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Prepared by the CSO on 28 August 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 L GREGSON
D J L MOORE

Cabinet Office

28 August 1981

A25/1

MONTHLY ECONOMIC BRIEF

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Our assessment remains that economic activity has flattened out but there are no firm indications yet of a recovery.

The rate of increase of unemployment is continuing to slow down but perhaps not as quickly as earlier in the year. Vacancies have increased in recent months but the significance of this movement is uncertain.

The rate of increase of GDP at current market prices (the "national cash limit") has slowed down from about 13 per cent per annum in 1980 to around 10 per cent per annum in the first half of 1981. Although distorted by the Civil Service dispute, it is thought that £M3 has been growing within the target range of 6 to 10 per cent. Both long and short term interest rates eased downwards slightly in August following the sharp increases of previous months.

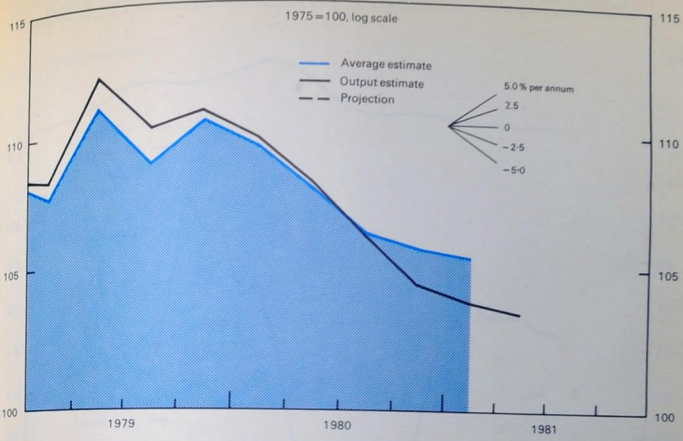
In manufacturing industry labour productivity continues to increase; the underlying rate of increase in average earnings remains about $\frac{3}{4}$ per cent a month; accordingly unit wage costs have not increased since the beginning of the year and with the depreciation of sterling against the dollar our international competitiveness probably improved in the second quarter.

Wholesale input prices have been most affected by movements in exchange rates and oil prices and in August the increase is likely to be a little larger than in July. The trend rate of increase (excluding Budget effects) in retail prices is now between $\frac{1}{2}$ and $\frac{3}{4}$ per cent a month with little prospect of any further fall.

After a long period in which increases in average earnings have exceeded those in taxes and prices (see Chart 4), the situation has recently reversed. Real personal disposable income fell sharply in the second quarter but is expected to be unchanged in the third.

