Econ A1

PPS/CHANCELLOR

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PS/Chancellor of the Duchy of Lancaster
PS/Secretary of State for Employment
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and officials in HMT, Revenue Departments and other Departments in Whitehall

TREASURY BRIEF

I attach the latest version of this Brief. Changes from the previous Brief, of 31 January, are sidelined.

M. M. Deyes

M M DEYES

12/7

R I G ALLEN

7 February 1983

EB Division
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01-233-5503

ECONOMIC BRIEF: CONTENTS

A GENERAL ECONOMIC STRATEGY

1. Government's main economic objectives

Main objectives are to achieve, over a period, a sustained improvement in the economy through reduction of inflation, lower interest rates and promotion of enterprise and initiative. Policy must continue to combine firmness and flexibility. Right for Government to have adjusted money supply and PSBR objectives in light of changed circumstances. But also right that medium-term direction of policy is maintained.

2. Benefits from control of public spending?

[1983 Public Expenditure White Paper Cmnd 8789 published 1 February.]

Public spending is under firm control and well within levels set in earlier plans. Good progress being made towards objective of reducing public spending as proportion of national output. Annual rate of increase in cash spending slowed down. Demonstrates determination to release to private sector resources which would otherwise have been consumed by the public sector. (For fuller coverage see Section K).

3. Expected 1982-83 outturn undershoot means fiscal policy tighter than intended to the detriment of employment and output?

PEWP 1983 figures for spending in 1982-83 need to be interpreted with care and, in any case, are only part of fiscal picture. Likely that some undershoot of PSBR in 1982-83 but inflation also lower than expected at time of last Budget. Cannot conclude that fiscal policy has been tighter than intended. (See also A13 on Budget Outlook.)

4. Economic assumptions in 1983 PEWP - revised forecasts?

[For planning purposes assumes RPI increase of 5 per cent November 1982 - November 1983, unemployment (on new basis) in GB (excluding school leavers, averaging 2.7 million in 1982-83, 3 million in 1982-83, 3 million in 1983-84.]

Some economic assumptions have to be made for planning purposes, notably about social security, unemployment etc. These are not forecasts or predictions and in any case are unchanged from those of the Autumn Statement. (See also C10 and K13 and 17.)

5. Current indicators suggest recovery over/Activity flat?

Delayed but not over. GDP over 1 per cent higher than trough in Spring 1981; industrial output some 2 per cent higher. Flatness of output during 1982 partly reflected external developments: volume of world trade fell substantially, contrary to expectation at time of 1982 Budget. But rapid progress on inflation and improvements in productivity and competitiveness are encouraging; further modest recovery in output expected in 1983.

6. Shortage of demand?

Government cannot fine-tune either money or real GDP. Domestic demand in real terms has risen by nearly 4 per cent since spring 1981. Problem is lack of external demand and UK's depressed share of home and foreign markets (reflecting weak competitiveness), though exports held up extremely well last year in face of downturn in world economy. Improvements in supply performance needed as much as increased demand. Otherwise a boost to demand may be largely wasted, even in the short term.

7. Where will growth come from?

Already seeing benefits of lower inflation and interest rates reflected in higher consumer spending and recovery of investment in housing and many parts of private industry. Recovery in world economy will assist UK growth, as will continued effort to control inflation and contain costs.

8. Fall in exchange rate/rise in interest rates/show Government strategy off course?

No. UK monetary and financial condition remain sound. Government spending and borrowing on target - as is monetary growth. Inflation is falling. Underlying industrial performance also improving eg productivity, competitiveness. UK running substantial current account surplus. Foreign currency debts almost halved since took office. Movement in sterling needs to be considered in context of strength of other currencies eg $.

9. Exchange rate slide will improve external competitiveness?

Will only have lasting benefit if wage settlements continue to be contained at more moderate, and realistic levels. Keeping firm control of labour costs is the key to improving our competitive position. Past experience (eg 1967-72 and 1973-76) illustrates all too clearly how easy it is for immediate benefits of devaluation to be eroded through higher price and wage inflation.

10. Cost competitiveness still 20 per cent lower than 1975 - a typical year for the 1970's?

[Both CBI (Sir T Beckett) and NEDO (in paper to February NEDC) have suggested that we will need to return eventually to competitiveness levels of mid-1970s.]

No reason to believe that 1975 - or any other particular year - represents a 'typical' level of competitiveness to which we should be trying to return. Important structural changes in UK economy since then; a competitiveness level which was 'reasonable' in mid 1970s may be inappropriate now.

11. Nevertheless, still need further substantial competitiveness/improvement?

Of course, better competitiveness is desirable. Lasting improvements depend on better productivity growth, lower wage inflation. Have made start - productivity performance as good as any of competitors over last two years. Now need to match this with equally competitive performance on earnings.

12. Outlook for inflation?

Remain confident of achieving 5 per cent RPI inflation early this year. As for rest of year, path may be a little bumpier than thought at time of Autumn Statement, but must not exaggerate possible effect of exchange rate depreciation. (See also D 4-7).

13. Implications of possible oil price fall for Government revenues/UK economy?

A modest and gradual fall in oil prices would bring both gains and losses for the UK, but the overall effect would be beneficial. It reduces world inflation and boosts activity - we share in those benefits. However in no one's interest for price to fall too far or too fast. (See also F6, G17, S2.)

13. Outlook for Budget

[Some commentators have interpreted 1983 PEWP as revealing extra £½ billion available to 'give away'. Chancellor's reference at TCSC 31 January to scope in 'some countries' for rise in domestic activity interpreted as hint of reflationary Budget.]

Cannot comment on speculation that fiscal adjustment is bigger than illustrative £1 billion figure included in the Autumn Statement. Reduction in public expenditure planning total should not be taken in isolation as indicating any particular change in that figure. Fact that PSBR may be undershooting this year - and outcome still very uncertain - does not carry any necessary implications for next year's figure. Many factors enter the equation - including the path of output, inflation and interest rates. Budget decisions have yet to be taken. (See also Section H.)

14. Government should do more for industry?

Have already done a good deal but, clearly, pressures on industry need to be taken into account. However, pressures too on persons for example, representations have been made about poverty and unemployment traps. Chancellor will be considering fiscal position over coming weeks, against background of recent developments in the economy and further outlook.

15. What about CBI Budget representations?

[CBI proposals published 26 January 'Costs are Crucial', include in £4 billion programme abolition of NIS, lower business rates, extra capital expenditure, lower energy costs and

indexation of personal taxes (but not specific duties); CBI say this is possible within £9 billion PSBR.]

Chancellor will study and fully consider CBI views. All representations play a useful part in putting together a Budget. Views of national organisations like CBI are particularly important. But cannot anticipate Budget decisions.

16. TUC Budget representations?

[£10 billion Budget package in TUC Economic Review 1983 published 2 February, presented as first stage in five year programme of expansion linked to national and company level planning and accompanied by exchange controls, selective import controls and NEA.]

Of course Chancellor will study TUC views. All representations play a useful part in putting together a Budget, and views of national organisations like the TUC are particularly important. But cannot be expected to agree with TUC criticisms of general thrust of Government policy. (See also C3, G11-12 and K14.)

17. Labour Party programme

[Unclear from recent statements eg Foot 22 January, Shore in 22 and 23 January broadcasts, exactly how far Labour leadership sticking to 'Programme for Recovery'; nevertheless clear that still espouse substantial depreciation and substantial reflation, plus (Foot speech) 'planned trade'].

Defects of Labour programme remain. Blow to confidence; wage restraint assumed without specific mechanism to achieve; 'planned trade' proposals equally vague. Claimed validation by running programme through Treasury model does not make results definitive.

18. Alliance programme a more credible alternative?

['Working together for Britain' published 20 January reiterates measures urged in earlier policy statements - designed to create over ½ million jobs at net PSBR cost of £3-4 billion].

Contains some proposals which are sensible and not too far removed from Government thinking. But largely stands or falls on success of measures to control pay and prices. Suggestions for income policy wrap old ideas in new clothes. Pays lipservice to financial prudence but vague on how this would work in practice. Claimed impact of measures in SDP statements has looked extremely optimistic.

19. Chancellor's views on achieving world economic recovery

See T10.

B ECONOMIC ACTIVITY AND PROSPECTS

1. Recent GDP figures

[GDP (average) unchanged between Q2 and Q3 1982, but GDP (output - which is better short term indicator - rose slightly for second successive quarter (with construction output 3 per cent up on previous quarter) to level about 1 per cent higher than in 1981 Q2. Eevidence of declining trend in manufacturing during 1982. Underlying level of industrial output in three months to November 2 per cent above 1981 Q2 trough - virtually all extra North Sea oil output; manufacturing output 1 per cent below 1981 Q2.]

Output levels, particularly in manufacturing, remain disappointing - partly due to depressed world economic activity - but consumer goods holding up well, reflecting higher consumer expenditure. Expected higher world output and lower effective exchange rate should encourage some modest recovery in 1983, while lower interest rates and inflation, coupled with improved productivity and competitiveness, provide sounder base for expansion in medium term.

IF PRESSED on UK economy having suffered worst collapse of any major industrialised country since 1979

[On Treasury estimates, between 1979 and 1982 UK GDP fell by just over 4 per cent; US fell ½ per cent and Canada 2 per cent. In Germany GDP has been roughly constant and in Japan, France and Italy it rose].

UK GDP grew relatively slowly throughout post-war period. But our performance during 1982 was better than many of our competitors, and we expect to do similarly this year.

IF PRESSED on index of manufacturing production in November (86.8, 1975 = 100) returning to 1967 levels (87.8 in 1967 Q1):

Such long term comparisons inappropriate without recognising changing sectoral composition of output. As consumers' preferences change and balance of comparative advantage alters, so will pattern of output. GDP is almost 26 per cent above its level in 1967.

2. Prospect for UK economy

[Industry Act Forecast Tables summarised in Commentary at end of Brief (Z7). NB New forecast will accompany Budget 15 March; undue emphasis should not be given to precise numbers in IAF.]

Industry Act forecast published with Autumn Statement November 1982 now a little dated, but prospect for 1982 remains one of modest recovery. New forecast based on most recent developments and statistics will be published on 15 March with Budget.

Outside forecasts: many pre-Budget forecasts now pending. (NB OECD Economic Survey of UK 1982 to be published Friday 11 February].

3. Other evidence of improvement in economy?

See Bull Points (following Section A).

4. Latest CBI assessments?

[Quarterly Trends Survey published 1 February inevitably linked by commentators with Budget representations - see A15 - shows mixed results: some encouraging. Positive points: sharp turn round on optimism questions (partly for seasonal reasons); output of consumer goods industries increasing; investment intentions less negative; very moderate increases in costs and prices. Defensive: overall demand and output unlikely to increase in next four months; destocking continues; further overall falls in employment projected.]

Latest Survey results improved - particularly as regards optimism - compared previous recent surveys and although manufacturing output remains depressed, activity in consumer goods industries showing encouraging increase. CBI stresses that substantial productivity improvements and continued progress on price inflation are signs of longer term improvement in UK manufacturing industry.

5. CBI views on Budget/exchange rate?

See A 13 and 15.

6. New orders figures and short-term indicators depressing?

[See Commentary - Z6 - for latest indicators.]

Some encouraging signs but figures still manifesting depressed economic activity which itself partly reflects flatness in world trade.

7. Construction industry forecasts show prospects of modest recovery?

[Joint Forecasting Committee of indsutry's 'Little Neddy' published 6-monthly forecast on 15 December. Prospect is for modest recovery in three years to 1984 - although output not restored].

Construction industry's problems remain difficult, but forecast moderately encouraging and recovery in housing investment in 1983 (some 16-17 per cent) very encouraging. Improved outlook for construction reflects success of policies reducing inflation and interest rates.

8. Fall in investment?

[For latest statistics see Commentary - Z3.]

1982 Q3 figures reflect some modest recovery after disappointing second quarter. [IF PRESSED: latest DOI investment intentions survey suggesting 3 per cent fall in manufacturing investment between 1982 and 1983 is undoubtedly disappointing; outlook for total private fixed investment more encouraging. (See B7 above).]

9. Stock levels a threat to recovery?

[For latest statistics see Commentary - Z3.]

Quarterly stocks movements tend to be erratic; Q3 de-stocking may partly reflect adjustment to involuntary stockbuilding in 1982 H1. (This view possibly supported by December Trends Inquiry). Not too much weight should be placed on single quarter's data. GDP (output) figures (see B1 above) are a better guide to recent movements in activity.

10. Government contribution to improving competitiveness?

Government role is to create right environment: firm fiscal and monetary framework allowing for lower inflation and interest rates, supply side policies, NIS cut helps reduce business costs. Up to industry to secure ever higher levels of productivity and not fritter away benefits of Government policy in excessive wage increases.

11. Productivity growth falling off?

[Growth in output per head in manufacturing slowed down sharply during 1982; 2½ per cent in year to November. However, productivity still around 13 per cent higher than at end 1980. TUC Economic Review sceptical.]

Manufacturing productivity gains in last two years impressive - much bigger than might have been expected on past experience. Slow down 1982 probably inevitable as best opportunities for plant closures and improved efficiency are taken first. Recent experience still better than average post-war experience.

12. CSO's index of leading cyclical indicators?

Longer leading index fell in December after nine months of increase, reflecting rise in interest rates and decline in share prices. Fall in longer leader only based on one month's figures. Series not particularly smooth anyway, and decline based entirely on recent financial developments. No firm conclusions can be reached.

14. Outside forecasts

[GDP profile in recent major assessments and in IAF:

Per cent change

	Phillips & Drew (Feb)	Simon & Coates (Jan)	LBS (Dec)	OECD (Dec)	CBI (Nov)	St James (Nov)	NIESR (Nov)	IAF (Nov)
1982 on 1981	+½	+½	+¼	+½	+½	+½	+¼	+½
1983 on 1982	+1½	+2	+2	+1	+1¼	+2	+1	1½
1984 on 1983	1¾	-	+2	-	-	+3½	+1	-]

Nearly all major outside forecasts see prospect of lower inflation and continued modest recovery. [NB Many 'pre-Budget' forecasts now pending.]

C LABOUR MARKET

1. Unemployment figures (new basis)/ other labour market indicators?

[Only modest changes now expected in 'headline' total till May. Influx of school leavers will not influence headline total until September/October. Overtime and total hours worked flat in 1982. Short-time increased substantially in October/November: expected to fall away in December.

	1981 Q4	1982 Q1	Q2	Q3	Q4	1983 Jan
'Total' unemployment (millions)	2.77	2.86	2.80*	2.94*	3.07	3.23(13.8%)
UK adult sa unemployment (millions)	2.61	2.68	2.74	2.84	2.91	2.98(12.8%)
Increase in period (000's)	+32*	+23*	+28	+31	+27	+33
Vacancies (000's)	104	112	107	111	115	118

*After allowing for over 60's transferring off count
**Differences between consecutive three monthly moving averages
***Only about one-third of vacancies are notified officially. Probably total between 275 and 325 thousand].

Figures are tragic and worrying. But January increase not entirely unexpected (increase of same order as last year). Trend still upwards - as admitted - but no evidence of further worsening in rate of increase.

2. Unemployment still rising despite Government's policies?

Excessive wage increases - unjustified by either output levels or productivity improvements - have priced people out of jobs. Deepseated problems will take long time to check and reverse. Underlying signs of strength in economy and trade performance in 1982, higher productivity, greater competitiveness; essential to build on these.

3. Wage cuts not route to increasing employment?

[TUC Economic Review paras 3.1-6].

On the contrary. More modest wage increases - not necessarily wage cuts - along with improved productivity provide only route to lasting improvements in competitiveness and to recapture of lost markets.

4. Latest information on earnings/pay settlements?

See Section D.

5. Shorter work-time?

[Supported by TUC - referred to again in 1983 Economic Review.]

If reductions in working time are to reduce unemployment, there must also be a corresponding reduction in incomes. If weekly pay remains constant while hours are reduced, unit labour costs are forced up, competitiveness worsens, and output and employment suffer.

6. Government fiddling the statistics?

No. New basis cheaper, more accurate, cuts out wasteful procedures. Trend similar to previous series.

7. Unemployment in UK higher than in other countries?

[On standardised definitions in 1982 Q3 UK unemployment was 12.5 per cent (new series) compared with 8.3 per cent OECD rate - over double for UK compared with OECD rise of over one half since 1979.]

Unemployment now rising sharply in many industrialised countries - increase over year to latest available month in number unemployed (on national definitions - not strictly comparable) was much more in US (25 per cent) and Germany (33 per cent), Holland (37 per cent) and Canada (55 per cent) or than in UK (12 per cent).

8. True level of UK unemployment really much higher?

[TUC Economic Review 1983 claims 'true' figure over 4 million; Labour Research Department say 5 million The Times 6 December; SDP say 5¼ million Guardian 7 January.]

Gross exaggerations, relying heavily on claimed one million fall in labour force between 1979 and 1982. Not supported by 1981 Labour Force Survey (see C10 below). Estimates also often include those benefiting from special employment measures who are not unemployed. Furthermore, as much as 10 to 20 per cent of official count may not be seriously seeking employment. Claimant figures are best available measure of trend.

9. Unemployment figures in 1983 PEWP

[Assumed unemployment (on claimants basis) for social security projections (GB, excluding school leavers) average 2.74 million in 1982-83 and 3.02 million thereafter. Figures consistent with those given (on 'registration' basis) in Autumn Statement].

Not a forecast. Assumptions on employment are in effect same as in Government Actuary's last report. Only change is definitional, ie from registration to claimant basis. Redefined figures consistent with Autumn Statement unemployment assumptions.

10. New employment figures significantly affect figures of GDP, manufacturing productivity etc?

[Employed labour force mid-1981 on new data about 800,000 higher than previous estimates, of which 550,000 additional employees in employment 250,000 additional self-employed. (Detailed figures not yet available on self-employed.) Mainly concentrated outside manufacturing sector.]

GDP effect probably quite small. Impact on measured productivity - output per head - greater eg manufacturing productivity in 1981 revised down by about one per cent. But will not significantly affect exceptional manufacturing productivity growth over last two years.

11. Cost of unemployment/Effect on PSBR?

Changes in unemployment affect public finances according to underlying circumstances, e.g changes in world trade, UK competitiveness, relative UK earnings etc. Not sensible to talk as if 'cost of unemployment' a single figure. Unemployment and supplementary benefit to people counted as unemployed currently expected to total £5 billion in 1982-83; comparable figures for uncollected taxes and national insurance contributions cannot be given. No basis available to estimate the level of earnings and tax receipts if all unemployed were working.

12. Government concerned over unemployment?

Of course; so pursuing balanced fiscal and monetary policies to curb inflation and improve conditions for enterprise - thus ensuring sustainable increase in employment. Nevertheless, substantially increased spending to alleviate impact on especially vulnerable groups. Pay settlements exert crucial factor influence on unemployment (See also Section D).

13. Extent of help?

Planned Government spending on special employment and training measures £1½ billion in cash in 1982-83 (40 per cent more than in 1981-82) and £2 billion in 1983-84. Latter includes £950 million allocated to Youth Training Scheme and £260 million (gross) to (a) new community programme - designed to provide up to 130,000 places for long term unemployed - and (b) new Job Splitting Subsidy to encourage extension of part time work and provide additional opportunities for productive jobs for unemployed people.

