

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

COPY NO 65

E(81) 95

2 October 1981

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

2 October 1981

CONFIDENTIAL

MONTHLY ECONOMIC BRIEF

Prepared by the CSO on 1 October 1981

A23/1

The rise in short term interest rates and the worldwide decline in share prices have been the dominant events in September.

The rate of growth of GDP at current market prices - which has been described as "the national cash limit" - has been slower this year than last. Total spending (as measured by total domestic expenditure) has shown a faster rate of increase than last year.

Movements in £M3 remain considerably distorted by the Civil Service dispute and the underlying trend, while difficult to determine, is believed to be near the top end of the target range. The sterling effective exchange rate fell during September; the fall against the dollar was less but falls against European currencies were more pronounced. The rise in interest rates followed action by the Bank of England to relieve the pressure on sterling.

The available evidence suggests that there was a significant deterioration in the balance of visible trade between the first and second quarters of 1981. With the balance on invisibles showing a large fall in the second quarter from the exceptionally high first quarter, there was almost certainly a marked decline in the current surplus.

In manufacturing industry labour productivity continues to increase largely reflecting the reduction in employment; the underlying rate of increase in average earnings remains about $\frac{1}{2}$ per cent a month; accordingly unit wage costs in manufacturing have not increased since the beginning of the year and with the depreciation of sterling our international competitiveness has almost certainly improved appreciably.

Wholesale input prices increased sharply in August, principally because of the higher sterling price for crude oil arising from the depreciation of sterling against the dollar, but in September the increase is likely to have been much smaller. The trend rate of increase (excluding Budget effects) in retail prices remains below 4 per cent a month with little prospect of any further fall.

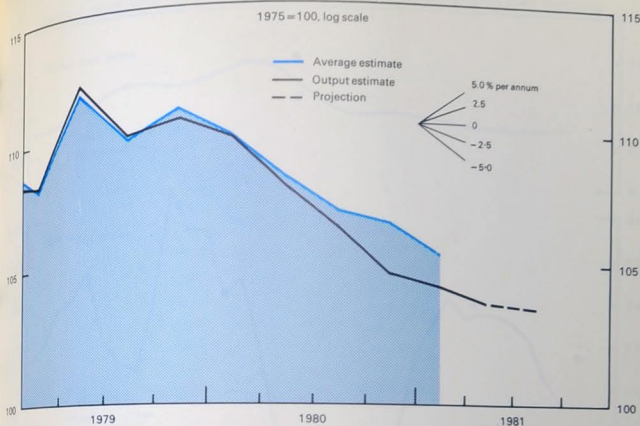
The rate of increase of unemployment, which had been slowing down earlier in the year, appears to have stabilised during the summer. Vacancies increased slightly in the third quarter but the significance of this movement is uncertain.