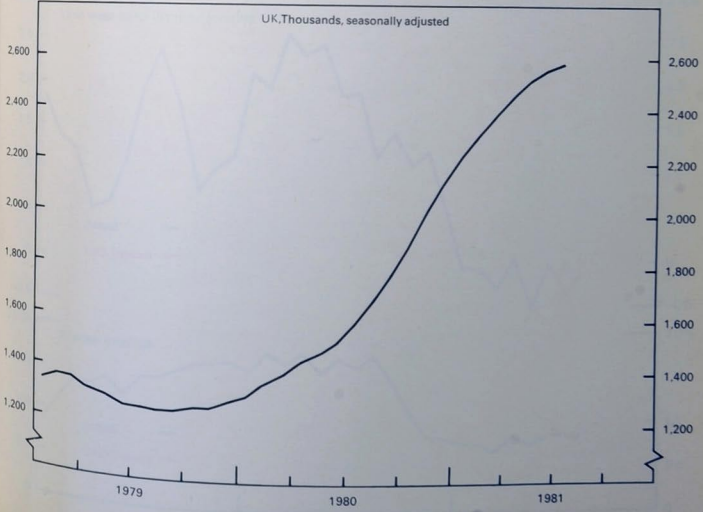
Gross domestic product

CHART 1



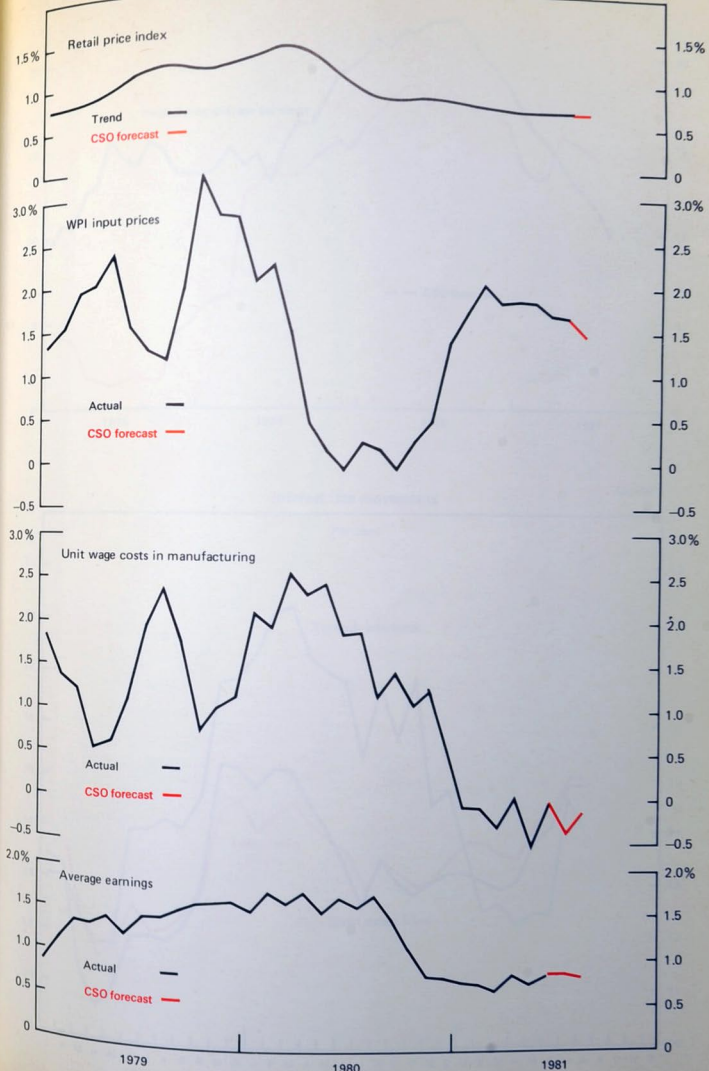
Unemployed - excluding school leavers

CHART 2

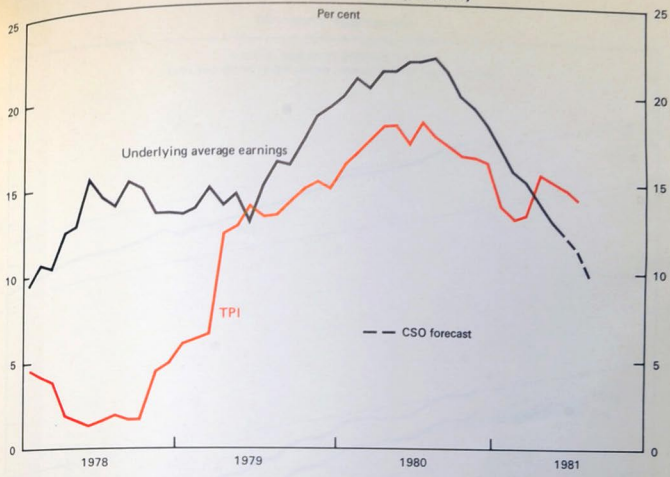


Rate of increase in average earnings, unit wage costs in manufacturing, WPI input prices and retail prices (excl. seasonal food)