14. Employment continuing to fall?

[Decline in total employment 2.2 million (9¾ per cent) from mid 1979 to 1982 Q3. In 1982 quarterly decline increased - Q1 103,000, Q2 188,000, Q3 205,000 - but series of questionable reliability. Manufacturing employment fell ~~22,000~~ 73,000 in three months to November compared ~~22,000~~ 54,000 in previous three. [Sir T Beckett reported (FT 4 February) as expecting fall of 80-90 thousand more jobs in manufacturing over next four months].

Sustainable recovery and improved job prospects requires curbed inflation, greater competitiveness and lower interest rates. Substantial provision (£1½ billion) made available in current year to assist most vulnerable groups (see C13 above).

15. Recent productivity gains inimical to higher employment/lower unemployment?

This may be true in the short run. But in the longer term, as experience in Japan and many other countries clearly demonstrates, higher productivity essential for growth and employment opportunities.

PRICES AND EARNINGS

[NB RPI for January to be published 11 February.]

PRICES

1. Inflation rate

[Year on year RPI increase 5.4 per cent in December, compared 6.3 per cent in November].

Year on year rate of inflation again fell sharply in December to 5.4 per cent - lowest level for 13 years (compared 5.1 per cent in March 1970). Price level actually slightly (0.2 per cent) lower in December than November.

2. Fall in inflation due only to reduction in mortgage rate?

True that falling mortgage interest rates have helped to reduce inflation, but only account for small part of fall. Only 1.3 percentage points of fall in rate of inflation from 12.0 per cent in January 1982, when mortgage rates at peak, to 5.4 per cent in December, resulted from fall in mortgage rates over that period.

3. Comparison with previous Government?

[Average year-on-year rate of inflation between February 1974 and May 1979 was 15.4 per cent; average level of inflation since May 1979 has been 12.1 per cent.]

When previous Government left office (May 1979), year-on-year rate of inflation was 10.3 per cent and rising (May 1978 figure was 7.7 per cent). Now (December 1982) 5.4 per cent and falling. We will be first Government for quarter-century to achieve lower average rate of inflation during its term of office than previous Administration.

4. Effect of recent fall in sterling on rate of inflation over next 18 months?

[Chancellor discussed in 19 January Debate speech.]

Remain confident of achieving 5 per cent RPI inflation soon. For rest of year, path may be a bit more bumpy than expected at time of Autumn Statement. But must not exaggerate possible effect of exchange rate depreciation. Exchange rate only one factor amongst many that affect inflation, although admittedly an adverse one. Government continuing to pursue sound money policies. New forecasts, taking account of all relevant factors, will be published with the Budget.

5. Ready reckoner for effect of depreciation or inflation?

[LBS assess sterling fall will add 2 per cent to inflation in 1983, 3½ per cent in 1984 The Times 17 Jan].

Not possible to give precise 'ready reckoner' for effect of exchange rate changes on price level. Suggestion of 2-3 per cent effect of recent depreciation on prices after 12-18 months much too pessimistic. Offsetting factors include weak commodity prices (including oil),

likely cuts in profit margins by exporters to UK, and Government's commitment to sound financial policies.

6. No further decline in inflation this year?

[IAF with Autumn Statement: 5 per cent in 1983 Q4.]

Progress in recent months has been faster than was forecast; and may in consequence be rather slower in the months ahead. But we shall continue to experience the benefits of sound financial policies.

[IF PRESSED on Autumn Statement IAF: Unwise to speculate at this stage: new forecast will be published with Budget, taking account all relevant factors, both helpful (eg weak commodity prices) and less helpful (lower exchange rate).]

7. Future years?

[1983 PEWP published 1 February assumes price increases of 5 per cent in 12 months to November 1984 and 4 per cent in 12 months to November 1985.]

1983 PEWP does not contain forecasts of prices but working assumptions needed for social security programme. What actually happens will depend not least on financial policies pursued by Government which are designed to bring down inflation.

8. Inflation still not as low as competitors?

[December figures UK inflation 5.4 per cent compared 3.9 per cent in US, 4.6 per cent in West Germany, 9.7 per cent in France, 16.3 per cent in Italy and 1.8 per cent in Japan.]

UK inflation now lower than Western European (OECD Europe) average, and well below many countries - such as France and Italy. Still some way to go to match US, West Germany and Japan, but good progress being made in right direction.

9. Performance on inflation compared with main competitors no better than under previous Government?

[Jack Straw interview LBC ratio 19 January.]

No. Since May 1979 annual average rate of inflation in major other Western economies no lower than during period of last Government (February 1974 to May 8.5 per cent; May 1979 to December 1982 8.8 per cent). But in UK average rate of inflation under present Government well below level under previous (February 1974 to May 1979 15.4 per cent, May 1979 to December 1982 12.1 per cent).

10. TPI shows pay rises need to be ½ per cent higher than RPI to maintain living standards?

[TPI increase 12 months to December 5.8 per cent, compared RPI increase of 5.4 per cent].

Gap between RPI and TPI (now 0.4 percentage points) widened in July 1982 when benefits paid to the unemployed became taxable. Pay increases go to people in work, who will not pay any more tax as result of change - except for minority who have spell of unemployment during year.

11. Nationalised industry prices

[Increase in nationalised industry prices, water charges and London Transport Fares over 12 months to December 14.3 per cent compared RPI increase of 5.4 per cent.].

Gap between nationalised industry price increases and RPI has been due in large measure to cumulative effect of years of artificial price restraint. World oil price rises of 1979 and 1980 also played important part. Increases regrettable, but holding prices down artificially would distort market forces and add to burden on taxpayer. Differential between NI prices and RPI now about 9 per cent, compared 14 per cent in January 1981; over half of present differential explained by LT fares and 1981 winter electricity rebate. NI prices expected to rise broadly in line with inflation in 1983-84. This substantial improvement is sustainable as long as the industries contain their current costs (particularly pay) in same way private sector companies have to do.

PAY

12. What pay settlements does Government now want?

Low enough to be consistent with improved job prospects in the industry concerned. The lower the better. Certainly lower than in the past year.

13. Settlements still over 6 per cent?

[CBI figures published 19 January suggest manufacturing settlements averaging 6.2 per cent so far in pay round.]

CBI data bank of manufacturing settlements showed average of about 6 per cent in round up to end of last year. Since then, National Engineering Agreement has been ratified at 4.8 per cent, so manufacturing settlements have probably come down further now. But of course most settlements in the economy generally have yet to be concluded; important that these settlements should be kept as low as possible.

14. A 3½ per cent pay policy?

The 3½ per cent pay figure [announced 1 October for calculating the pay element in public expenditure cash plans for 1983-84] does not represent a 'norm', still less an 'incomes policy'. Nor is it decision on offer to be made in any individual case. Higher or lower settlements are not ruled out. Each will be considered on merits.

15. Government exhortations on pay imply aiming to cut living standards?

[Real earnings have shown little variation over past two years; though November level was actually about 1¾ per cent higher than November 1981.]

Low pay increases do not necessarily mean reduction in living standards. But whether they do or not, they are essential if we are to create competitive and profitable productive sector, and thus secure conditions for sustained improvement in living standards.

16. Average earnings index

[Year on year growth 8.3 per cent in November compared with 7.3 per cent in October. However, underlying increase slightly lower than in October at about 8½ per cent.]

Fact that average earnings index is ahead of RPI casts doubt on wilder claims about falling living standards. Further moderation in settlements is needed if we are to maintain jobs and get inflation down.

17. Incomes Policy

Proposals for incomes policies, including recent refinements, do not avoid many of familiar problems of norms, administrative costs, and interference with market forces. Experience gives no encouragement to idea that an incomes policy can be made to work on permanent basis. They always succumb to distortions they create.

18. Pay increase for nationalised industries' boards this year?

No general level of increases for board members this year. Proposals for each board being considered individually on merits, in light of circumstances. When relatively large increases have been approved by Ministers responsible (in consultation with Chancellor) it is because these have been justified by such factors as need to recruit people of ability, inadequate differentials with senior staff and performance of industry. Because board pay held back in previous years, many salaries are now seriously out of line with market rates.

19. Performance-related pay for nationalised industry board members?

An attractive concept. Practicalities and implications are being studied jointly with representatives of Nationalised Industries' Chairmen's Group, at Government's initiative. Individual boards are free to make proposals of this kind for their own circumstances.

20. Index-linked pensions and Scott report?

Government announced in Debate 22 October that favoured Megaw Committee suggestion that civil service pension scheme be made contributory. Reduction in inflation has greatly eased disparity between private and public sector pensions; Government's main aim at present is to ensure appropriate contributions are paid for index-linked benefits.

21. Public sector pensions to be adjusted to take account of overshoot?

[Compare Section M re State Pensions uprating overshoot.]

Public service pensions increases are linked, by legislation, to increase in the additional, earnings-related, component of the State retirement pension. November 1982 increase was therefore also 2.7 percentage points over the increase in the RPI. There will therefore need to be an adjustment to next November's increase. Decisions have yet to be taken on what that increase will be.

E MONETARY AND FINANCIAL POLICY

1. Monetary growth on target?

[NB. Provisional monetary aggregates (for banking January) to be published 8 February. Banking December figures summarised below:

	per cent s.a.		
	M1	£M3	PSL2
December increase	0.9	0.6	0.5]

Growth rates of all three aggregates within target range - M1 and £M3 at almost 11 per cent and PSL2 about 9 per cent.

2. Why have interest rates gone up?

[Barclays, Lloyds and Natwest increased their base rates by 1 per cent (to 11 per cent) on 11 January and Midland theirs by ¾ per cent (to 11 per cent) on 12 January. Still down by 5 points since peak in October 1981. Long term interest rates also reduced significantly over past year.]

Structure of interest rates in domestic money markets was dislodged by fall in sterling. Interest rates in domestic money markets rose sharply in early January but have steadied. Bank base rate increases and increase in Bank of England's dealing rates reflected this. Government remain determined to maintain sound monetary conditions and to continue progress towards lower inflation. To have resisted the rise could have been interpreted as a weakening of the Government's resolve.

3. Rise in interest rates will stifle recovery (as in autumn 1981)?

Does not follow. The fall in the exchange rate, though adverse for inflation (but see also D4-5), will ease pressure on companies. (See also A8).

4. Did Government engineer rise in interest rates?

As is evident from sequence of events, the rise in interest rates stems from market developments, including developments in currency markets.

5. Prospects for resuming falls in interest rates?

Interest rates have to adjust to play their part in maintaining sound monetary conditions. Route to lower interest rates is ultimately through lower inflation.

6. PM'S remarks on interest rates at lunch with Committee of London Clearing Bankers 2 February

PM was reiterating what Chancellor said in House (19 January) and PM said in speech to Glasgow Chamber of Commerce (28 January): that there is no reason for further rise in interest rates now. She also said that banks' increasing costs must not obstruct any interest rate reductions consistent with sound monetary conditions.

7. Will slide in sterling affect monetary conditions?

Level of sterling is one of the factors taken into account in judging monetary conditions. Recent fall in exchange rate may reflect market uncertainty about monetary conditions, though this is scarcely justified, given the reassuring position on the PSBR and monetary aggregates. Rise in interest rates will reassure markets that monetary conditions required for continued control of inflation will be maintained.

8. Will mortgage rate now rise?

[Mortgage rates have fallen 5 percentage points from peak in March 1982. Latest cut, to 10 per cent, came into effect for all home buyers on 1 December. Bank base rates have risen 1 per cent since then.]

That is a question for the building societies. Their liquidity position is very strong at present; they do not need to be rushed into adjusting their rates.

9. Treasury view of Spalding report on building societies

[Published 26 January.]

Studying it with interest.

10. Bank lending growing too fast?

[Bank lending starting to decrease slowly. Increased by (seasonally adjusted) £2 billion in September, average for October and November [because of STC distortion] £1.5 billion, and £0.8 billion in December.]

December figure lowest for last year. Bank lending to companies has steadied; lending to persons has fallen off from its high level last summer.

F EXCHANGE RATE AND THE RESERVES

1. Policy towards the exchange rate/falling £?

[Since October, sterling has fallen 12 per cent in effective terms, 11 per cent against the dollar, 12 per cent against the D-Mark, 21 per cent against the yen. Sterling's low against dollar was $1.5105 on 2 February in New York.

	October average	11 Jan low points	4 Feb noon	% change Oct -4 Feb
$/£	1.6977	1.5635	1.5170	-10.6
DM/£	4.2932	3.6757	3.7622	-12.4
Y/$	460.12	357.96	364.16	20.9
£ effective	92.5	80.6	81.0	-12.4

Markets have been volatile since end-October, largely reflecting fluctuations in market perceptions of the course of US interest rates. Thus, the recent recovery of the US dollar has gone some way to reverse what had been seen as a general re-alignment of currencies, with long-expected rise in D mark and yen. Oil price weakness and uncertainties have also unsettled the markets, particularly for sterling. Irresponsible Opposition policy statements also had an effect].

Government has no target for exchange rate. Nor do recent events suggest conditions exist in which pursuing a target would be a viable policy. Bank of England do intervene to seek to moderate excessive fluctuations and maintain orderly markets so far as is feasible. Government not indifferent to UK exchange rate, which is important for economy. It is one of factors taken into account in interpreting domestic monetary conditions and taking decisions on policy.

2. Impact of fall in sterling on inflation?

Will no doubt be some modest impact on inflation from recent fall. But probably less or slower to come through than many commentators suggest. Importers into UK have had healthy profit margins. They absorbed much of effect of sterling's fall in 1981 and they may remain reluctant to raise prices in today's market conditions. Food on green £ prices reflect 'green pound' (which is fixed separately) and has been unchanged (see Note below). Commodity prices (including oil prices - one of reasons for sterling's fall) are weak - and tend to be set in dollars, where fall in sterling has been least. And, of course, some of the fall could prove to be temporary.

Report in FT 18 January suggesting 'green £' changed? - not the case. What has happened is that fall in sterling has eliminated gap between market rate and green £.

3. Should not Government welcome fall in pound?

A lower exchange rate means higher costs to industry and the consumer: no-one should welcome that. Of course, recent fall in pound may bring some relief to British firms that

are facing difficult competitive pressures in home and overseas markets, particularly from Europe and the Far East - but they must contain their costs rigorously in order to retain that benefit. We cannot solve our basic problems of competitiveness by depreciation, and no-one should doubt our determination to adhere to our counter-inflation policies. Sound money remains at heart of Government's economic strategy.

4. Government reaction to further fall in rate?

No sound reason for rate to fall. Underlying financial position is strong

- Government spending and borrowing are under control and on target;
- Government deficit, as percentage of GDP, is one of smallest in industrial countries;
- substantial current account surplus - larger in 1982 than the £3½ billion forecast only last November;
- inflation falling, and fell faster over last year than in any other major country;
- monetary growth within targets, and signs are it will stay there. [See also Section E].

5. Improve UK competitiveness directly by encouraging exchange rate down further?

Substantial fall in exchange rate as advocated by Opposition, would give only very temporary gains of competitiveness for UK industry. Would raise costs of imports directly and, by alleviating competitive pressures, permit general increase in prices of domestically produced goods. This would have repercussions for wage bargaining and hence trigger a general rise in costs, undermining initial competitiveness gains. We in UK have seen striking examples of this process: improvement in competitiveness following 1967 devaluation had largely been eroded by 1972; furthermore, although exchange rate fell by 25 per cent between 1973 and 1976, competitiveness was on balance unchanged.

6. Will lower oil prices mean further fall in sterling?

Recent slide in value of sterling in part reflects expectations that oil prices were about to fall; to this extent reduction has already been taken account of in the exchange markets.

7. Why was underlying reserve loss lower in January than in December?

There is no arithmetical relationship between intervention and exchange rate changes. [FOR USE IF NECESSARY: For variety of reasons (end-year markets, run-up to first OPEC meeting where outcome particularly uncertain), market conditions in December were particularly unsettled.]

8. Progress in reduction of overseas debt?

Total official external debt now stands at around $12 billion, compared $22 billion when Government took office. Our remaining debt is now smaller in relation to our imports than at any time since Second World War.

9. Situation has been made worse by abolition of exchange controls?

Opposition spokesmen seem to forget the lesson they surely should have learnt in 1967 and 1976. All our experience is that exchange controls have little effect in the face of strong market movements. They did not control leads and lags in trade payments, nor the movement of massive funds invested in sterling by non-residents. (To attempt to control either would cause unacceptable disruption in trade and commercial relations).

10. Join EMS exchange rate mechanism (ERM)?

Recent events scarcely suggest that conditions that have led successive Governments to delay sterling's full membership of the ERM are yet right for us to join. Sterling as a major internationally traded currency is still being affected by oil and other factors in a different way from the D mark. Membership of the ERM is a constraint, not a policy: it carries an obligation to take action to try to defend a particular rate.

G BALANCE OF PAYMENTS

[NB January trade figures to be published 24 February.]

1. Trade figures and current account

[1982 current account surplus of £4.6 billion. Oil trade in substantial surplus (£4.6 billion); non-oil trade remains in (£2.4 billion) deficit. Invisibles in healthy (£2.5 billion) surplus. IAF shows zero current account balance in 1983, but this does not allow for £600 million EC refund payment deferred into 1983. Q4 balance of payments performance may justify more optimism about 1983 current account - best estimate £½ - 1 billion surplus].

£0.9 billion current account surplus for December brought total for 1982 to £4.6 billion. (compared £6 billion in 1981). Achieved without £0.6 billion EC refund which will now come in 1983. That should boost next year's current account from the zero balance forecast in the IAF to £½ - 1 billion surplus. The late 1982 figures reflect mainly the continuing improvement in our oil trade. Non-oil exports have also been holding up well at a time when world trade has probably declined. Similarly, imports remained flat despite a surge in retail spending in last three months.

2. Trade in manufactures in deficit last year ?

When exports and imports put on comparable basis [ie both valued on balance of payments basis], we recorded a surplus on trade in manufactures of approaching £2½ billion in 1982. [NOT FOR USE: Figures underlying IAF suggest that trade in manufactures may go into deficit this year].

3. Export trends - recent

Month-to-month movements in exports during 1982 have been very erratic. Export levels were low last summer, particularly in August, but have since recovered. Underlying level of non-oil exports has probably not changed over past year. This is a good performance when, because of world recession, world trade has probably fallen (1982 first year-on-year fall since 1975).

4. Export trends last few years?

Growth in UK exports of manufactures significantly below world trade growth over 1977 to early 1981, when competitiveness worsening, but with improvement in competitiveness since then, our share appears to have stabilised.

5. Import trends

There has been little change in underlying level of manufacturing imports since end-1981. Manufacturing output fell back a little in 1982, so there has probably been some continued growth in import penetration, although not at anything like same rate as in 1981.

6. Competitiveness?

See A ~~11-13~~ 10-11.

7. Non price competitiveness

Government has stressed need to improve design and quality, to meet delivery dates, and improve after-sales service. Such factors cannot be easily measured but are at least as important as cost competitiveness. Jaguar cars are a striking example of improvements in performance that British industry is capable of. Jaguar's drive for higher quality secured them an increase in overseas sales last year of 56 per cent over 1981.

8. Buy British?

See P13.

9. Protectionism?

We are concerned at the extent of unfair trading practices and the damaging effect of very high tariffs and quotas in some other countries. Pressing for positive European Community action to remedy this. But wish to make clear, as Chancellor has said that 'we will be continuing to defend the open trading system'. A free and fair trading system is in the interest of all trading nations.

