	364.0	438.9	318.0	330.1	7.2	5.9	15.6	7.3	7.7	234.9	7.6
1983 QTR 1	312.8	367.4	447.6	323.2	335.7	5.1	6.0	14.4	8.1	7.7	239.2	7.7
QTR 2	319.6	378.4	461.9	332.9	345.3	5.0	3.8	10.7	8.5	7.3	245.7	7.8
QTR 3	322.3	379.5	474.1	338.7	350.3	6.3	4.5	10.5	8.3	7.5	250.4	7.8
QTR 4	327.2	383.1	477.6	345.3	355.9	6.9	5.2	8.8	8.6	7.8	253.5	7.9
1984 QTR 1	335.4	386.8	481.3	351.8	362.2	7.2	5.3	7.5	8.8	7.9	258.4	8.0
QTR 2	343.3	402.8	499.2	363.0	373.8	7.4	6.4	8.1	9.0	8.3	265.7	8.1
QTR 3	346.7	406.8	513.1	369.8	380.0	7.6	7.2	8.2	9.2	8.5	271.0	8.2
QTR 4	351.9	410.6	516.5	377.2	386.2	7.5	7.2	8.1	9.3	8.5	274.3	8.2
1985 QTR 1	360.0	413.2	517.1	382.3	391.3	7.3	6.8	7.4	8.6	8.0	278.4	7.7

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

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TABLE 7 EMPLOYMENT AND UNEMPLOYMENT IN UK

	1	2	3	4	5	6	7	8	9	10	11
	EMPLOYMENT (000'S)							UNEMPLOYMENT			
	PUBLIC - NON-TRADING -		PRIVATE AND PUBLIC TRADING				LABOUR SUPPLY		REG		
	CENTRAL GOVT	LOCAL AUTH	MANUF	OTHER	TOTAL	OF WHICH NAT IND		WIDE UNADJ	SCHOOL LEAV	NARROW,ADJ 000'S	P-C
1980	2175	2863	6750	12731	24519	1727	26625	1794	127	1647	6.8
1981	2211	2811	6060	12278	23360	1603	26624	2720	167	2539	10.6
1982	2221	2763	5756	12034	22774	1517	26549	3106	186	2903	12.2
1983	2193	2723	5713	12019	22648	1488	26592	3232	116	3095	13.0
1984	2161	2688	5658	12103	22610	1471	26673	3283	86	3177	13.3
1980 QTR 1	2157	2891	7009	12825	24882	1745	26619	1479	39	1362	5.6
QTR 2	2166	2873	6877	12793	24709	1733	26628	1564	97	1494	6.1
QTR 3	2181	2851	6675	12718	24425	1721	26628	1979	256	1720	7.1
QTR 4	2196	2840	6440	12589	24065	1709	26628	2157	117	2015	8.3
1981 QTR 1	2204	2831	6264	12440	23739	1650	26628	2456	90	2282	9.4
QTR 2	2211	2821	6116	12294	23442	1600	26628	2588	129	2482	10.3
QTR 3	2220	2801	5970	12228	23219	1588	26628	2927	278	2641	11.0
QTR 4	2213	2791	5892	12150	23046	1576	26613	2910	174	2752	11.5
1982 QTR 1	2204	2781	5813	12089	22887	1531	26583	3043	134	2817	11.8
QTR 2	2225	2775	5758	12041	22799	1522	26539	2970	165	2878	12.1
QTR 3	2234	2753	5729	12011	22727	1514	26539	3329	337	2957	12.4
QTR 4	2225	2745	5728	11997	22695	1502	26535	3083	112	2964	12.5
1983 QTR 1	2221	2736	5725	11993	22675	1495	26557	3137	38	3036	12.7
QTR 2	2198	2727	5718	12008	22651	1490	26592	3165	102	3087	12.9
QTR 3	2188	2719	5715	12026	22648	1486	26604	3434	283	3116	13.0
QTR 4	2170	2710	5697	12051	22628	1482	26617	3194	44	3143	13.1
1984 QTR 1	2165	2702	5680	12069	22616	1478	26651	3250	10	3177	13.3
QTR 2	2163	2693	5667	12096	22619	1474	26660	3216	76	3166	13.2
QTR 3	2161	2685	5651	12116	22613	1469	26682	3403	184	3184	13.3
QTR 4	2156	2676	5637	12135	22604	1464	26701	3266	77	3182	13.3
1985 QTR 1	2151	2668	5622	12148	22589	1460	26730	3383	83	3237	13.5