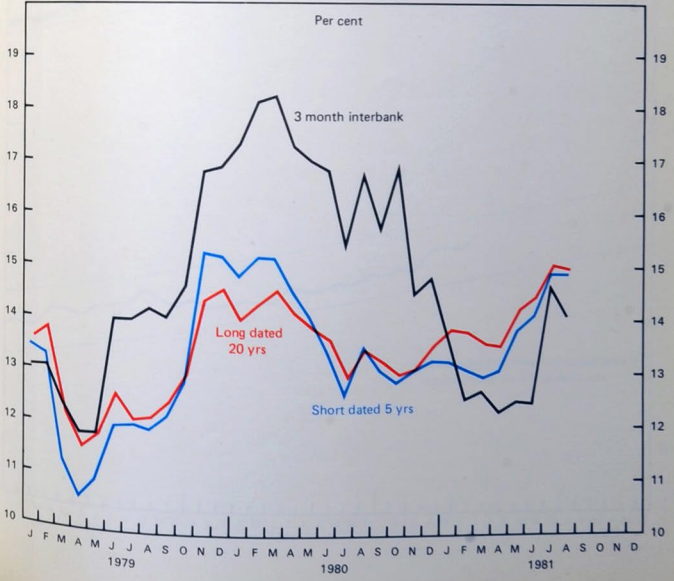
Month to month percentage changes, smoothed and adjusted for distorting factors where appropriate



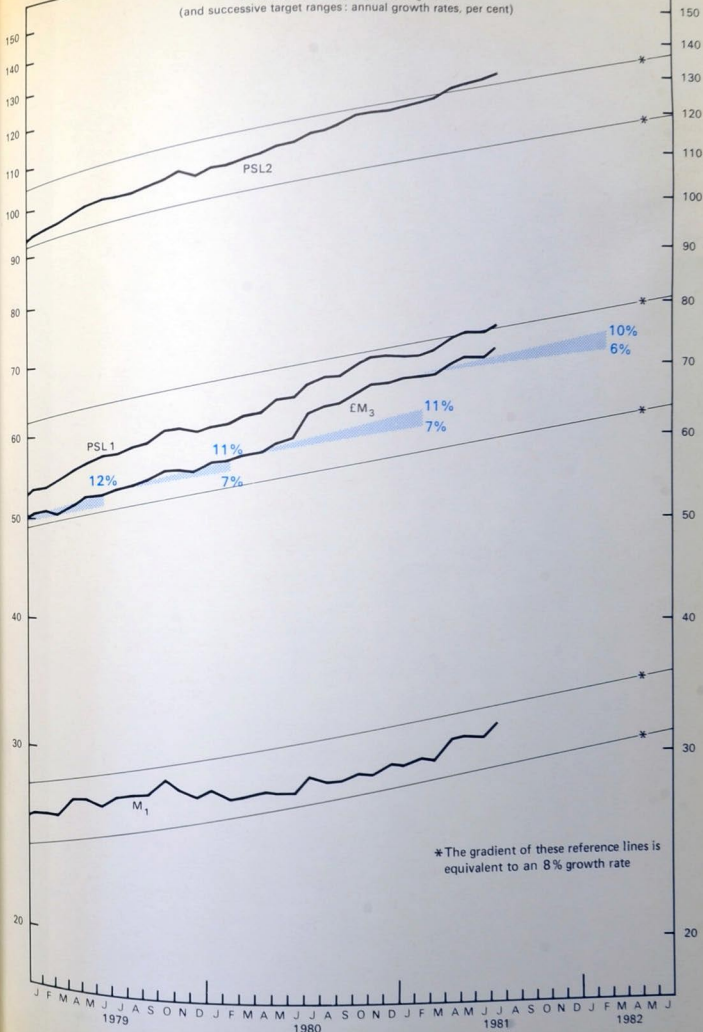
Movements in underlying average earnings and the tax and price index comparisons with 12 months previously



Interest rate movements



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



*The gradient of these reference lines is equivalent to an 8% growth rate