10. Export subsidies?

In UK's interest to support multilateral efforts to limit use of subsidised credits which distort normal patterns of commercial trading. Until these efforts succeed, it is our policy to provide the necessary level of support for UK exporters - though there will of course always be scope for questioning amount of subsidy worth paying to win a particular contract.

11. Selective import controls would assist economic reconstruction?

[TUC 1983 Economic Review calls for import controls on sectors and products that will play key role in economic reconstruction or be subject to serious problems of adjustment to new market conditions.]

No. UK Government are looking for expansion of world trade not contraction. Protectionism only reduces competition, which raises prices and limits choice for consumers.

12. Wouldn't import controls help reduce unemployment?

Protectionist measures only lead to retaliation by other countries. UK economy particularly vulnerable; one third of our output is exported. We cannot afford to have other countries putting up barriers against our trade and services.

13. So what can be done to safeguard British producers against dumping of subsidised imports?

UK has right to take selective action where British producers subjected to unfair competition. Under international agreements, EC and GATT can counter by imposing specific duties with aim of getting countries responsible to abandon such practices.

14. Japan

Welcome the tariff reductions announced end-December. Small step in right direction. Fully support EC measures to step up action under GATT aimed at putting further pressure on Japanese to open up their domestic market.

15. GATT meeting

Glad to see that GATT meeting reaffirmed need to resist growing protectionist pressures. GATT declaration represented realistic commitment on behalf of signatories to the open trading system in present difficult economic climate.

16. Services

Work in the GATT on services is a major new departure and one of particular interest to UK. Field is wide but UK will contribute constructively with view to making early progress.

17. Textiles

This GATT study relates to the longer term and as such is not unreasonable. In no way affects present Multilateral Fibres Agreement and latest bilateral agreements which will run until 1986.

18. Effect of lower oil prices on UK trade?

Oil only relatively modest proportion of UK overseas trade. Benefits from boost to world trade will offset relatively small trade balance impact.

19. Q3 Balance of Payments and capital account

[Q3 invisibles surplus of £0.6 billion. Outflow of investment and other capital transactions of £0.3 billion. Private sector direct investment abroad fell to £0.8 billion and private sector portfolio investment abroad down £0.2 billion from Q2 to £1.0 billion.]

Invisibles account continues to be in healthy surplus - £1¾ million cumulative surplus on invisibles in first three quarters of 1982.

20. Continuing capital outflow shows folly of abolishing exchange controls?

[Article by F Williams in The Times 31 January: 'Why Peter Shore misses the target on foreign funds'.]

Wrong to talk about money flowing out of the country. Those who wish to invest abroad have to buy foreign currency and find someone else who wishes to invest in Britain to purchase sterling in return. The nation's net capital outflow or inflow - as a matter of arithmetic - matches the current account balance. Just as countries with deficits have to borrow abroad, those with surpluses acquire net overseas assets.

21. Portfolio outflow higher than last year?

[Q3 Balance of Payments figures published 8 December showed continuing outflow of UK overseas portfolio investment. Guardian on 9 December described this as rising trend.]

True that there is little sign yet of end to expected period of stock adjustment following ending of exchange controls. But misleading to say portfolio investment abroad is rising. Figures are as follows:

		£ billion	
1981	Q1	- 1.3	
	Q2	- 1.0	average - 1.0
	Q3	- 0.7	
	Q4	- 1.1	
1982	Q1	- 1.6	
	Q2	- 1.3	
	Q3	- 1.3	

Q3 figure is smaller than in Q2 or Q1, and about the average for last year.

22. Overseas investment takes jobs away from UK?

30 per cent of UK exports are bought by overseas firms connected with UK companies. By increasing links between UK and overseas companies, overseas investment helps UK exports and production, so producing more jobs. If UK does not take profitable opportunities to invest overseas, others will.

H FISCAL POLICY AND THE PSBR

1. Progress on fiscal policy?

[Aim is to achieve reduction in PSBR as percentage of GDP over run of years, so as to achieve lower inflation and interest rates.]

Have made progress. Government has succeeded in reducing PSBR as percentage of GDP; further reduction is projected. Inflation has fallen fast - expected to fall further (see D1). Base rates have risen but still well below (5 per cent) peak in 1981. Benefits seen in recovery of debenture market. [IF PRESSED: Would like to see rates lower still, so long as not likely to endanger progress on inflation.]

2. Government planning balanced Budget?

[Chancellor questioned in Guardian interview 17 December about reports that Professor Walters at FT bankers' conference advocated balanced Budget over run of years.]

Government aims to reduce PSBR as share of money GDP over medium term. Illustrative profile in 1982 MTFS shows figure of 2 per cent in 1984-85. Nothing has been said about later years.

3. Recent rises in interest rates make nonsense of Government's claim that PSBR matters?

Never said relationship between interest rates and PSBR simple or direct. Certainly does not operate month to month. Basic principle - however PSBR over run of years implies lower interest rates - still holds true.

4. How does UK fiscal stance compare with other countries?

[IMF Annual Report noted that among major industrial countries by far the largest 'restrictive shift' over past two years, equivalent to more than 3½ per cent, was that of UK.]

Many countries reducing borrowing; UK budget deficit now well below average of OECD countries. France demonstrates problems with reflation option and US experience shows that fiscal and monetary policy must be broadly consistent.

5. PSBR in December quarter

[PSBR in December quarter £3.1 billion (£2.5 billion seasonally adjusted). PSBR April-December £7.6 billion (£5.3 billion seasonally adjusted.)]

Wrong to prorate £5.3 billion to arrive at likely PSBR for 1982-83. On balance however December quarter figures indicate PSBR likely to undershoot IAF figure of £9 billion.

6. PSBR likely to be £8 billion in 1982-83 compared £9 billion in IAF?

[F Williams article The Times 21 January].

It is possible. But must remember that margins of error in any precise forecast substantial.

7. What would undershoot be if Government had not taken recent measures?

[CONFIDENTIAL NOT FOR USE: At time measures taken they were thought likely to 'boost' PSBR by around £1¼ billion in 1982-83 - an estimate itself liable to quite a large margin of error.]

Rather strange question. Given the uncertainty over PSBR outturn this year it is impossible to answer.

8. EC refunds - implications for PSBR in 1982-83?

No reason at present to suggest EC refunds due to UK will not be paid over by end March 1983.

[CONFIDENTIAL NOT FOR USE: EC Commission has recently opened a new account with the Paymaster General into which has deposited funds equivalent to our refunds entitlement. These deposits are classified as miscellaneous capital receipts, and so PSBR has already been reduced. In unlikely event EC withdrew the deposits before end March, PSBR would be increased. (See also Section N.)]

9. Government intentions for 1983-84 PSBR?

[Autumn Statement PSBR for 1983-84 assumed to be £8 billion - 2¾ per cent of GDP; 1982 MTFS was £8½ billion. Press speculation that £2 billion available for tax cuts.].

PSBR figures in Industry Act forecast illustrative, not targets. Final decisions about PSBR and tax cuts planned for 1983-84 will be made at Budget time, not before. (See also A16).

10. Cyclically adjusted PSBR better guide to policy?

Government fiscal policy has taken account of recession. Acid test is level of interest rates at which PSBR can be financed, not value at some hypothetical cyclically adjusted level of output.

11. Inflation-adjusted or 'real' PSBR in surplus - isn't fiscal policy too tight?

['Real' PSBR subtracts from actual PSBR erosion by inflation of real value of Government debt. Calculations by Bank of England and others produce a surplus 'real' PSBR in most years since the 60's.]

No. Fall in inflation has raised the 'real' PSBR (because the 'inflation tax' is reduced). Real PSBR is interesting indicator but poor guide to setting policy e.g. suggests raising PSBR when inflation accelerates.

J TAXATION

1. Burden of taxation

[Total taxation (including NIC) as proportion of GDP was 34½ per cent in 1978-79 and is forecast to be 39¾ per cent in 1982-83. Corresponding figures excluding NIC are 28½ per cent and 33 per cent].

Burden has inevitably risen because of upward pressures on public expenditure caused by the recession. Increases in taxation are better - and more honest - means of financing this than borrowing, because borrowing has adverse effects on interest rates and inflation. But a higher tax burden does not necessarily mean that people are worse off, because gross earnings have risen faster than prices since 1978-79. On average, all types of household in work at all earnings levels are better off in 1982-83 than in 1978-79. [NB: individuals may have done better or worse than average.]

2. Burden of taxation risen most for the poor?

Proportion of income paid in income tax and NICs has fallen in 1982-83 for lowest paid taxpayers. Low paid with children have also benefited from generous increases in benefits such as FIS.

3. Previous reductions in personal taxation favour the rich?

1979 Budget cut absurdly high top rates of income tax to EC levels, as part of package which also involved substantial increase in thresholds. Such action was essential to restore incentives. No 'pot of gold' in higher rate tax; restoration of 83 per cent top rate would finance a cut of under ¼p in the basic rate.

4. British tax burden high by international standards?

Not so. Accurate comparisons difficult, but UK burden is about average for OECD countries [provisional 1981 data from OECD's Revenue Statistics 1965-81]. Similarly, UK taxes on personal income and UK employees' social security contributions are about average for EC countries and lower than USA [1980 provisional OECD data].

5. Too few tax officials on evasion work?

Not prepared to abandon our manpower targets (see L1). Within these, we do redeploy staff as appropriate. Inland Revenue has deployed 400 extra staff to counter tax evasion and 'the black economy'.

6. Cuts in taxation in 1983 Budget?

Must wait until Budget Day. Cannot comment now on size of PSBR, fiscal adjustment or individual tax changes. (See also A13 and 15).

7. Future of married man's personal allowance?

[Labour Party commitment to phase out in favour of increased CB etc; SDP proposals to abolish as part of proposals in document 'Attacking Poverty'.]

Government launched debate with 1980 Green Paper on Taxation of Husband and Wife. Green Paper set out number of different options; these being considered in light of very wide range of views received. Abolition would affect many millions of taxpayers, and by itself, leave a basic rate taxpayer £5 a week worse off. For some people it would worsen poverty and unemployment traps.

8. SDP plan to abolish poverty trap?

SDP scheme costs £5 billion - even on their own estimates - and still leaves marginal tax rates for people in poverty trap of 80-85 per cent. It extends trap both up and down the income scale. Ten times as many people would have marginal rates increased as would have them reduced. Claims to have eliminated trap are based on artificially restricted definitions. Their proposals would leave some people on below average earnings worse off.

9. Government unconcerned about poverty and unemployment traps

Government is concerned about poverty and unemployment traps, in context of incentives as a whole. Traps arise from attempts of successive Governments to alleviate poverty while keeping costs in bounds. Alternatives are to give less support for poor and unemployed or to let costs rip. Necessary step in right direction is to reduce burden of income tax by restraining public expenditure; long-term solution is increased real earnings resulting from sustained improvement in productivity and economic performance: both are goals of Government policy.

K PUBLIC EXPENDITURE AND FINANCE

PUBLIC EXPENDITURE WHITE PAPER 1983 (Cmnd 8289)

[1983 PEWP published 1 February shows total spending held within previous plans:-

			£ billion
	1983-84	1984-85	1985-86
PEWP 1982 adjusted for 1982 Budget changes	120.7	127.6	
Figures in Autumn Statement November 1982	120.1		
PEWP 1983	119.6	126.4	132.3]

Press coverage has queried whether control of spending real or apparent eg 'Done with Mirrors' S Times 6 February.]

1. Ratio of public spending to GDP this year and next?

[Ratio rose from 43 per cent in 1980-81 to 44½ per cent in 1981-82 - though still below level of 1974-75 and 1975-76 (46 per cent in both years).]

Using expected outturn of expenditure, and Industry Act Forecasts of GDP, 1982-83 ratio expected to be 44 per cent, falling to 43½ per cent in 1983-84. Demonstrates progress towards Government objective of reducing ratio. Rising trend has been reversed.

2. Further ahead?

Too early to predict ratio in future years. Wait for Budget forecasts. Certainly Government's aim to bring the ratio down further.

3. Cost terms figures for 1983-84 show fall in plans compared with 1982-83?

Planning total for 1983-84 expressed in cost terms shows reduction of about ¾ per cent compared with 1982-83 plans expressed in cost terms (calculated using current GDP deflators). (NB. In Table 1.14 of the White Paper the planning total expressed in cost terms for 1983-84 shows an increase over 1982-83 of some ¾ per cent. But this comparison must be treated with caution because it compares plans in 1983-84 with outturn in 1982-83. This caveat applies to the individual programmes as well as to the planning total.)

4. Why no cost terms figures beyond 1983-84?

Cost terms figures in Table 1.14 go only as far as 1983-84 because it is only for that forward year that a forecast of the GDP deflator is available.

5. Comparison of planning totals in cost terms with Autumn Statement?

Changes to planning total expressed in cost terms compared with Autumn Statement (Table 2.2) almost entirely due to changes in cash figures, including substitution of estimated outturn for plans for 1982-83. (Also small revision to GDP deflator for 1980-81.)

6. Comparison of planning totals in cost terms with 1982 Budget?

1983-84 planning total expressed in cost terms in Table 1.14 of 1983 PEWP is some £1.5 billion more than the corresponding figure at the time of the 1982 Budget (£104.4 billion, base year 1981-82), because downward revision of cash plans for 1983-84 has been more than offset by reduction in expected inflation in 1982-83 and 1983-84 since 1982 Budget. This does not mean that expenditure plans for 1983-84 have increased. Plans are in cash and have been revised downwards. Cost terms figures are merely derived arithmetically from the cash figures. Thus comparison tells more about revision in the deflator than about revision of cash plans. In simple terms, it means that if you reduce the rate of inflation, one of the benefits is that you can buy more with the cash made available.

7. Real rise in spending in 1983-84 compared with last year's Budget plans as a result of falling inflation?

If 1983 PEWP plans for 1983-84 compared with Budget plans using same deflators for both (ie GDP deflators published in last Industry Act Forecast), 1983 PEWP plans show fall of nearly £1 billion in cost terms compared with Budget plans. (Trying to compare them using different deflator forecasts tells more about revision in deflator than about revision in cash plans).

8. Should not all programmes have been revised downwards, given fall in inflation?

One of main aims of cash planning is to require programme managers to plan to achieve optimum service levels within cash constraints. Price changes in general have to be absorbed. Automatic downward adjustment to programmes when inflation falls would inevitably mean automatic upward adjustment if inflation were to rise. This would destroy the object of cash planning. In the Survey, all programmes were reviewed individually. Prospects for inflation were one factor taken into account, and cash plans for 1983-84 were reduced by £1.1 billion.

9. Shortfall

1983-84 planning total allows for net shortfall of £1.2 billion, or 1 per cent of total. At this stage, this can only be broad order of magnitude rather than detailed estimate. Considerably smaller than 1982-83 estimated shortfall on outturn of some £1¾ billion, reflecting both smaller Contingency Reserve and Government's plans to combat capital

underspending. Shortfall for later years not directly estimated, but allowed for in 'provisional reserves'.

10. 'Provisional reserves'

Government's aim is to show realistic planning totals for all years. This means, when planning in cash, making some allowance for future changes. 'Provisional reserves' are designed to provide Contingency Reserves for future years, and to allow for possible shortfall and possible further programme changes.

11. Contingency Reserve of £1½ billion for 1983-84 too small? (as suggested by TCSC)

Contingency Reserve 1983-84 is set at £1.5 billion compared with £2.4 billion in 1982-83 and £274 billion in 1981-82. In retrospect clear that size of the Reserve was set too high in both those two years. There was substantial spare capacity in 1981-82 and is likely to be spare capacity again in 1982-83. Size of Reserve will be reviewed at time of Budget before set finally as control total for the year.

12. Pay

As announced 1 October 1982, plans include sufficient cash in 1983-84 to provide for average increases in wages and salaries bills to 3½ per cent, from due settlement dates for armed forces, the civil service and certain other groups. Provision made for health service is consistent with settlements now reached covering both this year and next.

13. Other prices

Public expenditure now planned in cash. With exception of social security and the provision for pay for 1983-84 there are no explicit price assumptions underlying the plans. Of course, in determining the cash plans Ministers have had in mind a broad view, consistent with their general strategy, about the future course of prices. But it is not in general necessary for these to be formulated in precisely quantified terms, nor has it been.

14. Declining share of capital expenditure?

[TUC Economic Review proposes £29½ billion public sector investment over 5 years.]

Immediate problem is not to make more funds available but to get local authorities and nationalsied industries to spend capital provision available to them. Capital expenditure in 1983-84 now planned to be some 12 per cent higher than estimated outturn for 1982-83 (put at about £10 billion). Prime Minister wrote to local authorities and nationalised industries in November explaining Government's concern at present level of underspending, and changes are being made in the capital allocation procedures for local authorities to combat underspending in future.

15. CBI representations about public expenditure? (FT Report 27 Jan)

Both Government and CBI are seeking a close and effective control over public expenditure. CBI not now proposing any net increase in the total of public expenditure - rather, a small net reduction - but are proposing, in their Budget representations, changes in allocation of public expenditure. These, like all other Budget representations, will be taken into account by Chancellor in preparing Budget.

16. Recent fall in the exchange rate

There have been some changes in exchange rates since plans finalised. But these are price changes of a kind which cash planning is intended to absorb and are only one of the factors - which may operate in either direction - faced by programme managers. Presumption is therefore that plans will stand, subject always to possibility of review in cases of particular difficulty.

17. Economic assumptions unrealistic/out-of-date/horrifying?

Specific economic assumptions are given for certain programmes only eg social security. Following usual convention (eg used by previous Government) these assumptions are not forecasts or predictions. They are illustrative working assumptions used to calculate the cash plans during this planning cycle. For example, if developments in world economy favourable and conditions at home - particularly continued reduction in pay settlements - permit, assumed level of unemployment could turn out to be too high.

18. Size of the fiscal adjustment?

1983 PEWP sets out expenditure plans, expanding on earlier Autumn Statement. Beyond that cannot go at present. Expenditure plans shown in the White Paper should not be taken in isolation as indicating any particular change in the fiscal adjustment from that shown in the Autumn Statement. New Industry Act Forecast will be published at time of Budget, taking account of latest known position on public expenditure and all other relevant information, including decisions on size of PSBR, and many other changes - including to exchange rate and oil prices - which have occurred since the Autumn.

19. What about public spending in the longer term?

1983 PEWP only covers next three years. Risk that present trends projected to end of this decade could lead to significant increase in public expenditure, not the reduction which the Government wants.

ST JOHN STEVAS BILL

20. Government attitude to St John Stevas Bill?
(Second reading 28 January)

We recognised in our White Paper on the Role of the Comptroller and Auditor General (Cmnd 8323 of July 1981) the desirability of legislation on this subject. House will now have opportunity to modernise the 1866 and 1921 Acts, and that is welcome. However, there are strong arguments against the proposal in the Bill to give C & AG access to books of nationalised industries. The industries should be set clear financial targets and then be subject to minimum of interference. Bill is a move in opposite direction. All of these issues should be considered by the House.

21. Why did not Government introduce legislation?

This is a subject on which it is very desirable to proceed by consensus. Unfortunately that has not been the position. Hope wide measure of agreement will emerge during course of Bill's passage through House.