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TABLE 8 FACTOR INCOMES - SHARES

PERCENTAGE OF TOTAL DOMESTIC INCOME NET OF STOCK APPRECIATION

	1 WAGES & SALARIES	2 NI & OTHER CONTRI-BUTIONS	3 TOTAL INCOME FROM EMPLMT	4 INCOME FROM SELF EMPLMT	5 ..NET COMPANY PROFITS.. NON-OIL	6 OIL	7 PUBLIC CORP ETC NET-SUR-PLUSES	8 RENT	9 TOTAL DOMST. INCOME (1)
1980	61.4	9.0	70.4	8.5	6.7	3.6	2.9	7.9	100.0
1981	61.1	9.1	70.2	8.6	4.9	4.6	3.3	8.4	100.0
1982	60.0	8.9	68.9	8.8	5.8	4.6	3.5	8.4	100.0
1983	59.2	8.9	68.1	8.7	6.3	5.2	3.5	8.2	100.0
1984	58.8	8.8	67.6	8.7	6.8	5.5	3.6	7.8	100.0
1980 QTR 1	60.4	8.7	69.2	8.5	8.3	3.5	2.9	7.8	100.0
QTR 2	61.4	9.0	70.4	8.4	7.1	3.5	2.7	7.8	100.0
QTR 3	62.1	9.0	71.1	8.5	5.9	3.6	2.9	7.9	100.0
QTR 4	61.8	9.1	70.8	8.5	5.8	3.7	3.1	8.1	100.0
1981 QTR 1	62.1	9.1	71.2	8.4	4.6	4.2	3.1	8.5	100.0
QTR 2	61.8	9.2	70.9	8.5	4.3	4.4	3.4	8.5	100.0
QTR 3	60.5	9.0	69.5	8.6	5.4	4.6	3.5	8.4	100.0
QTR 4	60.3	9.0	69.3	8.6	5.2	5.2	3.3	8.4	100.0
1982 QTR 1	60.6	8.9	69.5	8.8	5.4	4.2	3.5	8.6	100.0
QTR 2	60.1	8.9	69.0	8.9	5.9	4.1	3.7	8.5	100.0
QTR 3	59.9	8.8	68.7	8.8	6.0	4.8	3.4	8.3	100.0
QTR 4	59.5	8.8	68.4	8.8	6.0	5.1	3.4	8.3	100.0
1983 QTR 1	59.6	8.7	68.4	8.7	5.9	5.2	3.6	8.3	100.0
QTR 2	59.3	9.0	68.3	8.7	6.0	5.2	3.6	8.2	100.0
QTR 3	59.0	8.8	67.8	8.7	6.9	5.1	3.4	8.1	100.0
QTR 4	59.1	9.1	68.2	8.7	6.3	5.3	3.5	8.1	100.0
1984 QTR 1	59.2	8.7	67.9	8.7	6.4	5.5	3.5	8.0	100.0
QTR 2	58.7	8.9	67.6	8.7	6.6	5.5	3.7	7.9	100.0
QTR 3	58.6	8.7	67.3	8.6	7.4	5.5	3.5	7.7	100.0
QTR 4	58.8	9.0	67.7	8.6	6.8	5.6	3.5	7.7	100.0
1985 QTR 1	59.0	8.6	67.6	8.6	6.8	5.7	3.5	7.7	100.0