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

1a

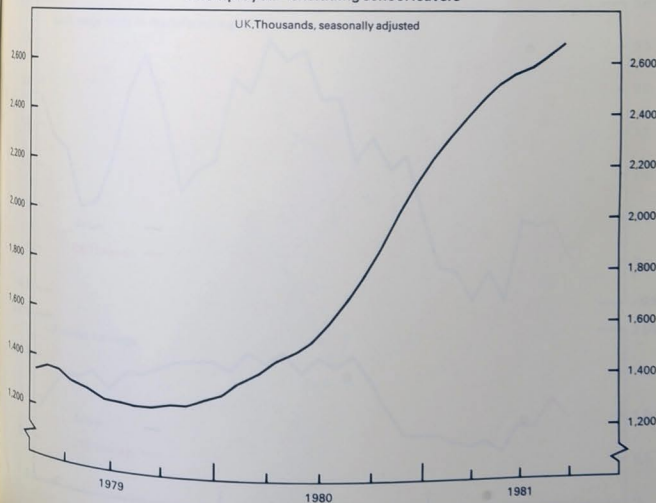
Gross domestic product

CHART 1



Unemployed - excluding school leavers

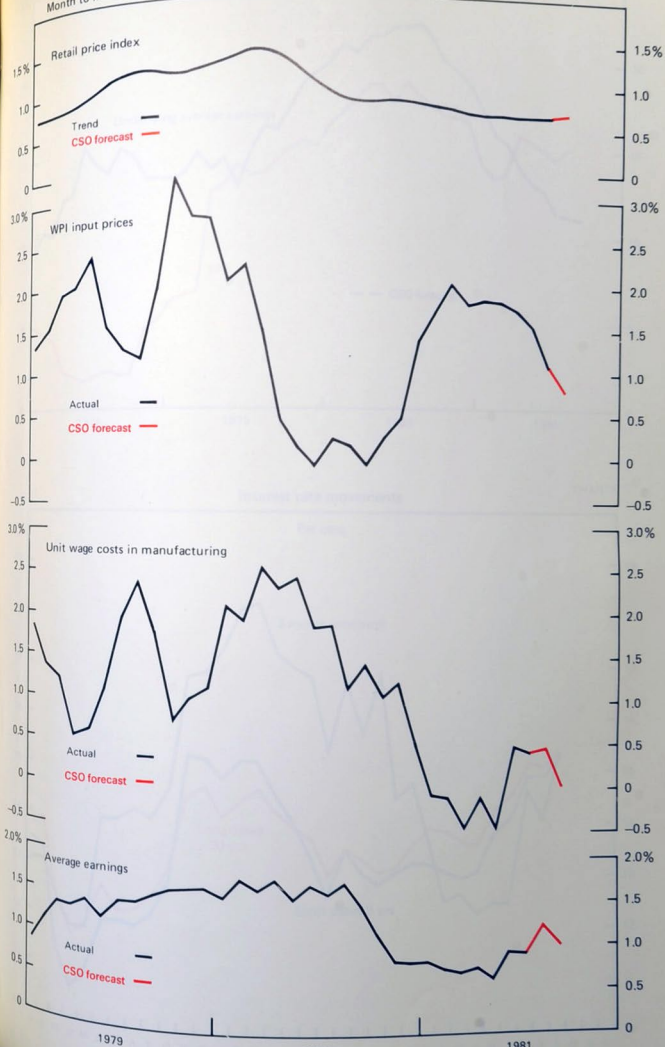
CHART 2



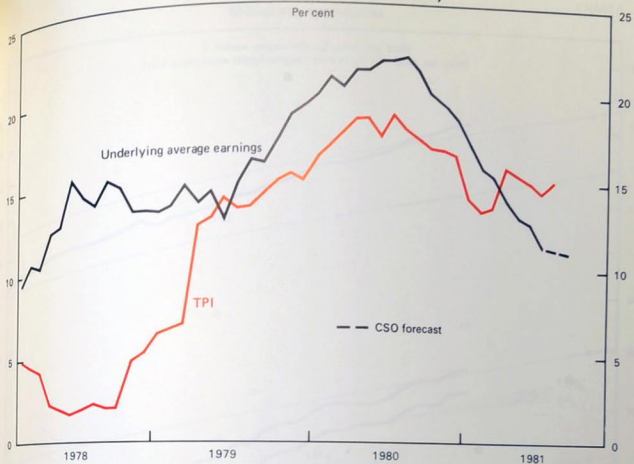
Rate of increase in average earnings, unit wage costs in manufacturing, WPI input prices and retail prices (excl. seasonal food)

CHART 3

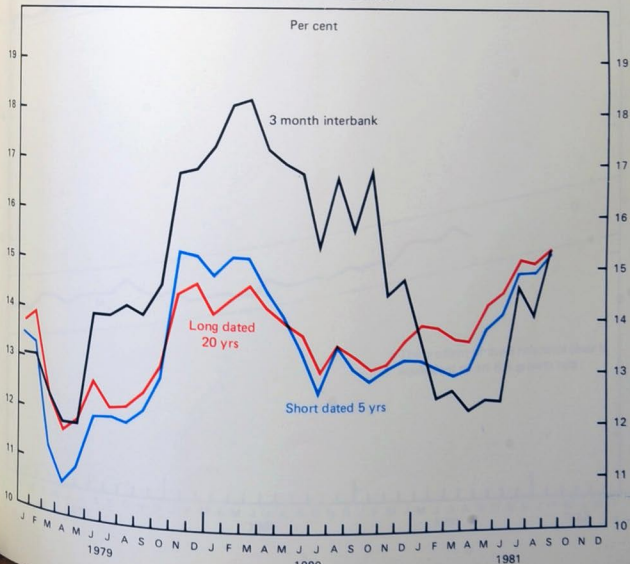
Month to month percentage changes, smoothed and adjusted for distorting factors where appropriate



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



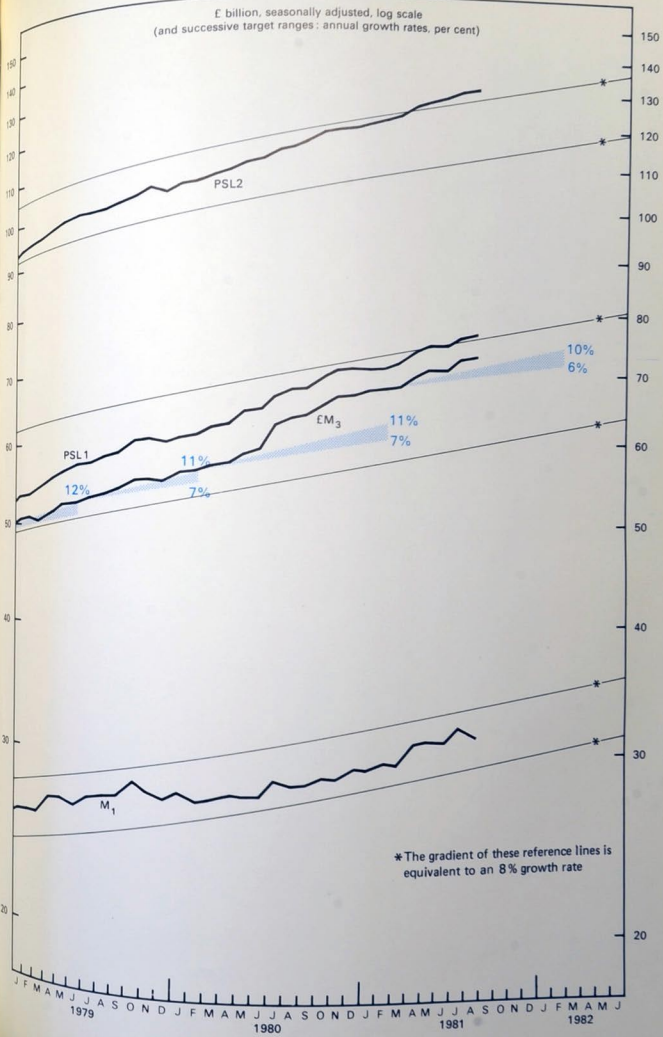
Interest rate movements



Monetary aggregates

CHART 6

£ 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