LOCAL GOVERNMENT

22. LA capital underspending in 1982-83

Following underspend of £¾ billion in 1981-82, local authorities seem set to underspend their capital cash limits for 1982-83 by between £1 and £1½ billion (GB figures). Some steps in hand to reduce the underspend: PM wrote last autumn to local authority associations; local authorities can apply for extra allocations (about £200 million issued so far), and can spend without limit on improvement grants; extra £150 million made available to Housing Corporation.

23. LAs cannot increase capital spend because of revenue consequences?

Plans for relevant LA current expenditure allow for financing costs of full planned capital programme. Many capital projects have no immediate running costs eg roads, reclamation of derelict land. Others will reduce running costs by rationalisation. LAs would be able to afford running costs of worthwhile investments if curbed wasteful expenditure and held down pay settlements.

24. LA capital spending plans for 1983-84

Plans for LA capital as a whole allow net spending one third higher than likely outturn in 1982-83; (gross) housing spending up £350 million (13 per cent); urban programme (including Urban Development Grant) up by £70 million (to £350 million). Local authorities will be allowed to spend above allocations on improvement grants.

25. LA current overspending in 1982-83

Budget returns from LAs in Great Britain indicate that overspend of over £1 billion on current expenditure relevant for rate support in prospect. In response, rate support grant cut by £308 million in England, £27 million in Scotland, and £5 million in Wales.

26. RSG settlements 1983-84

Realistic and generous: expenditure provision effectively 10 per cent higher than in last settlement and grant 3 per cent higher than 1982-83 settlement - provided authorities do not overspend. [For details refer to Statements by Secretaries of State for Environment, Wales and Scotland on 16 December.]

27. Grant penalties 1983-84

Hope won't be necessary to have any. But authorities were warned in July 1982 of expenditure guidance now issued and have had ample time to adjust 1983-84 budgets to avoid incurring grant penalties.

28. Rate increases in 1983-84?

On average there should be no need for rate increases in 1983-84. If authorities spend in line with expenditure targets any increases should be low; some councils have already announced intention to reduce rates. Where rate increases are high because of overspending it will be LA's own fault.

29. Service cuts?

Up to local authorities to decide how to keep to the provision in the RSG settlement. If they choose to allow irresponsible pay settlements, services may have to suffer unnecessarily.

30. Higher council house rents?

In Government's view, LAs should not need to increase rents in real terms in 1983-84. For them to decide. Government decision is about provision for housing subsidy - Environment Secretary will be consulting LA associations on basis of figure of 85p per week per dwelling. If that figure confirmed, will be possible to provide for real increase in capital investment in housing in 1983-84.

31. Green Paper on Domestic Rating System: Government response?

Carefully considering representations. Need scheme that will remedy shortcomings of present rating system and command widespread support. Taking account of pleas from industry, business, etc. (See also P3.)

FALKLANDS EXPENDITURE

32. Falklands defence costs?

Latest assessment of costs of operation, of replacing equipment lost during conflict, and of garrison, is about £700-£800 million in 1982-83. Provision has been made for £624 million in 1983-84. £684 million in 1984-85 and £552 million in 1985-86. Total Falklands costs of £3 billion reported last month in Press [Guardian report 13 December] are broadly consistent with latest estimate of costs.

33. How will the defence costs be met?

Extra defence costs will be met by additions to defence budget on top of provision for NATO 3 per cent a year real growth target. Block defence cash limit for 1982-83 increased by £371 million so far on account of operations in South Atlantic (Hansard 9 November 1982 Col W108). This increase has been met from the Contingency Reserve. It has not therefore affected the Public Expenditure planning total.

34. What will be costs of repairing damage and reconstructing the Islands' economy?

Too soon to say what these will be. Work has begun on restoration of essential services and on implementing Civil Commissioner's recommendations for priority action (accommodation, inter-Islands air service, education). About £10 million now expected to be spent in 1982-83. A further £5 million may be spent on rehabilitation in 1983-84. Ministers have agreed on a package of measures for long term development of the Islands tentatively estimated to cost in all £31 million over next 6 years.

35. Cost of paying compensation for war damage?

Too soon to say what total will be. Claims are being processed, and further claims may be received. About £2 million has so far been paid out, but this is no guide to what the final total might be. Costs in 1982-83 will be absorbed within FCO programme.

L CIVIL SERVICE STAFFING AND PAY

1. Civil service too big/does too much/is over staffed?

Since Government came to office, Civil Service has been reduced by 10½ per cent to 655,000 (at 1 October 1982). Results from reduction in functions, privatisation and improvements in efficiency. On course to achieve the 630,000 target by April 1984. This is 102,000 fewer staff in post than in April 1979, and will mean smallest Civil Service since end of Second World war.

2. Government seeking cut of 60,000 through privatisation?

[Guardian report 28 January: 'Pressure to cut 60,000'.]

Government is reviewing need for staff in Departments over period 1984-88. This is normal good management practice. No decisions have been taken. Figure of 60,000 quoted in The Guardian is completely fictitious.

3. Civil service efficiency?

[TCSC published 17 January memorandum by Council of Civil Service Unions commenting on Government's reply (Cmnd 8616) to TCSC's report 'Efficiency and Effectiveness in the Civil Service').

Main theme of Council's memorandum is that drive for efficiency, motivated largely by Government's determination to reduce size of civil service, has taken no account of effects of cuts, specifically reduced quality of service. Government do not accept that reductions in manpower have been pursued regardless of effects on efficiency and effectiveness. Great savings already made with little effect on provision of services.

4. Civil service pay negotiations in 1983?

Government have told civil service unions that there will be room for genuine negotiations and that they intend to conduct those negotiations with the view of reaching an agreed settlement. In answer to unions' question about availability and terms of arbitration, Government have said that it is too soon to answer; they were looking for a negotiated settlement.

5. Contents of unions' claim?

Unions' claim for 1983 has been received; proposal is:

(a) flat rate increase of £12 per week for all non-industrial Civil Servants on National Salaries up to and including £6264 pa;

(b) above this level, 'substantial' percentage increases, providing, in particular, 10 per cent on salaries up to £9758 pa.

Additionally, the unions propose minimum wage for all staff aged 18 or over of £85 per week, and reduction in the working week to 35 hours net. The Government have acknowledged receipt of the claim, and said they will arrange first discussion of it when unions' supporting evidence is to hand.

6. Megaw Report

Unions have been told Government prepared to enter into negotiations with them with view to agreeing an ordered pay determination system based on recommendations of Megaw report. Unions have now confirmed their willingness to enter into joint discussion - first procedural meeting was held 22 January.

7. Scott Report/Public sector pensions?

See D 20-21.

N EUROPEAN COMMUNITY

1. UK budget settlement for 1982

[European Parliament on 16 December rejected draft supplementary and amending budget established by Council of Ministers on 8 November to make the necessary budgetary provision for our refund payments. This action obstructed implementation of settlement reached by Foreign Ministers 26 October, providing for basic gross refund of around £630 million (about £480 million net) by end-December.]

Council of Ministers established a new draft supplementary budget for 1983 on 1 February. European Parliament is expected to give this a first reading this week. We hope Parliament will adopt new supplementary budget in time for our refunds to be paid over before end-March.

[BACKGROUND NOT FOR USE: In order to meet its undertaking not to let Parliament's actions in December place us in a worse position than under October agreement, Commission have opened a new account with the Paymaster General (EEC No.3 Account) into which they have deposited funds equivalent to our refunds entitlement. We get interest benefit from these funds. The EEC No.1 account has been temporarily run down, but we are pressing Commission to bring balance up to 1982 average].

2. Refunds for 1983 and later

On 17 November Commission produced its proposals for dealing with UK budget problem in 1983 and later. Commission communication does not suggest what size our refunds - or our net contribution after refunds - should be. We think it provides a suitable framework for discussion of problem within the Community and hope that progress will now be made quickly. PM has said this will have to be discussed at next European Council in March if solution not found by then. On 7 February, Chancellor gave Press Conference in Brussels at which emphasised importance of finding lasting, fair and comprehensive solution to problem of budgetary imbalances. He offered some ideas to show possibilities.

3. UK objectives for longer-term negotiations?

Government has made it clear that, in spite of our relative economic position, UK is prepared to remain a net contributor - but only on a very modest scale.

4. Will Government withhold contributions?

We very much hope the issue of our Budget contributions can be satisfactorily settled without need for recourse to such a step.

5. Commission Green Paper on 'own resources' system

Commission Green Paper on 'own resources' was published 7 February. We will study this carefully. Our opposition to an increase in the 1 per cent VAT ceiling is well known.

6. Policy for CAP reform

Key measures are price restraint, curbs on surplus production and strict control of the growth of guarantee expenditure.

7. Costs of CAP to UK consumers

The Minister of Agriculture has dealt with a number of questions on this. Costs to consumers of the CAP as such depend on nature of alternative support system that is envisaged. Arrangements leading to a reduction in the cost of food to the consumer could well involve increased costs to taxpayers.

8. European Monetary System exchange rate mechanism

See F10.

P INDUSTRY

1. Latest statistics of output and investment?

See Section B and commentary at end of Brief.

2. High interest rates damaging for industry and investment?

Banks' base rates still 5 percentage points lower than October 1981. Outside analysis suggests that a 1 per cent reduction in interest rates improves the net financial position of the company sector by about £250 million over a full year.

3. Lower rates for industry?

De-rating one of a number of possible ways of assisting industry and business, but in last Budget preference given to other forms of relief, notably reductions in NIS. De-rating would be expensive, though less so if applied to industry alone - even so, 10 per cent de-rating would cost about £140 million per annum. Legislation would be required.

4. Energy prices?

See R6-8.

5. Government believes levels of industrial support are far too high? Intend to trim?

[Observer 9 January alleged that secret Whitehall paper, questioning value of export credits, had sparked off major interdepartmental row.]

Public spending is too high generally, and industry support no exception. This is not to say that industrial support is not useful in a period of transition; but must aim at deploying a declining total more flexibly, focussing help where really needed and on industries and technologies of tomorrow. (See also G10).

6. Government review of regional policy?

Officials of the Departments concerned have been reviewing the effectiveness of the main instruments of regional policy. Now for Government to consider whether to commission further work in particular areas that would be necessary to prepare for any changes. Have not yet reached conclusions on any aspect. Too soon to say when will reach conclusions.

7. What kind of industrial base and pattern of employment is Government aiming for?

Size and shape of industry and employment will not be determined directly by Government and cannot be forecast with any accuracy. Clearly, much of traditional industrial base and

traditional sources of employment will remain important, but new businesses are coming alone too. Important thing is to provide right incentives for business and for costs to be kept under firm control. Government does not, contrary to some reports, underrate importance of traditional manufacturing industry.

8. Companies' financial position?

[NB company sector borrowing in 1982 Q3 includes large element of unidentified transactions (-£1 billion)

£bn

	1979 Year	1980 Year	1981 H1	H2	1982 H1	Q3
Net borrowing requirement (+)/repayments (-)	+6.1	+6.5	-1.7	+6.2	+6.0	+1.9
Financial surplus (+)/deficit (-)	-2.9	-1.4	+1.3	+0.7	-1.1	+0.8]

Financial position of industrial and commercial companies (excluding North Sea) improved in 1981, relative to 1979 and 1980; encouraging figure for Q3 financial surplus - though this may principally reflect a further round of improvement in part reflected companies' efforts to cut costs, for example by de-stocking. Some apparent deterioration in borrowing requirement second half 1981 due to slowdown in de-stocking and unwinding of delays in tax payments because of the civil service dispute. Figures for first three quarters 1982 suggest companies' borrowing requirements remain high, but much less so than in 1979 or 1980.

9. ICCs liquidity ratios in 1982 Q3?

[D. Industry's survey of 200 large companies (published 3 December in British Business) shows a further significant deterioration in liquidity in 1982 Q3. Also shows £1 billion reduction in total current assets since 1982 Q1 whereas national accounts show total identified liquid assets of all ICCs increasing this year].

True that DOI figures - which relate only to very large companies - show some deterioration in liquidity. But no evidence of widespread concern about liquidity: companies are still able to meet their financing needs through bank borrowing.

10. Profits/rate of return still too low?

[Gross trading profits of industrial and commercial companies (ICCs) (net of stock appreciation) rose 17 per cent 1982 Q3 compared 1981 Q3 but increase was from a very low base. ICC's real pre-tax rate of return (except North Sea was just over 3 per cent in 1981, and only 2 per cent in manufacturing - half previous cyclical low figure in 1975.]

Government can help best by getting inflation down and setting sound basis for sustained recovery. Fundamental improvement in ICC's rates of return depend on better performance

by companies. Some encouragement from recent productivity gains and trend towards moderate pay settlements.

11. Real rates of return on capital lower in UK than elsewhere?

[OECD statistics comparing UK, Japan, France and UK show net rates of return to fixed capital in non-financial corporations in 195-80 lowest in UK - though all on a downward trend. 1980 figures: US 13 per cent, Japan 15 per cent, France 9 per cent, UK 5 per cent.]

Figures show how policies of earlier administrations have allowed profitability to slide in UK. Sound basis for sustained recovery rests on reducing inflation, increased productivity gains, and moderation in pay settlements which creates conditions for better performance by companies.

12. Future of cashless pay/Truck Acts?

Discussion at NEDC 5 January demonstrated CBI and TUC support for major shift to cashless pay. Government considering carefully arguments both for and against repeal of Trucks Acts, as means of accelerating progress.

13. Buying British

Many British products have always been competitive. New competitive ones coming onto market. When buying British must take account of price or quality - otherwise would only render firms incapable of competing internationally. But should give British products - and ourselves - a full and fair chance.

14. NEDC meeting - Lord Cockfield attack on NEDO chief for trade performance paper

[At NEDC meeting 2 February, Lord Cockfield described paper by NEDO on international issues as muddled, inaccurate, prejudiced and ill-informed.]

Lord Cockfield did criticise a paper discussed at last week's NEDC meeting - on the grounds that it was too critical about Britain's trade performance and failed to recognise what the Government have been doing through GATT to increase opportunities for UK exporters. NEDO paper was very wide-ranging, and it has been agreed that Chancellor, Mr Murray, Sir Terence Beckett and Mr Chandler should get together to consider how further work on issues raised in it should proceed.

15. Government help for small firms

Last Budget provided further help for small businesses, increasing the number of measures taken so far to over 100. Enterprise package included further reduction in weight of corporation tax; further increases in VAT registration limits; increases in global amount available for loans under Loan Guarantee Scheme (see below); and doubling of investment

limit under Business Start-Up Scheme to £20,000 a year. These measures designed to encourage start-ups and existing firms.

16. Response to Loan Guarantee Scheme?

[Nearly 7,900 guarantees already issued - about half to new businesses. Total lending under scheme over £260 million. Budget provided for lending ceiling in first year (to May 1982) to be raised from £100 million to £150 million and for further £150 million to be available in second year (to May 1983). Thirty financial institutions now participating.]

Scheme operating successfully. Too early to assess overall cost. First year cost covered by premium income. Now clear that payments will exceed income in this financial year. Department of Industry has been called to honour only about 160 guarantees out of nearly 7,900 so far issued. Future of scheme under review.

17. Enterprise zones

Response to first eleven zones has been encouraging; many new firms have been set up and others expanded. (But too early to assess overall success). Proposed sites for nine new zones in England announced by Environment Secretary 15 November; sites for two new zones for Scotland, one for Northern Ireland and one for Wales have also been announced. One more for Wales under consideration.

R PUBLIC OWNERSHIP AND PRIVATISATION

NATIONALISED INDUSTRIES - GENERAL

1. EFLs for 1982-83

Estimated outturn for external financing in 1982-83 published in PEWP 1983 is £2.3 billion - about £½ billion down from 1982 PEWP. British Telecom expected to undershoot its EFL substantially, BSC to overshoot substantially.

2. EFLs for 1983-84?

Nationalised industries EFLs for 1983-84 were announced in Autumn Statement; EFLs revised to allow for NIS reductions were announced 23 December. No further revisions included in 1983 PEWP. Overall external finance in line with previus plans. £2.6 billion being made available to nationalised industries in 1983-84. Overall, external finance in line with previous plans. £2.6 billion being made available to nationalised industries in 1983-84.

3. Government attitude to Mr St John Stevas' Bill on Parliamentary control of expenditure?

See K7-8

4. What is Government doing to improve nationalised industries' efficiency?

We continue to press for greater efficiency within NIs. We are setting realistic financial targets and performance aims. Rolling programme of Monopolies and Mergers Commission investigations has been set up. Introduction of market forces provides the greatest incentive to efficiency.

NATIONALISED INDUSTRY PAY AND PRICES

5. Nationalised industries' prices

[Increase in nationalised industry prices, water charges and London Transport fares over 12 months to December 1982 14.3 per cent, compared with RPI 5.4 per cent.]

Gap between nationalised industry price increases and RPI has been due in large measure to cumulative effect of years of artificial price restraint. World oil price rises of 1979 and 1980 have also played an important part. We greatly regret the need for these increases, but holding prices down artificially would distort market forces and add to burden on taxpayer. Differential between NI prices (including water charges and London Transport fares) and RPI now currently about 9 per cent, compared with 14 per cent in January 1981; over half of present differential explained by LT fares and last winter's electricity rebate. NI prices expected to rise broadly in line with inflation in 1983-84. This substantial

improvement is sustainable only so long as the industries contain their current costs (particularly pay) in the way that private sector companies have to do.

6. UK industrial energy prices above those of European counterparts?

[At NEDC on 8 December CBI complained that energy-intensive industries pay 20 to 40 per cent more for energy than European competitors.]

Vast majority of gas and electricity consumers pay comparable prices to their European competitors. Some disparities exist for limited number of intensive users of electricity. But on average, electricity prices will not increase in 1983 (see 8 below). Measures worth over £300 million in energy cost savings have been introduced in last two Budgets to help industry. Cannot expect disparities to be closed entirely especially where due to different costs of supply. Sole way of reducing real electricity costs is by containing costs of generating industry. But Energy and Industry Secretaries have indicated willingness to have further discussions with industry about electricity prices.

7. Freeze on industrial gas prices?

[BGC announcement that freeze on renewal prices for contract gas would be extended to first nine months of this year].

Government welcomes BGC's decision to freeze industrial gas prices for a further nine months. Decision was taken on purely commercial grounds - BGC judge that they can accommodate the freeze within their present EFL.

8. Electricity prices?

As announced by the Secretaries of State (for Energy and for Scotland) on 12 November, electricity prices (domestic and industrial) will not, on average, be increased at all in 1983. This is consistent with the EFLs announced 8 November. The standstill follows the recent review of the bulk supply tariffs.

9. Nationalised industry boards' pay?

See D 18-19.

INVESTMENT

10. Step up nationalised industries' investment to/improve infrastructure/provide orders to private sector/ boost economy?

Government has not prevented the industries from carrying forward a large number of profitable investment programmes. Wasteful to provide funds for public sector projects with lower returns than those in private sector. Unfortunately, pre-tax rate of return on

nationalised industries' capital (including subsidies) in 1981 (latest available figure) was minus ½ per cent, compared with 3 per cent for industrial and commercial companies.

11. Finance more nationalised industry investment by cutting current spending?

As in private sector, moderate pay settlements and control of other costs are essential. Ability to finance new investment in nationalised industries bound to diminish if excessive pay settlements agreed. Each 1 per cent off wages saves about £140 million in current year; and each 1 per cent off total costs saves £330 million in current year.

12. Take nationalised industry investment out of PSBR?

Real problem of pressure on resources cannot be solved by changing statistical definitions. Since nationalised industries are part of public sector, their borrowing - for whatever purpose - must by definition form part of public sector borrowing requirement.

