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2 January 1981

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MONTHLY ECONOMIC BRIEF

Note by the Secretaries

The attached monthly economic brief prepared by the Central Statistical Office is circulated for the information of the Committee.

Signed ROBERT ARMSTRONG
P Le CHEMINANT
D J L MOORE

Cabinet Office

2 January 1981

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MONTHLY ECONOMIC BRIEF

Prepared by Central Statistical Office on 31 December 1980

FINANCE

There is no sign yet of any slow down in the growth of liquidity. Since last February, the underlying increase in $M3$, after adjustment for corset and other distortions, has been about 20 per cent per annum. The wider measures are growing at about the same rate, which is faster than GDP at current prices. $M1$ is growing more slowly, about the same rate as GDP at current prices.

Nominal interest rates in the United Kingdom have remained broadly unchanged since the beginning of December; as inflation rates have eased so real interest rates have risen. In the United States, nominal interest rates are volatile and the sterling/dollar exchange rate has fluctuated during December. However the effective sterling exchange rate against the basket of currencies has remained steadier.

EARNINGS AND PRICES

The trend increase in average earnings is now definitely falling as past distortions work through and lower settlements and reduced hours affect the index to an increasing extent. Retail prices are also rising at something under 1 per cent a month; a disproportionate amount of this is due to continuing increases in nationalised industry prices. Wholesale output prices are increasing at less than $\frac{1}{2}$ per cent a month but input prices, which have been flat over recent months, may rise sharply in January when oil prices increase.

ACTIVITY AND UNEMPLOYMENT

Industrial production continues to fall; GDP is estimated to fall by $\frac{1}{2}$ to 1 per cent in the fourth quarter.

The latest movements of the cyclical indicators suggest that, if past relationships hold, a trough in activity may be reached in the spring of 1981; a peak in unemployment would be reached months later. Most economic forecasts expect a peak in unemployment much later than that.

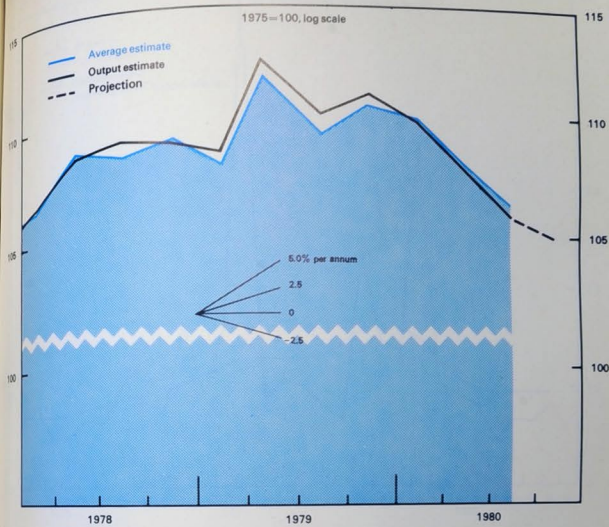
The strong rise in unemployment continues. Vacancies are probably at near minimum levels.

BALANCE OF PAYMENTS

The volume of exports in November was higher than expected but the trend movement is estimated to be downward. The volume of imports is falling faster than exports; visible trade remains in surplus and, with a small surplus on invisibles, the balance on current account is running at about £½bn a month.

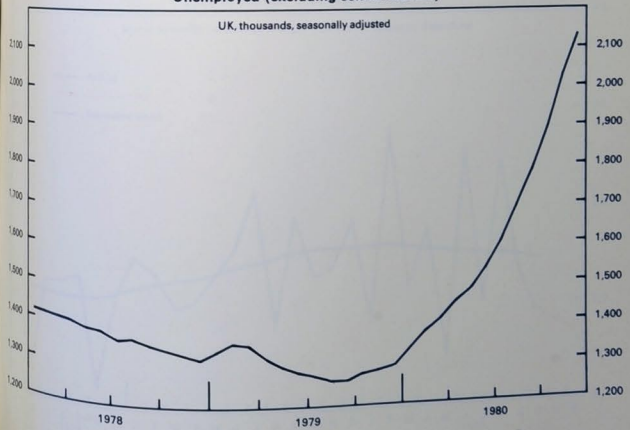
Gross domestic product

CHART 1



Unemployed (excluding school leavers)