(1) NET OF STOCK APPRECIATION

JUNE FORECAST

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TABLE 9 PUBLIC SECTOR -CURRENT AND CAPITAL ACCOUNTS - PART C

	1	2	3	4	5	6	7
	PSBR	- -OF WHICH:- -			- -OF WHICH:- -		
		CG COMP	LA COMP	PC COMP	CG OWN AC BORR	LA TOT BORR	PC TOT BORR
1980	12163	11406	1519	-762	6816	2752	2595
1981	11225	10397	1301	-473	10054	661	510
1982	5189	5139	89	-39	1740	321	3128
1983	9469	11249	-1350	-430	6469	414	2586
1984	6615	8035	-800	-620	3066	798	2751
1980/81	13197	12956	952	-711	9279	2264	1654
1981/82	8875	7597	1015	273	6221	-103	2758
1982/83	8845	9565	-50	-670	5636	656	2553
1983/84	8358	10078	-1400	-320	5331	426	2601
1984/85	6768	7988	-500	-720	3036	936	2796
1980 QTR 1	350	14	692	-356	-662	1062	-48
QTR 2	3771	3202	769	-200	2050	632	1089
QTR 3	4161	4116	107	-62	2922	475	764
QTR 4	3881	4074	-49	-144	2507	583	791
1981 QTR 1	1384	1564	125	-305	1800	574	-989
QTR 2	6409	5451	683	275	5486	199	724
QTR 3	3110	3639	89	-618	3084	-143	170
QTR 4	322	-256	404	175	-315	32	606
1982 QTR 1	-966	-1245	-161	441	-2032	-190	1258
QTR 2	1518	1398	275	-145	875	183	460
QTR 3	2415	2210	350	-145	1428	292	695
QTR 4	2222	2787	-375	-190	1470	37	715
1983 QTR 1	2690	3180	-300	-190	1863	144	683
QTR 2	2451	2881	-350	-80	1890	51	511
QTR 3	2433	2863	-350	-80	1569	159	705
QTR 4	1895	2325	-350	-80	1148	60	687
1984 QTR 1	1579	2009	-350	-80	726	156	698
QTR 2	2047	2477	-250	-180	1311	146	589
QTR 3	1508	1838	-150	-180	489	279	741
QTR 4	1481	1711	-50	-180	541	217	723
1985 QTR 1	1732	1962	-50	-180	695	294	743

ALL VARIABLES ARE FINANCIAL YEAR SEASONALLY ADJUSTED

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TABLE 10 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 PROFBLTY EXPORTS
1980	96.10	93.248	2.327	126.59	132.21	135.22	120.99	93.43
1981	94.87	94.596	2.028	124.27	132.38	139.25	123.45	91.14
1982	89.92	90.525	1.797	116.08	129.16	136.75	120.98	90.52
1983	86.17	85.466	1.777	112.96	124.63	131.57	116.48	91.04
1984	83.51	81.281	1.846	112.27	122.80	129.02	114.14	91.23
1980 QTR 1	93.00	91.909	2.254	121.94	126.06	125.55	117.47	94.73
QTR 2	94.50	91.259	2.285	124.58	129.79	131.99	120.89	93.28
QTR 3	96.70	93.023	2.382	127.22	134.24	138.19	122.26	93.11
QTR 4	100.20	96.800	2.386	132.63	138.76	145.14	123.36	92.62
1981 QTR 1	101.40	99.155	2.310	133.38	140.91	148.85	125.40	91.30
QTR 2	97.80	98.082	2.081	128.22	135.68	140.80	124.89	91.18
QTR 3	90.60	91.393	1.838	117.22	126.29	134.05	123.05	90.75
QTR 4	89.70	89.755	1.884	118.25	126.65	133.29	120.48	91.33
1982 QTR 1	91.14	91.852	1.845	118.86	129.83	136.85	122.90	91.26
QTR 2	90.30	91.006	1.800	116.06	129.82	138.24	120.78	90.26
QTR 3	89.34	90.001	1.769	114.83	128.86	136.17	120.39	90.28
QTR 4	88.89	89.242	1.774	114.59	128.14	135.74	119.83	90.27
1983 QTR 1	88.23	88.108	1.775	114.03	126.68	134.47	118.56	90.58
QTR 2	86.02	85.549	1.759	112.54	124.32	131.45	116.60	91.22
QTR 3	85.61	84.886	1.781	112.79	124.82	130.55	115.91	91.20
QTR 4	84.81	83.321	1.793	112.48	122.68	129.81	114.84	91.16
1984 QTR 1	84.24	82.451	1.812	111.89	122.63	129.13	113.85	91.25
QTR 2	82.98	80.869	1.817	111.43	121.59	127.79	113.56	91.35
QTR 3	83.67	81.308	1.866	112.96	123.52	129.20	114.59	91.21
QTR 4	83.15	80.496	1.889	112.82	123.48	129.98	114.57	91.11
1985 QTR 1	82.02	79.094	1.898	111.71	122.25	128.40	113.74	91.22