13. Private finance for NI investment?

In discussions in NEDC and elsewhere, we have indicated our willingness to consider new financing proposals, provided they can be structured so as to induce improvements in efficiency at least sufficient to offset the extra cost, and provided the finance is raised in fair competition with the private sector.

14. Continuing undershoot on investment plans?

No Government can unconditionally guarantee a particular level of investment by the nationalised industries. Events outside industries' control may cause investment plans to be revised downwards. Industries substantially undershot investment plans in 1981-82 and look like doing similarly in 1982-83 (by about £700 million - excluding BNOC). Even so, actual investment this year expected increase about 14 per cent over 1981-82 levels (allowing for privatisation, changes in BT's treatment of certain investment, and excluding BNOC and BTDB). PM has encouraged industries to fulfil their investment plans. If they do, investment in 1983-84 should increase by about 12 per cent over this year's estimated outturn (excluding BNOC).

PRIVATISATION

15. Special asset sales in 1982-83?

Estimated outturn for 1982-83 around £550 million. Full details of this year's receipts will be published after end of financial year. Sale of Britoil completed and will amount to about £625 million, paid partly in 1982-83 and partly in 1983-84. Wytch Farm disposal is still proceeding [IF PRESSED: but is unlikely to be completed this financial year.] For sale of ABP see R19.

16. What further sales expected?

Sale of British Gas Corporation's major offshore oil assets expected in 1983-84. Government have announced plans to transfer British Telecom and British Airways to the private sector in due course.

17. What sales included in special asset sale targets for future years?

[PEWP 1983 has targets of £750 million (previously published target £600 million) in 1983-84, £1500 million (previously £600 million) in 1984-85 and £500 million in 1985-86, for proceeds from special sales of assets.]

Not practice to disclose details of composition of targets because timing of sales dependent on market conditions and price information commercially sensitive. changes from 1982 PEWP reflect decisions on privatisation since last targets published, and make allowance for additional disposals likely to arise from continuing scrutiny of potential candidates for privatisation.

18. Marketing of public assets - Amersham and Britoil failures in different ways?

[Heavy oversubscription for British Aerospace, Cable and Wireless, Amersham International, followed by large increases in prices when shares first traded; about 75 per cent of Britoil shares left with subunderwriters and large discount when first traded].

No. These companies successfully privatised. Pricing an issue not easy especially when company's shares have not previously been traded. In addition, cannot accurately anticipate movements in market after price fixing but while offer still open.

19. Associated British Ports 'giveaway' like Amersham?

NB Comment, except factual, to be avoided during offer period - until 11 February.

On 2 February announced offer for sale of 19.6 million ordinary shares of Associated British Ports Holdings plc at 112p per share; application list to open and close on 9 February.

20. Contribution to giving people satisfaction of property ownership?

Exercise of returning enterprises from State ownership to ownership by the public has included measures to promote employee share ownership in the enterprise they work for; for example free offers of shares (British Aerospace, Cable and Wireless, Amersham, Britoil); preference in allocation of shares (B Ae, C & W, Amersham, Britoil, BP); provision for matching shares - one for each share subscribed for - (B Ae, Amersham, Britoil, BP). Most radical initiative taken by consortium of managers and employees who bought National Freight Company. Inclusion of small shareholders' bonus in Britoil sale designed to reward small investors who retain an interest in the company.

S NORTH SEA AND UK ECONOMY

1. New forecast of North Sea revenues?

[Autumn Statement (Industry Act forecast) projections (in money of the day) of Government revenues from North Sea: £6½ billion in 1981-82, £7 billion in 1982-83, £7½ billion in 1983-84. Higher than 1982 FSBR projections, partly because of higher production, partly higher oil prices. P&D as reported in The Times 4 January assess Government revenue will peak in 1983-84. Aberdeen University computer runs see sharp falls The Times 31 January.]

Must remember that oil revenue projections are crucially dependent on inherently uncertain cost, price and production assumptions. Prospects for North Sea tax receipts have improved since 1982 FSBR because of higher than assumed oil prices and production. New projections assume oil prices do not change much from present levels. In general, higher estimates by others are based on combination of higher expected future production and prices and lower expected future capital expenditure.

2. Impact of lower oil prices on UK?

Lower oil price, on balance, good for UK. Large disruptive movements in any direction are in no one's interest. But modest and gradual fall would reduce inflation and boost growth - both good for us. Trade balance effect relatively modest, and fall in $/£ rate since autumn enough to offset effect on revenues of a significant fall in oil prices.

3. Will UK Government reduce North Sea oil prices?

North Sea oil prices are for BNOC to decide on. BNOC is a pricetaker, not price maker. It follows the market, it does not lead it.

4. Government to relax North Sea fiscal regime?

Oil companies have argued for substantial reductions in taxation. No decisions have been taken. But fact-finding discussions have been taking place with UKOOA and individual companies since the summer to try to close the gap between Government's and companies' assessment of North Sea taxable capacity. These discussions will soon be concluded.

5. Onerous tax system damaging future field developments?

[Energy Select Committee report published 27 January on depletion policy claims North Sea tax regime inhibiting development. Recommends overhaul of tax regime].

Will obviously study report carefully. But remember that other adverse factors - falling oil prices earlier this year; high development costs - much more important than tax. Detailed study has shown that, under current tax structure, levels of profitability should still be sufficient to make exploration and development attractive. Hope that this structure will provide more secure and stable tax regime. A completely new regime would not necessarily

be more stable. Certainly disruptive in short term. Aberdeen University study shows UK taxation on marginal fields to be one of world's 'more lenient'.

6. Taxation of petrochemical feedstocks

[Government has announced that new rules on valuation of ethane for petrochemical use in interaffiliate transfers (Finance Act Section 134) should be extended to mixed streams of gas with a large ethane component. ICI complain that the extension and the rules themselves give unfair advantage to their integrated oil company competitors and have taken out writ against the Government.]

Government convinced that new formula will give fair valuation. New valuation will not have effect of providing subsidy to ICI's competitors. Have done best to reassure ICI. Will resist ICI's legal action.

7. Benefits of North Sea should be used to strengthen economy?

[Contribution of North Sea to GNP estimated at 4 per cent of GNP in 1981. Not projected to rise significantly before 1985.]

Yes. Government's strategy derives greatest possible long-term benefit from North Sea. Revenues ease task of controlling public borrowing. This will help to achieve lower level of interest rates to benefit of industry and economy as a whole. Without North Sea revenue other taxes would be higher or public expenditure lower. But keep revenues in perspective. Less than 6 per cent of total General Government receipts in 1982-83.

8. Are we really any better off for North Sea oil?

We are better off with oil - at current oil prices - than we would have been without it. We have been spared fall in real national income that other industrial countries have suffered following oil price rises. But North Sea oil costly to produce, so we are not necessarily any better off than we would have been had oil prices not risen. No need therefore for possession of oil to require a contraction in our industrial base.

9. 'Precipitous drop' in North Sea output after 1985?

[Phillips & Drew forecast of oil output almost halving between 1985 and 1990 - FT 4 January.]

Hazardous to forecast so far ahead. But always known that oil output would peak in mid-1980's and then decline - though not as steeply as P&D expect. Cannot be complacent about effects of falling North Sea output. Best thing we can do is pursue our present economic policies so that economy in better shape when output begins to decline.

T WORLD ECONOMIC DEVELOPMENTS AND INTERNATIONAL FINANCE

1. World recovery under way?

[Article The Times 3 February quotes number of examples in Europe and US where leading indicators have begun to turn around, suggesting world on brink of recovery.]

Welcome early but still tentative signs that are beginning to emerge of the recovery in prospect. Now that inflation and interest rates have been brought down, forecasts point to recovery in output for the industrial countries of around 1-2 per cent this year. Progress on inflation should ensure recovery is soundly based and sustainable.

2. Prospects for US economy?

[US GNP fell ½ per cent in 1982 Q4, bringing fall for 1982 as whole to 1.8 per cent. This was largest annual fall in post-war period. Administration expects growth of 1.4 per cent in 1983.]

Fall in US GNP was disappointing although not unexpected, as OECD had earlier forecast decline of similar magnitude in 1982. Most forecasters expect gradual recovery in 1983, helped by falls in inflation and interest rates.

3. US Budget

[US Administration forecasts budget deficits ranging from $207 billion in current FY to $300 billion in FY 1988 if no action taken. Administration has proposed package of measures aimed at reducing deficit, including freeze on Federal expenditure, structural reform of social security system and $45 billion cuts in defence expenditure. These would reduce budget deficit to $189 billion in FY 1984 and $117 billion in FY 1988.]

Share Administration's concern over potential size of budget deficit. Glad to see Administration's proposals to reduce public sector deficit over medium term. In line with UK's fiscal policy as set out in MTFS. Vital for world recovery that Administation and Congress can agree quickly on firm measures to reduce deficit if US interest rates are not to rise again, as economy recovers.

4. US monetary policy

[At end of last year Federal Reserve suspended M1 target and raised M2 target to 9½ per cent, at annual rate, over last few months of 1982. (Original M2 target, set in February, was for growth within 6-9 per cent range; M2 growth in Sep-Dec 1982 exceeded range but was broadly in line with revised target). Targets for 1983 not yet announced: expected in February. Administration's economic report suggest Federal Reserve should pay closer attention to growth of total spending in economy rather than narrow money targets.]

Welcome Federal Reserve's flexible approach but stress that Reserve Chairman, Mr Volcker, has made clear that reduction of inflation remains priority and that monetary targets have not been abandoned. Mr Volcker also stressed that Budget deficits must be reduced if interest rates are not to rise again as economy recovers.

5. Anti-inflation policies are working

[Consumer price inflation down from a year ago in all 7 major economies on latest available figures: US (from 8.9 to 3.9 per cent), UK (12.0 to 5.4 per cent), Japan (3.6 to 2.3 per cent), Italy (17.9 to 16.3 per cent), Canada (12.1 to 9.3 per cent) France (14.0 to 9.7 per cent), Germany (6.3 to 4.6 per cent).]

UK performance in bringing down inflation in past year as good as any, and better than most of our major trading partners. Falls in inflation together with falls in interest rates offer better prospects for recovery this year.

6. World financial crisis 'over'?

[Mr Leigh Pemberton reported (FT 30 December) as saying international financial crisis is over, but it is still a very serious situation which will take several years to solve. Mr Baer (Zurich banker) reported in Guardian 4 February as saying crisis not over and may not yet have reached climax.]

Most major debtors now undertaking adjustment programmes - often with IMF assistance. They may of course remain convalescent for some time, but we now have the measure of the problem. There have also been moves to improve banking supervision, and banks themselves are improving their information flows.

7. Enlarged GAB

[G10 Ministers met in Paris on 18 January to discuss, inter alia, what role an enlarged GAB (General Arrangement to Borrow) might play in augmenting IMF resources.]

G10 Ministers have agreed, subject to necessary legislative approval, that GAB should be increased from $76 billion to $196 billion. Participants' shares in GAB have been adjusted to reflect better their size and role in the world economy. UK share will be 10 per cent. Switzerland is to become a full member. At times when balance of payments position could threaten stability of international monetary system, GAB will be available not only for participants but for any IMF member that agrees a conditional programme with the Fund.

8. Increase in IMF Quotas

IMF has particularly important role in present circumstances in providing finance to countries while they go through necessary adjustments. Essential that IMF has adequate resources. UK has suggested increase of at least 50 per cent in IMF quotas and has played constructive part in building present international consensus on need for progress on Quota Review.

9. IMF Interim Committee?

[Interim Committee meeting in Washington 10-11 February. Chancellor, as Chairman, proposed meeting be brought forward from late April, because of importance attached to international community increasing IMF resources, and progress already made in discussions between members.]

There are of course differences in opinion between members of Interim Committee about how IMF resources should be increased, and a lot of note widespread recognition of need to reach agreement. c hard bargaining remains to be done. But good to

10. Chancellor's thoughts on strategy for world economic recovery

As told TCSC 31 January, sees four major elements: major countries need to continue collectively to pursue prudent monetary and fiscal policies; within overall framework of prudent policies countries need to ensure that balance of their individual policies is right; need for adjustment by major debtors; need to avoid protectionism.

~~forward from late April to 10-11 February. We hope that an early and satisfactory agreement can be reached.~~

COMMENTARY ON RECENT ECONOMIC DEVELOPMENTS AND STATISTICS
7 FEBRUARY 1983

Summary comment

The effective exchange rate has fallen by about 12 per cent since October and interest rates have risen 2 points since end November. However, the direction and the consistency of policy are unchanged. GDP remains flat and manufacturing activity is below 1982 trough levels. RPI inflation fell to 5½ per cent in December and 5 per cent is confidently expected in the next few months. This year, a modest rise is expected in both GDP and in manufacturing output.

World Economy: expectations held by most forecasters for an upturn in activity of 1 per cent last year unfulfilled. A modest recovery in world trade is expected this year.

- world commodity prices are at their lowest level in real terms for thirty years;

- oil prices are weak and likely to remain so for the near future;

- consumer price inflation (OECD major 7) 5½ per cent in December ranging from 16 per cent in Italy to 4½ per cent in Germany and 2½ per cent in Japan;

- average world 3-month interest rates 9½ per cent at 31 January a fall of 4½ points between January 1983 and October 1981; US 3 month rate stood at 8.75 per cent on 31 January;

- world trade volume (weighted by UK markets) fell by some 2-3 per cent in 1982;

- total industrial production for the OECD Major 7 fell 5½ per cent in the twelve months to November; in the US it fell by 6 per cent in the 12 months to December;

- unemployment (OECD total) 8.7 per cent in October compared with 6.7 per cent for average 1981.

UK Balance of Payments: non-oil trade balance has deteriorated quite sharply but current account remarked in stronger surplus during 1982 than forecast in IAF. Both the loss of competitiveness during 1979 and 1980 and a smaller world market are affecting our non-oil

ade but the volume of exports held up well in 1982 and are unlikely to fall below their 1981 levels.

. OPEC and Third World countries are cutting back on imports because of low commodity prices, high interest rates and debt problems in some countries.

. import volume rose sharply as activity recovered in 1981 and import penetration rose too; in 1982 non-oil import volumes showed little change on 1981 H2.

. the effective exchange rate closed at 81.0 on 4 February. Pound now below both 87-93 range occupied for the last year and May 1979 level (86.3).

Financial Developments

.Monetary aggregates within target range for 1982-83, M1 and £M3 towards top of range, PSL2 towards bottom;

.most banks raised base rates by 1 point on 11 January (to reach 11 per cent) following similar increase on 26/29 November; short term interest rates down 5½ points since October 1981; base-rates down about 5 points;

.mortgage interest rates down to 10 per cent, first time since 1978;

.real interest rates remain clearly positive (higher real rates are being experienced in the US and Japan);

.CGBR £10½ billion in 9 months to December.

.PSBR: £5.3 billion in 9 months to December; Industry Act Forecast of £9 billion in 1982-83 now at upper end of range of likely outcomes.

.Underlying fall in the reserves during January was $359 million.

Inflation

.retail price inflation, 5.4 per cent in year to December. Prospect of 5 per cent in next few months.

.TPI increase in 12 months to December was 5.8 per cent;

.Wholesale price inflation: input prices up 9.1 per cent in year to January compared with 8.0 per cent in December following higher oil prices due to sterling depreciation against the dollar; output prices up 7.4 per cent in year to January. (Lowest increase since July 1978.)

GDP and industrial production

.GDP(O) rose slightly in Q3 1982 for second successive quarter but remains at Q4 1981 level. Construction output in 1982 Q3 was 3 per cent up on previous quarter and 2 per cent higher than in 1981 Q3. Underlying level of industrial production also remains broadly flat but is 2 per cent above spring 1981 trough almost entirely due to increased oil and gas production; the underlying level of manufacturing output is slightly below its trough level and there are clear indications of a declining trend during 1982.

Demand Components

.consumer spending held up well during the recent recession and has continued to strengthen since 1982 H1. Some fall in RPDI (see below personal sector) offset by lower savings ratio. Retail sales rose 2 per cent in December on previous month and in 1982 as a whole were 2½ per cent up on 1981, partly reflecting abolition of HP controls. Consumers' expenditure in Q4 1982 (provisional) 1½ per cent up on previous quarter (this is being reflected in the relative buoyancy of the consumer goods industries) and, in 1982 as a whole was 1 per cent above its 1981 level.

.gross fixed investment recovered slightly in 1982 Q3 from a disappointing second quarter and in the first three quarters of 1982 was 3 per cent up on same period in 1981, but 8½ per cent below its average 1979 level. Manufacturing investment has been weak but is responsible for only 30 per cent of total investment by manufacturing, distributive and service industries.

.destocking of £37 million (at 1975 prices) occured in 1982 Q3. Stocks are volatile and one quarter's figures should not be over emphasised;

.government consumption is virtually flat. In 1982 Q3 it was 1½ per cent up on the preceding quarter and on its level in the same period last year;

.non-oil exports held up well in 1982 against a 3 per cent fall in world trading activity;

.imports rose very sharply between the two halves of 1981, reflecting both the increase in activity and increased import penetration, before stabilising but non-oil import volumes this year have shown little change since 1981 H2.

Productivity and Competitiveness

.manufacturing productivity continues to rise - at 2¼ per cent in year to Q3 1982. Productivity now 13 per cent up on end 1980;

.manufacturers' unit wage/salary costs up less than 6½ per cent in 3 months to November 1982 on a year earlier;

.Cost competitiveness has improved some 20 per cent since early 1981, but remains around 10 per cent worse than in May 1979 (whole of this deterioration is attributable to excessive wage costs).

Company Sector

.ICCs pre-tax real rates of return on capital in 1981 were very low; only 2 per cent in the manufacturing sector. Some slight improvement likely this year.

.after falling in first quarter of 1982 gross trading profits (net of stock appreciation) of ICCs rose in the third quarter by 4¾ per cent; and in first 3 quarters of 1982 were 11½ per cent up on their average 1981 level;

.non-North Sea profits fell 4¼ per cent in Q3 1982 on previous quarter but in first three quarters of 1982 were 13¾ per cent up on their average 1981 level;

.gross profits of North Sea oil companies in the first 3 quarters of 1982 were 8 per cent up on their average 1981 level;

.ICCs financial surplus was £0.5 billion in six months to September 1982 following deficit of £0.3 billion in previous six. Over same period net borrowing requirement fell from £9.1 billion to £4.0 billion.

.working days lost through industrial stoppages estimated at 85,000 in December, lowest monthly figure for last two years. Total for whole of 1982 (7.9 million) well below average of 12 million for last ten years.

.insolvencies: provisional totals for 1982 are 5.707 bankruptcies and 12,039 company liquidations, increases of 11 per cent and 40 per cent on 1981.

Personal Sector

.wage settlements in 1981-82 were on average around 7 per cent, 2 per cent lower than in the previous round;

.underlying rate of increase in average earnings in year to November 1982 was about 8½ per cent, lowest rate of increase since November 1977;

.CBI reports that pay settlements in manufacturing industry averaged 6.1 per cent in 1982 Q4 compared with 6.8 per cent in the third quarter. Bulk of settlements will occur in 1983 H1;

.real earnings broadly flat in last 12 months but RPDI in the third quarter is about 2¾ per cent lower than the average for 1981.