CHART 2



Volume of exports

CHART 5

1970=100, log scale

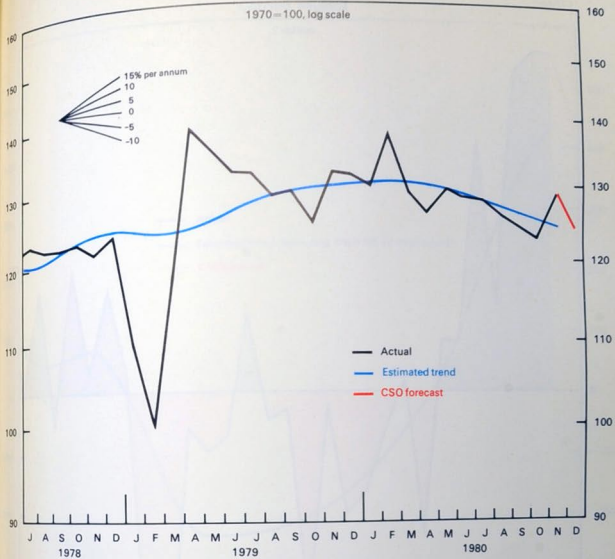
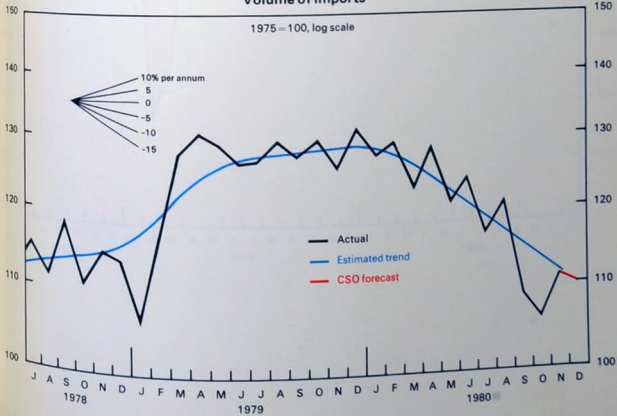


CHART 6

Volume of imports

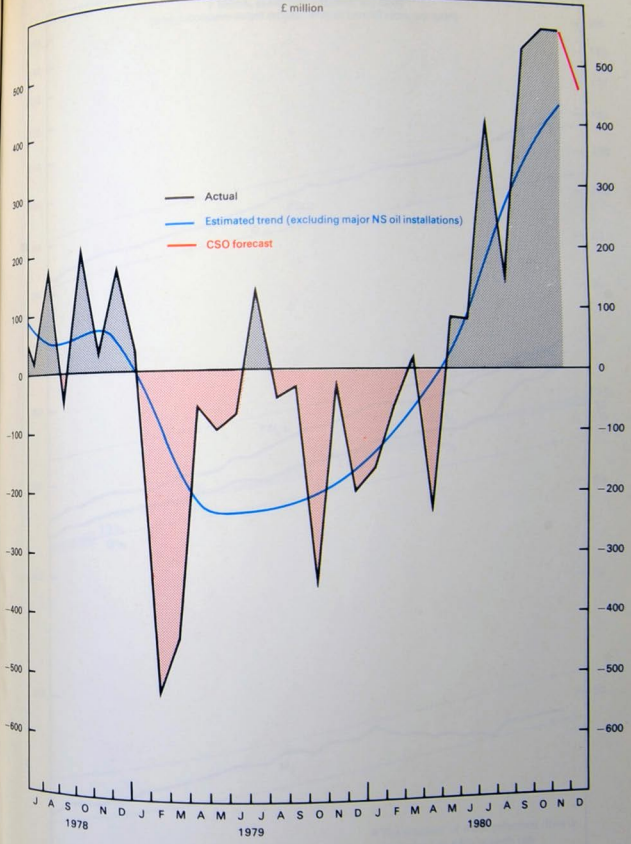
1975=100, log scale



Current balance

CHART 7

£ million



Monetary aggregates

CHART 8

£ billion, seasonally adjusted, log scale
(and successive target ranges: annual growth rates, per cent)