Labour Market

.UK employees in employment fell 2.2 million (9¾ per cent) between 1979 Q2 and 1982 Q3 (almost two-thirds concentrated in manufacturing); between 1981 Q3 and 1982 Q3 employment fell by 702,000; manufacturing employment fell a further 73,000 (1¼ per cent) between 3 months to November 1982 and preceding 3 months;

.total employees in employment fell more in the third quarter of 1982 (205,000) than in the previous quarter (188,000);

.total registered unemployment rose by 128,000 to 3.22 million (13.8 per cent on the new basis) in January; two thirds of the increase is estimated to be seasonal;

.UK adult unemployment rose by 35,000 to 2.98 million (12.8 per cent) in January; the underlying rate of increase remains broadly steady at about 30,000. Notified vacancies increased by 4,000 to 122,000 in January but volume of vacancies remain at very low levels;

.notified redundancies fell by 11,000 in December to 62,500;

.other labour market indicators hours lost through short time working has increased steadily since July 1982 to the levels prevailing in 1981 Q4 and 1982 Q1. Hours of overtime worked remain broadly flat.

rward Indicators

.car production (seasonally adjusted) rose to 76,000 in December from 66,000 in November while commercial vehicle production fell from 24,200 to 22,700 (sa); new car registrations (not seasonally adjusted) in 1982 were about 5½ per cent up on 1981; in January 1983 was the best January on record. New commercial vehicle registrations rose 6 per cent between 1981 and 1982.

.steel production (seasonally adjusted) fell in December and in 1982 Q4 the weekly rate of production fell 10 per cent and was 32 per cent down on same period in 1981;

.the volume of new construction orders, which remained broadly flat since the first half of 1981, rose 8 per cent in 3 months to November, and were up 6 per cent on a year earlier. Engineering orders rose about 1¼ per cent in three months to October compared with previous three months;

.Latest DOI investment intentions survey suggests a 3 per cent fall in manufacturing investment between 1982 and 1983 but other components of investment (distribution and services) are more encouraging;

.total manufacturing order books, as monitored in the CBI's monthly industrial trends enquiry, after strengthening last year, have shown some decline; and export order books have weakened.

.total housing starts have been broadly flat in the last nine months but in 1982 as a whole were about 27 per cent up on 1981. Total completions in 1982 Q4 recovered slightly from their level in the middle of 1982 but in the year as a whole were about 14 per cent down on 1981;

.a sharp seasonal rise in unemployment occurs in January thereafter headline total should remain flat till May;

.CSO's index of longer leading indicators fell in December after 9 months of increase reflecting the rise in interest rates and the decline in share prices.

CBI's January (Quarterly) Trends Survey was much improved on recent surveys, the strongly reduced negative balance on the business optimism questions being particularly encouraging though the Survey confirms that manufacturing output and orders remain depressed, some

parts of manufacturing (particularly consumer goods industries) seem more buoyant. The CBI themselves stress that improved productivity and continued progress in reducing cost and price inflation are "signs of longer term improvement in the state of UK manufacturing industry."CBI November forecast projects GDP(O) growth at 1¼ per cent next year with manufacturing investment contracting. Also assumes £2½ billion fiscal adjustment in 1983/84 whereas IAF suggests £1 billion.

Outside forecasts

.Outside forecasting groups are now less optimistic about recovery in 1982, suggesting that growth this year will be ½-1 per cent - about ½ per cent less than expected at Budget time; for 1983 consensus of outside forecasts around 1½ per cent, assuming some recovery in world economy, with inflation/interest rates falling at least for some time this year.

Industry Act Forecast

NB. November IAF will be superceded by Budget Forecast (on March 15); latter will take full account of economic developments since November Forecast was prepared. Undue emphasis on precise figures in November IAF no longer appropriate.

.Treasury forecast published November 8th assumes a modest (2 per cent) world recovery in 1983. Forecast includes a £1 billion fiscal adjustment in 1983-84 within a fiscal/monetary stance broadly in line with 1982 MTFS. Between 1982 and 1983 GDP grows by 1½ per cent. Principal demand increases are from consumers expenditure and capital investment. Reflecting strong import growth balance of payments current account goes to zero in 1983. RPI inflation is about 5 per cent in early 1983. Government Actuary assumes unemployment (old basis) averages 2.9 million (GB, ex school leaver) in 1982-83 and 3.2 million in 1983-84. On new basis figures could be up to 200,000 lower.

Key Statistics Week-Ending Friday 11 February

Mon 7	:	Wholesale prices (Jan)
	:	Retail sales (Dec - final);
	:	Credit business (Dec)
	:	Housing starts and completions (Dec)
Tues 8	:	Monetary aggregates (Jan - prov)
Wed 9	:	CGBR (Dec)
Thurs 10	:	Vehicle production (Jan - prov)
Fri 11	:	Retail price index (Jan)
	:	Tax and price index (Jan)
	:	Building Societies figures (Jan)
	:	Steel production (Jan)

Economic Outlook 1982 – 1986

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Contents

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Forecast Summary

We expect the recent fall in the pound to halt the decline in manufacturing industry and help generate a modest upturn this year. Total output is expected to be 1¼ per cent higher than in 1982 while consumer price inflation falls to under 6 per cent year on year.

The situation in world and UK financial markets has changed significantly since the middle of last year: the oil price has weakened and sterling has fallen with it; interest rates worldwide are some 3 points lower and US rates have fallen by almost twice as much; the dollar is down from its 1982 peak and the US monetary authorities have indicated that they will pursue more accommodating policies. It could be as much as 6 months before we see a reaction to these changes in the real economy, but the prospects for world recovery in 1983, especially the second half of the year, now seem assured. We expect world GNP to rise by 2¼ per cent in the course of the year, with world industrial production rising about twice as fast.

Although the latest industrial news in the UK is bad, with stocks being run down and output falling, the conditions for revival are in place. The recovery of profits, already evident in the third quarter, will be sustained this year by the recent fall in the exchange rate and the financial position of companies has been further improved by the liquidation of stocks which occurred at the end of last year. If, as we expect, the recent surge in demand is sustained in the second half of the year by a moderately expansionary Budget, producers will not go on running down stocks as they have in recent months. The improvement in company liquidity and a narrowing gap between borrowing costs and expected inflation will, as output begins to rise, encourage some modest restocking by the end of the year.

If output recovery is led (rather as in 1981) by a stock turnround, the essential underpinning is the forecast growth of consumption. Consumers' expenditure was 3 per cent above mid-year levels by the end of 1982. We expect it to hold that level in the first half of this year, and then grow again in the second half, helped by the Budget. We do not expect the recent sharp fall in the savings ratio, financed by bank borrowing, to continue. The growth of consumption in 1983 reflects real income growth.

A high proportion of the extra demand is met by imports, which are forecast to rise by nearly 6 per cent during the year despite the fall in the pound. Export growth is considerably below this – the world recovery is sluggish at first and the recent improvement in competitiveness is slow to take effect. Net trade thus has a strong negative influence on demand. Since we also expect the terms of trade to be worse following sterling's depreciation, a sharp deterioration in the current account is in prospect. Nevertheless, given the size of the surplus at end-1982 we do not expect an external deficit to emerge this year.

The recovery of output in 1983 takes place against a background of falling inflation. In 1982 public spending and borrowing was below target and the monetary aggregates were under control. Inflation worldwide was falling and in the UK retail prices rose nearly 3 per cent less than officially forecast at the time of the Budget. Partly as a consequence, wage settlements at the start of the 1982-3 wage round have been moderate and this, together with continued labour-shedding, will exert downward pressure on prices in the first half of the year. Our inflation forecast for 1983 has thus been revised downwards despite the fall in the exchange rate.

In later years we expect inflation to accelerate – 1983 is the low point in the present inflation cycle – as the recovery gathers pace and the effects of the depreciation feed through. In the medium term our forecast, based on a continuation of present policies, is that the financial background remains tight. The increase in taxes and social security contributions over the life of the government, the slow past and projected growth of public spending volumes, and the recent favourable movements in public sector wage relativities are such that the government can afford to cut income tax rates and still reduce the share of public borrowing in GDP. Hence we expect monetary growth in single figures despite last year's fall in interest rates and a mildly expansionary Budget. Given this fiscal and monetary background we do not expect sterling to be far below present levels by 1986, even though sudden changes of sentiment in the election period may cause substantial short term movements.

Our forecast of a broadly stable exchange rate means that UK inflation in the medium term is closely linked to world inflation. At present worldwide destocking is exerting downward pressure on prices, especially of oil and other raw materials. We expect the real oil price to fall until the end of next year, and we are also forecasting that a weaker dollar will help contain costs. Against this favourable background we expect

UK inflation to remain below 8 per cent over the period.

The savings ratio tends to follow the inflation rate, and although we expect some short term rise in the ratio from the low fourth quarter level, in the medium term it settles down at around 9½ per cent. Changes in the savings ratio – especially large in recent years – are thus not an important influence on consumption from now on. Output is sustained by steady growth of real incomes and consumption at about 2 per cent per annum, helped by repeated cuts in the standard rate of income tax and the gradual abolition of the National Insurance Surcharge. The delayed effects of the recent fall in sterling also boost output slightly in later years, as net trade makes a small positive contribution to aggregate demand. This sustains output growth once the initial impetus from the stock turnround peters out.

Our medium term forecasts of steady recovery and, by the standards of the 1970s, low inflation, are based on the assumption (not a forecast) that the present government is returned at the next election. We assume that it persists with its strategy of reducing public borrowing and keeping a tight rein on monetary growth. We have examined an alternative, more reflationary, strategy coupled with restrictions on imports and wages. This would produce a higher rate of growth of output in the short term, but would, even on fairly optimistic assumptions about the reaction of wages and of financial markets, mean a return to double digit inflation in the medium term. On less optimistic assumptions about the exchange rate and wage behaviour, inflation rises to 17 per cent and output, though initially higher than in our central forecast, is significantly lower by the end of the period.

	1982	1983	1984	1985	1986
GDP (output measure, per cent change)	0.5	1.8	2.0	2.0	1.6
Inflation (consumer prices)	8.0	5.8	7.0	7.5	7.8
Components of Demand (per cent change)					
Consumers expenditure	1.1	2.3	1.5	2.3	2.2
Private fixed investment (excluding dwellings)	2.5	3.3	4.0	1.5	0.1
Public consumption	1.7	0.9	0.6	0.6	0.6
Exports	0.1	1.7	1.5	2.4	1.8
Imports	4.1	4.6	2.0	1.8	1.3
Financial Background					
Public sector borrowing requirement (£bn, fin. yrs)	7.4	9.2	8.4	7.4	6.4
Money supply sterling M3 (per cent change)	10.8	10.5	9.5	10.1	9.6
Exchange rate (trade weighted index, 1975 = 100)	91	81	80	79	7[illegible]
Wages and salaries per employee (per cent change)	8.8	7.3	7.6	9.5	9.5
Average earnings in manufacturing (per cent change)	11.0	8.1	7.2	8.3	8.0
Wholly unemployed (UK, millions, new definition)	2.8	3.1	3.2	3.1	3.1
Balance of payments (£bn)	4.2	1.5	0.0	–0.1	–0.3

Planning Feature

The Forecast in Detail

(1) Recent Developments

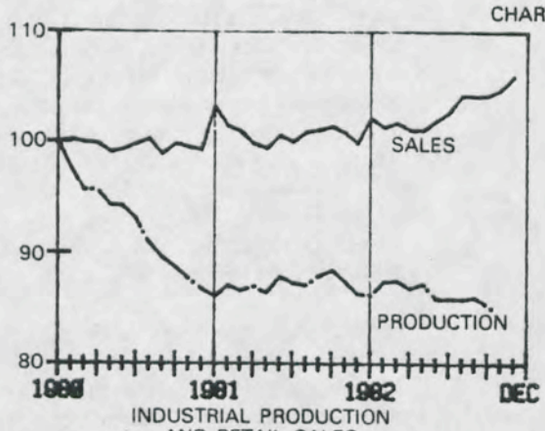
The latest economic statistics continue to show buoyant retail sales – up 4 per cent since June. Yet the rise in demand is not being satisfied by current UK production (Chart 1). Manufacturing output is down by 3 per cent in November compared with a year earlier, while the latest CBI survey gives no indication that the down trend was reversed in December or January. One possible explanation – that the demand is being met by imports – has not so far been borne out by the trade statistics. Imports have been falling as Chart 2 shows.

From the middle of last year industry once again started to run down stocks, and the conjunction of falling output and rising consumption suggests that inventories are still being reduced. One reason for this is that the financial position of companies, after improving steadily in 1981, deteriorated sharply in the first half of 1982, following the steep rise in interest rates in the autumn of 1981 and the subsequent strength of the exchange rate. When put under similar pressure (from similar causes) in 1980 companies reacted by running down stocks at a rapid rate. They reacted in the same way in the second half of last year – the CBI survey (Chart 3) shows an increase (recently reversed) in the number of firms who regard stocks as more than adequate.

Another perspective on these developments is provided by the financial statistics, which show a marked change in the pattern of bank advances in the later months of 1982. Bank lending to persons remains buoyant, but new bank lending to manufacturing industry has fallen sharply. Instead of companies borrowing from the banks to finance their holdings of stocks, consumers have been borrowing in order to buy. Their purchases have been supplied out of stock, and companies have used the cash thus generated to reduce their own borrowing.

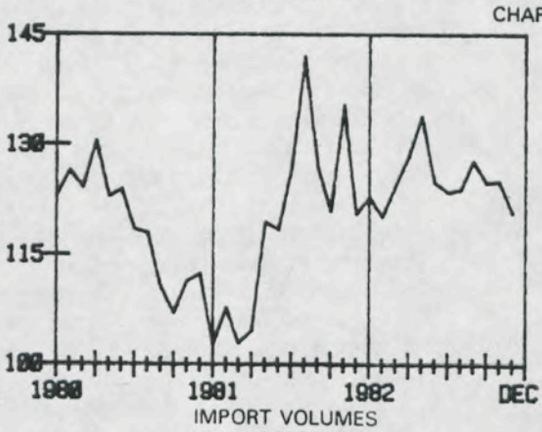
The conjunction of strong consumption and weak output reflects the financial background – strong exchange rate, high interest rates – prevailing in the first half of last year. However, from Budget time onwards the authorities, having maintained a fairly tight fiscal stance, were encouraging interest rates to fall. For a while UK interest rates came down more rapidly than elsewhere, but the balance of payments was in large surplus and the pound remained strong. From the summer onwards US interest rates fell sharply, enabling UK interest rates to come down further without threatening the stability of the exchange rate. However, in November fears of a serious weakening in the oil price surfaced. Additionally, domestic demand in the UK was rising more rapidly than elsewhere. The Chancellor's Autumn Statement implied a balance of payments deficit by the end of 1983. The pound fell sharply on the foreign exchanges and has been weak ever since (Chart 4).

CHART 1



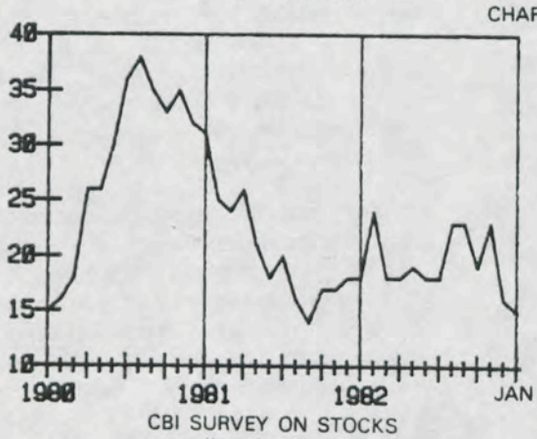
INDUSTRIAL PRODUCTION
AND RETAIL SALES
Jan 1980 = 100

CHART 2



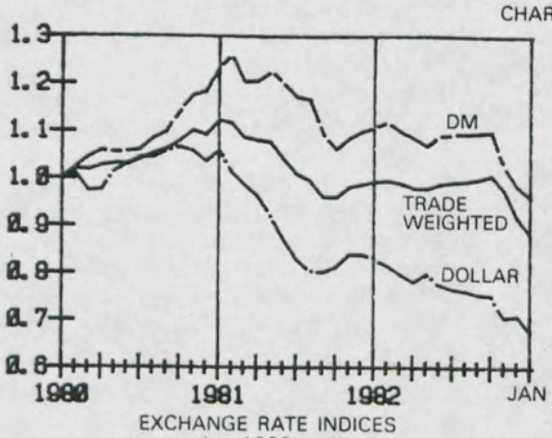
IMPORT VOLUMES
Index 1975= 100

CHART 3



CBI SURVEY ON STOCKS
(Net Balances)

CHART 4



EXCHANGE RATE INDICES
Jan 1980 = 1

The fall in sterling has brought the year-long decline in UK interest rates to a halt (Chart 5). The outflow of capital from the sterling money markets and security markets has meant increased selling of sterling-denominated paper, driving the price down and the yield up. Selling typically starts in the money markets (e.g. of sterling CDs), but arbitrage quickly transmits the upward pressure on interest rates to other security markets. Thus market forces have tended to push up interest rates across the board, whether or not the authorities have sought such a rise to protect the pound.

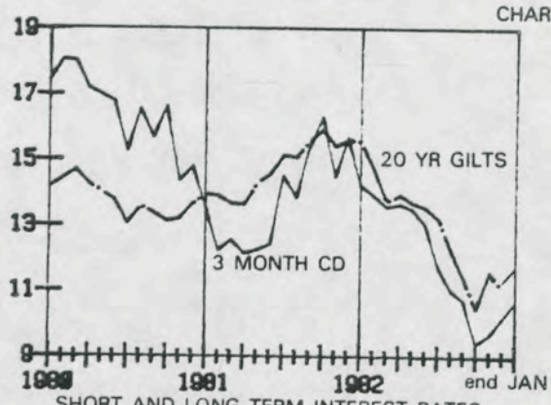
The upturn in interest rates has come at a time when purely domestic considerations would point to stable or falling rates. Public borrowing may undershoot even the downward-revised 1982-3 estimate of £9bn published in the Autumn Statement. Gilt sales continue to exceed immediate funding requirements. Bank lending to the private sector as a whole is still buoyant but the improved financial position of companies has reduced the upward pressure on the money supply, and the growth of the money stock is within target.

The tight fiscal and monetary stance of the past two years is now also being reflected in a convincing fall in the inflation rate (Chart 6). The 6-monthly rate of increase in retail prices, excluding seasonal food, fell from a peak of nearly 10 per cent in April and has been under 5 per cent since October. The 'headline' retail price index has performed even more spectacularly, with the annual rate falling to 5.4 per cent in December. However, the fall in the exchange rate has already started to push up prices at the wholesale level.

Monthly movements in earnings are much more difficult to interpret, since they are affected by the timing of individual wage settlements. However, the statistics show that a sharp drop in the annual rate of increase, from over 10 to around 7 per cent, occurred in August, and evidence from the CBI databank as well as press reports of recent settlements all tend to support the view that a "going rate" for wage increases is now around 7 per cent in the private sector, and distinctly less in the public sector.

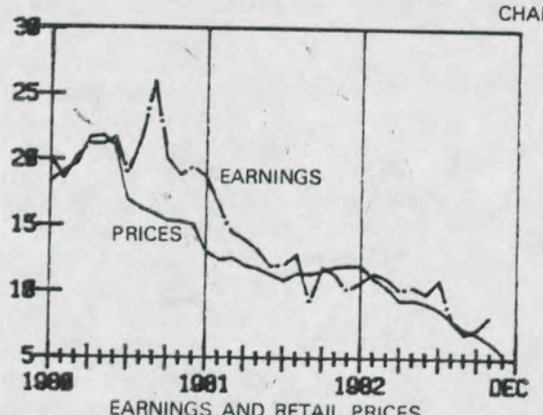
These figures imply that the costs of employing people are (despite the cuts in the National Insurance Surcharge) still tending to rise faster than the price of their output. Employers are still seeking productivity gains and with output flat this is being achieved by releasing labour whenever possible. The sharp rise in unemployment in December-January (Chart 7) indicates that business confidence remained at a low ebb throughout the autumn of 1982, despite a sharp increase in profits in the third quarter. The fall in the exchange rate means that the improvement in profitability should be sustained next year. But the consequent threat of a rise in interest rates is acting as a brake on expansion. Although the financial conditions which were responsible for the weak performance of output in 1982 have changed decisively for the better, producers are not yet persuaded that the upturn in demand is more than a temporary response to the abolition of hire purchase controls and lower interest rates. They are probably looking to the Budget of 15 March for confirmation that demand is likely to remain on its present expansionary path.

CHART 5



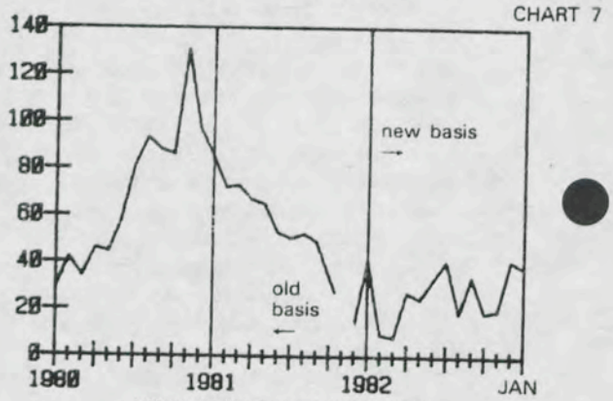
SHORT AND LONG TERM INTEREST RATES
(per cent)

CHART 6



EARNINGS AND RETAIL PRICES
(annual % changes)

CHART 7



UK UNEMPLOYMENT SA EXC.
SCHOOL LEAVERS
monthly changes '000s

(2) Assumptions – Central Forecast

We continue to make our best guesses about likely policy developments rather than assuming 'unchanged' policies. In the central forecast we assume that the broad thrust of policy is unchanged, i.e. we have made the technical assumption *that the present government is returned in the next General Election. But, because an election must be held within the next 15 months, we also consider the medium-term prospects under alternative economic policies. (For details see p. 19.) In the central forecast, therefore, we assume that policy will continue to be guided – though not completely determined – by an extended Medium-Term Financial Strategy (MTFS). For 1983-4 the MTFS requires the PSBR to be 2¾ per cent of GDP at market prices. Given official inflation and output forecasts, the Chancellor is therefore aiming for a 1983-4 PSBR of £8bn (Autumn Statement, p. 13). In the central forecast, however, we have assumed that the Budget of 15 March will give greater weight to the political objectives of cutting income tax and maintaining the attack on inflation, even if this implies slippage from the MTFS targets. Specifically we have assumed that the standard rate of income tax will be cut by 1p, that personal tax allowances will be raised by 12 per cent and that indirect taxes will be raised by only half the amount required for full revalorisation. This amounts to a total tax giveaway (compared with unchanged policy) of £1½ bn and results in a PSBR of just over £9bn, 3.1 per cent of GDP at market prices.*

The Fiscal and Monetary Framework

We forecast that the PSBR will be £7½bn in 1982-3, somewhat below the official projection of £9bn contained in the Autumn Statement, which was itself revised down from the (March 1982) Budget forecast of £9½bn. Thereafter, given our Budget and election assumptions, the PSBR rises to £9-9¼bn in 1983-4 before declining again in 1984-5 and later years. By 1986-7, the continuation of present policies implies a PSBR of 1¼ per cent of GDP at market prices. But even so our forecasts lie above the MTFS projections – at present the MTFS only goes as far as 1984-5 – and this is because we assume further cuts in income tax and the national insurance surcharge in the medium term. Given our forecasts of the likely growth of public expenditure and the rise in North Sea oil taxation these cuts are consistent with the PSBR declining as a share of GDP, but from the higher base level of 1983-4.

The downward trend of interest rates has been interrupted by the weakness of sterling, even though fiscal and monetary policy remain fairly tight. The Chancellor has announced that he does not intend to raise interest rates again to defend the pound. We interpret this to mean that interest rates will be guided principally by domestic monetary conditions. Since monetary growth is currently inside the MTFS guidelines we forecast that there will be further cuts in interest rates during 1983. Thereafter we expect economic recovery, together with the relaxation of fiscal policy, to increase the demand for credit more rapidly than the supply of savings and this will lead to higher interest rates in 1984. This combination of fiscal policy and interest rates is forecast to keep the growth of the money supply (£M3) in the 9-11 per cent range over the next four years.

Table 1
Summary of Fiscal and Monetary Assumptions

Financial years:	82-3	83-4	84-5	85-6	86-7
PSBR					
£bn	7.4	9.2	8.4	7.4	6.4
% of GDP at market prices	2.7	3.1	2.6	2.1	1.7
Short-term interest rates	11.1	9.3	10.8	11.6	11.6
Percentage growth in money supply during financial years	11.2	8.7	10.4	9.7	9.3

In Table 2 we summarise the effects on the PSBR of the main tax changes that we have built into the forecast. This table compares the PSBR in our central forecast with the PSBR that we would have forecast had we assumed Rooker-Wise (5.4 per cent) indexation of income tax allowances on March 15 as well as in all future years; similarly, full revalorisation of indirect taxes in all Budgets, no cuts in the rate of income tax and no further cuts in the national insurance surcharge.

In the first, second and third lines of Table 2, we

Table 2
Effects of assumed income tax and NIS cuts on the PSBR
(£bn)

Financial years:	83-4	84-5	85-6	86-7
Cumulative (ex post) effect of cuts in income tax and NIS rates on:				
Income tax	−1.5	−2.3	−3.1	−5.0
National Insurance Surcharge (NIS)	–	−0.6	−2.1	−2.3
Total income tax plus NIS	−1.5	−2.9	−5.2	−7.3
Cumulative net effect on other government receipts and expenditure	+0.3	+0.8	+1.3	+1.9
Total net effect on PSBR	1.2	2.1	3.9	5.4
add PSBR without policy changes	8.0	6.3	3.5	1.0
gives PSBR forecast from Table 1 (which is after allowing for tax changes)	9.2	8.4	7.4	6.4

measure the 'ex-post' effects on income tax and National Insurance Surcharge revenue of the assumed cuts in these taxes. These 'ex post' effects are generally less than the 'ex ante' effects (sometimes called 'exchequer costs'). This is because 'ex post' effects allow for the impact on tax revenue of rises in income and demand that occur as a result. The fourth line shows the net effect of increases in other government revenue, and decreases in government expenditure, caused by the cuts in income tax and National Insurance Surcharge. All effects are cumulative.

Table 3 shows that in the central forecast, which includes the cuts in income tax and National Insurance Surcharge, the PSBR as a percentage of GDP is rather above the MTFS guidelines in the 1983-4 and 1984-5 financial years. However our estimates on 'unchanged policies' show a PSBR very close to the MTFS guidelines. This suggests that, given our government expenditure assumptions, the 1983 Budget will have to be broadly 'neutral' in its effect on tax revenue to achieve the MTFS guideline for the PSBR as a percentage of GDP.

Corresponding to the PSBR projections Table 3 also shows that we expect monetary growth (£M3) to stay within the target range in 1983-4 but to move above the range as output picks up in 1984-5. On unchanged policies, however, monetary growth remains just within the target range in 1983-4 and 1984-5.

Table 4 brings together the main elements of public expenditure and compares our forecast with the new Public Expenditure White Paper (Cmnd 8789). It shows that for 1982-3 we still expect total public expenditure to undershoot the downward revised target. This undershooting is not, however, maintained in the future. We expect expenditure to increase by about 8 per cent in cash terms in 1983-4 and this takes expenditure a little above the official plans. In 1984-5 and 1985-6 the gap widens further. This is because we expect inflation to pick up again in these years without, we assume, any corresponding offset to the volume of public expenditure.

Table 3
Government MTFS and LBS forecast compared

Financial years:	82-3	83-4	84-5	85-6	86-7
PSBR as percentage of GDP at market prices:					
Official guideline (MTFS)	3½	2¾	2	n/a	n/a
LBS estimate					
without policy changes	2.7	2.7	2.0	1.0	0.3
with policy changes	2.7	3.1	2.6	2.1	1.7
Percentage growth of money supply during financial years:					
Official guideline (MTFS)	8-12	7-11	6-10	n/a	n/a
LBS estimate					
without policy changes	11.2	8.1	9.3	8.0	6.6
with policy changes	11.2	8.6	10.4	9.8	9.3

n/a = not available

Table 4
Government expenditure
(£bn cash)

	Financial years:	82-3	83-4	84-5	85-6	86-7
	Government plans (Cmnd 8789)					
1.	Planning Total (includes contingency reserve)	113.0	119.6	126.4	132.3	n/a
	less effect from:					
2.	Special sales of assets gives:	–0.6	–0.75	–1.5	–0.5	n/a
3.	Planning Total (exc. asset sales)	113.6	120.3	127.9	132.8	n/a
	LBS forecasts:					
4.	Planning Total (exc. asset sales)	112.4	121.3	131.1	142.2	154.0
	Difference between Government and LBS					
5.	Line 4 minus line 3	–1.2	1.0	3.2	9.4	n/a

n/a = not available

Tax and Public Expenditure Assumptions in Detail

A. Taxes

(1) *Personal income tax.* We have assumed that the Budget of March 15 will increase personal tax allowances and bands by 12 per cent, compared with the statutory obligation (Rooker-Wise) of 5.4 per cent. The 6.6 per cent additional increase, when added to the 2 per cent supplement in the 1982 Budget, means that over half of the 1981 Budget shortfall – there was no increase in personal tax allowances when normal indexation requirements would have meant an increase of 15.1 per cent – will have been made good. We assume that subsequent Budgets will only implement the statutory increase. As a result allowances are increased by 6 per cent, 7½ per cent and 7¾ per cent in each of the financial years 1984-5 to 1986-7, respectively.

The standard rate of income tax has not been changed since 1979-80. We assume cuts as follows:

Standard rate of income tax %	
1983-4	29
1984-5	28
1985-6	27
1986-7	25

(2) *Corporation tax* (excluding North Sea oil-related receipts). We assume no change in the rate of corporation tax. Receipts of this tax depend on past profits and on a complex system of allowances. We expect only a small rise in the coming financial year and larger increases after that.

(3) *Indirect taxes* (VAT and specific duties). We assume no change in the 15 per cent rate of VAT. We are, however, departing from our usual assumption of complete revalorisation of specific duties. This is because the recent deceleration in retail prices means that the inflation rate is likely to start rising again in the run up to the next election. We believe the Chancellor will seek ways of stemming this rise, and we assume that he will put up duty rates by only half the amount needed for full revalorisation. In future years we assume full revalorisation of all duties. However, expenditure on dutied goods – cigarettes, spirits, etc. – has tended to fall as a share of total spending and the ratio of indirect taxes to current price consumption is therefore forecast to fall slightly over the next four years.

(4) *National Insurance Contributions* (including the surcharge). We assume no change in National Insurance contributions from the rates announced in the Autumn Statement and which come into effect in April. The National Insurance Surcharge (which is treated as an indirect tax in the national income accounts) was reduced in the 1982 Budget from 3½ per cent to 2½ per cent. But because the earliest practicable date at which the cut could be implemented was 2 August 1982, the Chancellor announced a further ½ per cent reduction for the period of August 1982 to April 1983. Additionally, in the Autumn Statement, the Chancellor announced that the 2 per cent rate would apply retrospectively to the whole of 1982-3 and that employers in the private sector (as with earlier cuts in the NIS the public sector has not been able to benefit because its cash limits have been cut by an amount equivalent to the NIS reduction) would obtain this benefit by reduced payments in January-March 1983. In the present forecast we have treated this additional rebate – estimated by the government at £350m – as a financial transaction which increases the PSBR (but not the public sector's financial deficit). We are also assuming that the NIS rate, set at 1½ per cent for 1983-4, will not be further changed over the next 12 months, that it will be cut to 1 per cent in 1984-5 and eliminated completely in 1985-6.

(5) *Local authority rates* are assumed to rise about 7¼ per cent on average – though some authorities will require much higher rate increases – in the coming financial year and in line with the public consumption deflator in later years.

(6) *Taxes on North Sea oil* (royalties, PRT and corporation tax on oil companies). In the 1982 Budget the Chancellor announced the abolition of the Supplementary Petroleum Duty, an increase in the rate of PRT from 70 to 75 per cent and arrangements for advancing (and smoothing the flow of) PRT payments. Although the revised arrangements imply a net reduction in PRT and SPD payments (because Advance PRT is offsettable against PRT whereas SPD was not), we expect that the total tax take as a per cent of North Sea oil profits will rise over the years to 1986-7. In that year we expect total North Sea taxes of over £15 billion compared to about £8¼ billion in the current financial year.

B. Government expenditure

(1) *Government consumption* volume is assumed to rise about ½ per cent p.a. from 1983 onwards. Within the total, procurement expenditure (on goods and services produced by the private sector, including defence equipment) rises by about 1½ per cent p.a. while employment falls further.

(2) *Public investment* in total fell 18 per cent in 1981, the largest of a long sequence of annual declines. However, this partly reflects council house sales. In 1982 the fall was probably about 4 per cent. We are projecting some growth in investment from now on. Initially housing will be the main beneficiary, subsequently the nationalised industries. Over the four years 1983-6 as a whole we are projecting that total public investment will rise by about 2½ per cent p.a. on average.

(3) *Pensions* were increased by 11 per cent in November – 9 per cent was the government's Budget forecast of retail price inflation over the 12 months to November

and 2 per cent was the 1981 shortfall. Because inflation in the year to November was, however, only 6.3 per cent, pensions and other grants received a 2.7 per cent unintended addition. We have assumed that the government will not pursue its original plan of recovering some of this increase in future years, so that pensions and other grants will be increased in line with inflation throughout the forecast period.

(4) *UK contributions to the EEC budget* are assumed to remain broadly unchanged in real terms from the 1982-3 outturn.

(3) The Outlook for 1983

World Background

World output fell sharply in 1982, especially in the manufacturing sector. We expect a steady rise during 1983, but for the year as a whole output will not be significantly higher than in 1982. The disappointing performance of the world economy last year had its origins in the sharp rise in US interest rates in 1981, of which the main consequences were a strong dollar and a high level of world interest rates, as inflation-conscious governments tried to stop their currencies from depreciating. Higher interest rates and a strong dollar exacerbated the financing problems of developing countries, and led them to cut back their imports. The strong dollar put up the cost of oil and added to the problems of the manufacturing sector, especially in Europe and Japan. High interest rates weakened demand for interest-sensitive items such as inventories, consumer durables and capital equipment. These negative influences outweighed, in 1982, the positive effects on output of the rapid fall in world inflation, which meant that the real money stock was some 3-4 per cent higher than a year earlier throughout the year.

Table 5

Annual change (per cent)	1981	1982	1983
World industrial production	0.9	–4.5	0.1
World manufacturing prices	10.3	7.0	5.3
World consumer prices	10.6	8.1	6.7
Oil prices ($)	10.0	–4.2	–11.3
Non-oil commodity prices	4.2	0.9	–2.5

Our forecast of recovery this year assumes that monetary growth will continue at an annual rate of 9½ per cent while producer price inflation bottoms out at just under 5 per cent. More crucially it depends on our assumption that the dollar will resume its fall from the peak level of 126 on the trade-weighted index, falling below 110 at the end of the year. A lower dollar, and weaker dollar oil prices, are forecast to stimulate recovery in the manufacturing sector. In addition we expect the sharp fall in US interest rates since last summer to result in a significantly lower average level of world interest rates in 1983 than in 1982. We expect this to stimulate growth in the second half of the year. If these assumptions prove correct we would expect world industrial production to grow by 3 per cent in the course of this year, with world GNP rising by 2 per cent.

Borrowing Requirement and Money Supply

The substantial reduction in the public sector deficit which occurred in 1981-2 following the tight 1981 Budget shows every sign of being maintained in 1982-3. Revenue continued to rise fairly rapidly even though economic growth was lower than officially forecast at the time of the Budget and inflation fell faster than expected. Consumption in general, consumer durables and retail sales in particular, have a higher tax content than other components of demand, and their buoyancy in the second half of last year helped to sustain revenue despite the weak output performance. The lower pound has also boosted the sterling value of UK oil revenues, and the government's share thereof. Borrowing has also been reduced by inflation in the public sector falling more rapidly than elsewhere. This mainly reflects lower public sector wage settlements but it is also due to lower procurement prices. The cash limit system appears to have helped curb the normal tendency for public sector prices to run ahead of those in the private sector, and the weakness of demand, particularly in the capital goods sector, has also been an important factor.

Table 6

Financial year totals	1981-2	1982-3	1983-4
Public sector deficit £bn	–6.0	–5.1	–7.0
Borrowing requirement £bn	8.7	7.4	9.2
% of GDP (at market prices)	3.5	2.7	3.1
Change in money stock (£M3) during financial year: £bn	9.5	8.9	7.7
%	13.6	11.2	8.7

In the 1983-4 financial year the growth of the tax base is expected to pick up as economic recovery resumes. The improvement in the financial position of public corporations is expected to continue, and revenue from National Insurance contributions also rises substantially in real terms following the 1983 increase in the rate. At the same time the cost of servicing public sector debt is forecast to fall as the current decline in interest rates is sustained. However, these favourable factors are more than offset by the tax cuts that we assume will be enacted in the 1983 Budget (see p.6) and by the sharp rise in the real value of current grants following the 11 per cent uprating in November 1982. Oil revenue is also expected to be less buoyant, reflecting our assumption of lower oil prices, a weaker dollar and some loss of revenue during the changeover to the new tax system.

A higher public sector deficit in 1983-4 is mirrored in a higher borrowing requirement (we do not expect any significant change in the financial items) but we nevertheless expect the recent slowdown in the rate of monetary growth to continue. The improvement in the financial position of companies, who have used the recent buoyancy of consumer demand to liquidate stocks, has reduced company borrowing from the banks. We also expect personal borrowing to moderate when real incomes are boosted by tax cuts. More moderate growth of bank lending is expected to result in slower monetary growth during the financial year 1983-4 than in 1982-3.

Exchange Rates, Competitiveness and Terms of Trade

The 10 per cent fall in sterling's trade-weighted index that has occurred since November has brought the real exchange rate close to its sustainable long-run equilibrium level. We expect a further small decline this year, but this will take place mainly against the continental currencies and the yen. Our assumption of a fall in the dollar's trade-weighted rate implies a small rise in the pound against the dollar.

Table 7

Annual change (per cent)	1981	1982	1983
Effective exchange rate	–1.2	–4.7	–10.8
Wholesale prices: world	10.3	7.0	5.3
UK	10.6	8.6	7.5
Competitiveness – means more competitive	–0.9	–3.2	–8.9
Terms of trade in manufacturing	3.3	–0.4	–3.4

Although UK inflation at the retail level is now close to the world average, UK producer prices are still rising more rapidly than overseas competitors. Even so the recent fall in the pound will mean a substantial improvement in competitiveness in 1983. UK costs are still historically high relative to competitors', but this handicap is probably justified by North Sea oil and we expect only a small further improvement in competitiveness this year.

Given that demand is now stronger in the UK than overseas, we expect the fall in sterling to be more fully reflected in import prices than in export prices, so that the UK's terms of trade in 1983 will be worse than the exceptionally favourable 1982 level. This implies that the squeeze on importers' profit margins, which cushioned import prices from the full effect of the 1981 fall in sterling, will continue, but at a much slower pace; while UK exporters, competing on depressed overseas markets, will take advantage of the fall in sterling to lower their (foreign currency) prices.

Earnings, Prices and Profits

A sharp drop in the annual rate of increase of manufacturing earnings occurred in the third quarter of 1982, reflecting the fact that the bunching of private settlements at and after the end of the 1981 pay round did not recur in 1982. The drop was sharper and occurred sooner in the public sector, and public sector wages are now coming rapidly back into line with those in the private sector, unwinding the effects of the Clegg settlements.

We expect increases in basic wages to remain moderate in all sectors of the economy this year. The pay round began against a background of sharply falling inflation, with the government implementing cash limits and a public sector pay guideline of 3½ per cent. Settlements so far have been moderate, with private sector pay offers somewhat higher than those made in the public sector. Given our forecast of a continued rise in output this year, and given that earnings in the private sector tend to rise faster than basic wage rates as economic activity picks up, we expect private sector wages to rise nearly 2 per cent faster than public sector wages during 1983.

Table 8

Annual change (per cent)	1981	1982	1983
Wages and salaries per head			
Manufacturing	13.2	11.0	8.1
General government	14.3	6.6	6.4
Whole economy	11.9	8.8	7.3
Unit labour costs in manufacturing	9.5	4.9	4.3
Manufacturing output prices	10.6	8.6	7.5
Company profits			
Net of stock appreciation	2.9	11.2	19.9
Excluding North Sea oil	–12.8	9.8	31.0

Since the fall in the exchange rate came at a time when the pattern of wage settlements was already well established, we expect it to have little effect on wages in the present round. However, a lower exchange rate will both put up manufacturing input prices and make it easier for producers to raise their output prices. We do not therefore expect any significant further deceleration of wholesale prices this year. The combination of a lower rate of increase of unit costs (helped by decelerating wages and rising output) and a stable rate of price increases implies substantially higher profits in 1983, especially in the manufacturing sector. Some of this increase is already visible in the profits data for 1982, which shows a sharp rise in the third quarter.

Consumption

The continued fall in employment in 1982 was a major factor in holding the growth of total personal income some 2 per cent below the rate of growth of wages per head. Since consumer prices grew in line with wages, real disposable income fell by just over 2 per cent. Despite this fall, however, consumption rose by nearly 3 per cent during the year, with virtually all of the rise coming in the second half. The rise in consumption was sustained entirely by a sharp fall in the personal savings ratio and financed by a rapid increase in personal borrowing. It followed the abolition of hire purchase controls in July and coincided with steadily falling interest rates.

In 1983 we expect total personal incomes once again to be eroded by falling employment. However, this will be offset by cuts in personal income tax and by a further decline in inflation (helped, we assume, by non-indexation of some specific duties) below the rate of

Table 9

Annual change (per cent)	1981	1982	1983
Total personal income	9.5	6.6	6.5
Income tax	12.4	9.5	2.3
Disposable income	8.6	5.6	6.8
Consumer prices	10.9	8.0	5.8
Real disposable income	–2.1	–2.2	1.0
Consumer spending	0.4	1.1	2.3
Savings ratio as % of disposable income (levels)	13.4	10.5	9.3

wage increases. As a consequence real disposable income is expected to be about 1 per cent higher this year than in 1982. We do not expect the savings ratio to remain at the exceptionally low level estimated for the fourth quarter of last year, but even allowing for some rise the *average* rate of saving in 1983 will be about 1 per cent lower than in 1982. The combination of higher real disposable income and lower saving will bring about an increase of about 2 per cent in personal consumption.

The recent upswing in consumer spending has been concentrated on durable goods, sales of which in the third quarter of 1982 were 12 per cent higher than a year earlier. We estimate an even greater annual increase in the fourth quarter. Some of this represents a bringing forward of consumption following the abolition of hire purchase controls rather than a permanent increase and we expect expenditure on durables to fall back in the course of this year. Even so the 1983 average is likely to be over 5 per cent higher than 1982, a rise of well over 10 per cent over two years.

Table 10

Annual change (per cent)	1981	1982	1983
Personal consumption	0.4	1.1	2.3
durables	2.9	7.3	6.5
non-durables	0.2	0.5	1.9
Public consumption	0.0	1.7	0.9
procurement	–0.4	3.9	3.1
employment	0.2	0.4	–0.4

Public consumption continues to rise steadily in volume terms although public sector employment remains flat (it has not risen significantly since 1975). The combination of a cash limits system for controlling public expenditure and a falling rate of inflation has meant that public sector procurement rose sharply by recent standards in 1982. We expect a similar pattern in 1983, with public employment and relative wages both falling thus making room for an increase in public procurement spending within the available cash limits.

Investment

Total investment in the third quarter of 1982 proved surprisingly strong. Given the recent tendency of the public sector to underspend on capital projects, we have assumed that most of the third quarter increase in investment took place in the private sector. Even if, as we expect, investment falls back in the fourth quarter, it now looks as though investment in 1982 was rather higher than predicted by the intentions survey. In 1983 we expect business investment to go on rising as confidence is revived by the recent improvement in competitiveness and the recovery of profits (which is forecast to continue next year). We also expect the substantial flow of funds into the building societies in 1982 to result in a sharp increase in private residential investment in 1983. Over the two years to mid-1982 public investment was cut by over a quarter, but the recent data suggest that public capital spending has been stabilised. We expect it to rise in 1983, partly because capital goods prices are now increasing very slowly, so that some volume increase is possible within the cash limits, and partly because we expect some relaxation of the controls on public spending in order to help the recovery along.

Table 11

Annual change (per cent)	1981	1982	1983
Private fixed investment of which	–3.8	4.8	3.6
non-housing (incl. oil)	–2.2	4.1	2.5
housing	–15.5	10.7	12.0
Public fixed investment of which	–17.6	–3.8	2.8
housing	–35.2	6.9	1.6
non-housing			
general government	–21.5	–32.2	–3.0
nationalised industries	–8.6	4.2	4.6
Total investment	–8.2	2.5	3.3
Stockbuilding (£bn 1975 prices)	–1.9	–0.9	0.0

The conjunction of rapidly rising consumption, falling UK industrial production and stable imports meant renewed destocking in the second half of 1982 – we estimate that the rundown of stocks was faster in the fourth quarter than in the third. Destocking followed a deterioration in the financial position of companies in the first half of 1982 which was linked to high interest rates and a strong exchange rate. We estimate that company finances improved in the second half of the year (following the rise in profits in the third quarter and helped by destocking itself). The improvement will be sustained this year by the fall in the exchange rate and lower interest rates, and we expect a general revival of business confidence in 1983. Accordingly we expect destocking to come to an end in the second half of the year, but we forecast only modest rebuilding of stocks.

The Balance of Payments

The weakness of world demand hit UK exports in the second half of 1982, leaving them some 2½ per cent below year-earlier levels. However, imports were also weak, and the UK terms of trade improved. Consequently the balance of payments surplus rose, and we now estimate a substantially higher surplus in the second half of 1982 than in the first half. We expect the balance of payments to deteriorate quite rapidly in the course of this year, although we still expect a substantial surplus for 1983 as a whole.

Table 12

Annual change (per cent)	1981	1982	1983
Exports	–2.2	–0.1	1.7
Imports	–0.3	4.1	4.6
Terms of trade	4.5	1.0	–2.1
Current balance of payments (£bn)	6.1	4.2	1.5

Although the recent fall in the pound is expected to cause a gradual acceleration in exports this year, we expect a faster rise in imports as destocking comes to an end (a similar pattern to that seen in 1981). However an equally important reason for the deterioration in the balance of payments is the immediate worsening in the terms of trade which we expect in the first half of this year as a consequence of sterling's fall. We do not expect the impact of a weaker pound to be as completely cushioned by a squeeze on importers' excess profit margins as happened in 1981, since importers profits are now close to normal levels.

The Components of Demand

Table 13 summarises the main demand changes which determine the shape of the forecast. In 1982 there was a significant recovery of domestic demand (worth about 1½ per cent of GDP). Destocking was also substantially less than in 1981, adding a further 1 per cent to demand. (The year-on-year picture is very different from the changes during the year: destocking was concentrated in the second half of 1982 and was a strong negative influence on output at that time.) However, the deterioration in net trade was a negative influence on demand worth nearly 1½ per cent of GDP, so that total expenditure rose by only 1 per cent. The discrepancy between output and expenditure widened again, leaving output growing more slowly still, by only ½ per cent. In 1983 we expect a further significant increase (over 2 per cent) in domestic final demand, plus a further boost of nearly 1 per cent from the end of destocking. A substantial proportion of the extra demand will be met from imports, and we expect the deterioration in net trade to be worth more than 1 per cent of GDP. However in 1983 we are assuming that output and expenditure measures will move in line, and this means that output is expected to be nearly 2 per cent higher this year than in 1982.

Table 13

£bn 1975 prices	1981	1982	1983
Domestic demand at factor cost	102.8	104.3	106.4
Stockbuilding	–1.9	–0.9	–0.0
Net trade	–1.7	–3.1	–4.2
GDP (expenditure measure)	99.3	100.3	102.1
Output/expenditure adjustment	0.7	1.2	1.2
GDP (output measure)	98.6	99.1	100.9

Output, Productivity and Employment

Although total UK output continued to advance in 1982, the rate of increase was very slow, especially in comparison with the growth of final demand (suggesting the problems lie on the supply side). Moreover the trend of industrial production, when oil is excluded, was flat or downwards, while manufacturing production fell gently throughout the year and rather more sharply in the fourth quarter. The weakness of manufacturing production – a high proportion of which is exported – is partly due to the sharp fall in manufacturing exports, a consequence of weak world demand and an uncompetitive exchange rate. It also reflects renewed destocking in the second half of last year – the rise in demand was met out of stocks rather than by new production.

Our forecast for 1983 of a recovery in world trade and a steady rise of manufacturing exports, taken in conjunction with our forecast of a substantial turnround in stockbuilding, together imply a recovery in manufacturing production this year – we expect a rise of over 3 per cent through the year. Even so the rise in manufacturing output and industrial production forecast for 1983 is small compared with past recoveries, and reflects our view that a substantial proportion of the fall in manufacturing output relative to GDP that has taken place since 1979 is permanent.

Table 14

Annual change (per cent)	1981	1982	1983
GDP	–2.5	0.5	1.8
GDP excluding oil	–2.9	–0.1	1.6
Employment	–4.1	–2.7	–1.4
Manufacturing output	–6.2	–1.2	0.5
Manufacturing employment	–9.8	–5.3	–3.5
Working population	–0.6	–1.3	–0.0
Unemployment (millions) (UK s.a. excl. school leavers)	2.5	2.8	3.1

The present recession has been characterised by an unusually rapid response of employment to changes in output, and the sharp increases in unemployment in December and January suggest that the weakness of industrial and manufacturing production continued to the end of the year. We estimate that employment fell by nearly 3 per cent in 1982 with, as has been the case throughout the recession, the fall concentrated mainly in manufacturing. However, as output begins to rise more rapidly this year we expect the fall in employment to come to an end. Even so the average level of manufacturing employment in 1983 will be some 3½ per cent less than in 1982. The loss of jobs in the rest of the private sector will be much smaller, and we expect government employment to be virtually stable at 5 million, 0.2 per cent below last year. Because the population of working age is still rising fairly rapidly (it has risen ½ per cent per annum in recent years and this will continue in 1983) the fall in employment produces a more than proportionate rise in unemployment.

The Company Sector Deficit

Table 15

Company sector (£bn)	1981	1982	1983
Profits net of stock appreciation	23.3	25.9	31.0
Savings (after tax, dividends, interest & stock appreciation)	16.2	18.4	23.8
Stockbuilding	–3.4	–2.1	–0.3
Investment	20.7	20.8	22.7
Financial surplus	–1.0	–0.0	1.8

In the first half of last year the financial position of companies was weakened by high interest rates and a strong exchange rate. In the third quarter, however, a sharp increase in profits occurred and we estimate that the advance will continue, though more slowly, in the fourth quarter. With non-trading income also up, but dividend and interest payments lower than in the first half of the year, we estimate a substantial increase in company savings. Company investment declined between the first and second quarters of 1982 and we estimate that the decline continued in the second half of the year. At the same time there is strong evidence to suggest that stocks were being run down again at a much more rapid rate. These estimates imply a substantial improvement in the financial position of companies, with a surplus emerging in the second half of the year which mirrors almost exactly the deficit in the first half. We expect this surplus to be maintained in 1983 even though destocking is forecast to come to an end in the course of the year. This reflects a sharp rise in profits at the beginning of the year (helped by the fall in the value of the pound) while the main items of company expenditure (dividends, interest, taxes and investment) rise more moderately during the year. The reduction in the National Insurance Surcharge is a further factor behind the improvement.

Sector Flows

The surge in personal consumption in the second half of 1982 and the associated rundown of stocks resulted in a sharp deterioration in the financial position of the personal sector, the main counterpart of the improvement in the position of the company sector. We now estimate that for 1982 as a whole the surplus of the personal sector fell substantially (compared with 1981), thereby enabling all the other sectors to reduce their deficits.

Table 16

Sector flows (£bn)	1981	1982	1983
Companies	–1.0	–0.3	1.8
Persons	16.4	11.1	7.9
Public sector	–7.3	–5.2	–7.0
Overseas sector	–6.1	–4.2	–1.5

Although we assume that the sharp reduction in the personal savings ratio will be partially reversed in 1983, the average for the year is still substantially lower than in 1982. Since we forecast that the recent surge in investment in the personal sector (mainly by small unincorporated businesses) will continue this year (though more slowly), we expect a further large reduction in the surplus of the personal sector. We also expect an increase in the public sector deficit as a consequence of our assumed tax cuts. The counterpart of the public sector deficit and smaller personal sector surplus is a further reduction in the deficit of the overseas sector (i.e. fiscal expansion and more consumption leads to a smaller balance of payments surplus). However this still leaves room for a further improvement in the financial position of companies.

North Sea oil

The dollar price of North Sea oil, which was at one time substantially above world average levels (reflecting the premium commanded by North Sea oil because of its quality, its proximity to markets and the stability of supply) fell in 1982 as world prices came down and the UK premium over world prices was eroded. We expect a further fall in 1983, but no dramatic collapse: as world recovery gets under way later in the year we expect oil prices to start rising again. We are also forecasting that the dollar will resume its fall later this year, which will make it easier for producers to put up the dollar price of their product without affecting demand.

Despite the current weakness of world oil demand, and the consequent softness of the price, we expect UK

Table 17

	1981	1982	1983
North Sea output (m. tonnes)	89	102	110
Price:			
$/barrel	36	33	31
exchange rate $/£	2.03	1.74	1.62
Value of North Sea oil production (£bn)	12.3	14.9	16.2
Contribution to public sector revenues (financial years, £bn)	6.9	8.3	8.9

oil production to go on rising. The oil sector, which in 1982 accounted for 6½ per cent of UK output at current prices, will continue to grow far more rapidly than the rest of the economy. But volume growth in 1983 of 7½ per cent is about half the rate of increase in 1982, and the period of rapid build up of oil production is now coming to an end. The increases in the North Sea contribution to the balance of payments and to tax revenues, which have been swollen in the current financial year by the fall in the pound against the dollar, will also be less rapid in 1983-4 partly because of the weaker oil price, but more importantly because of our forecast that the pound will stop falling. The sterling value of oil revenues was boosted by 14½ per cent in 1982 by exchange rate movements. In 1983 the boost will be only 6½ per cent.

(4) Focus: Employment and the Measurement of Output

GEOFFREY DICKS

The first results from the 1981 employment census are now available. They show that previous estimates of employment, based on the 1978 census and subsequent returns from a sample of firms included in that census, have seriously underestimated the true level of employment. This is because information on firms either going out of business or starting in business is not available and has to be forecast on the basis of past trends. Over the last four years these trends have not been reliable, in particular far more new firms have started up in the service industries than was thought likely at a time of falling output. Thus in the distributive trades employment is now known to have been stable between 1978 and 1981, whereas earlier estimates suggested a fall of 150,000. Similarly in insurance and banking and miscellaneous services little change was originally suggested, and increases of 128,000 and 169,000 respectively have emerged from the census data. As a result total employment in September 1981 is now estimated at 21.1 million, a fall of 1.1 million from June 1978 but an increase of 538,000 on the previous quarterly estimates. Of this 466,000 is in the service sector and half of this latter consists of part-time females. Table 1 shows the revisions to the UK employment series, Table 2 the industries where the changes have been concentrated.

Table 1 shows how the Department of Employment has revised up its estimates of total UK employment over the last five years. The revisions get relatively larger over the period: thus at mid-year employment has been revised up by 0.8 per cent in 1979, 1.6 per cent in 1980 and 2.4 per cent in 1981. By the time of the 1981 census (September) the revision is 2.7 per cent and it is instructive to note that the subsequent figures do not suggest any further widening of this gap. (This will have to wait for the next census!)

Table 2 shows a similar picture for those industries which are most affected by the new data. At June of last year the initial estimates of employment are now shown to have underestimated employment by as much as 7½ per cent for miscellaneous services and insurance, banking, finance and business services. Together with distributive trades and professional and scientific services these industries account for 473,000 extra jobs out of a Great Britain total of 546,000.

The effect on output

We have already shown in *Economic Outlook* (October 1982, p. 16, Table 20) how revisions to GDP (output

Table 1
Employees in employment, UK, seasonally adjusted

		NEW	OLD	CHANGE	
		millions		'000s	%
1978	March	22.7	22.7	15	0.1
	June	22.8	22.7	20	0.1
	September	22.8	22.8	61	0.3
	December	23.0	22.9	103	0.5
1979	March	23.0	22.9	144	0.6
	June	23.1	22.9	186	0.8
	September	23.1	22.9	227	1.0
	December	23.1	22.8	269	1.2
1980	March	23.0	22.7	310	1.4
	June	22.8	22.5	352	1.6
	September	22.5	22.1	393	1.8
	December	22.2	21.8	435	2.0
1981	March	21.9	21.5	476	2.2
	June	21.7	21.2	518	2.4
	September	21.5	21.0	559	2.7
	December	21.3	20.8	554	2.7
1982	March	21.2	20.7	555	2.7
	June	21.0	20.5	546	2.7

Source: NEW: *Employment Gazette*, December 1982, table 1.1
OLD: *Employment Gazette*, November 1982, table 1.1

Table 2
Employees in employment, G.B.: Principal changes by Industry

SIC	Industry	June: 1979 000s	%	1980 000s	%	1981 000s	%	1982 000s	%	level millions
III-XIX	Manufacturing	16	0.2	32	0.5	48	0.8	45	0.8	5.6
XXIII	Distributive trades	44	1.6	87	3.2	131	5.1	139	5.5	2.7
XXIV	Insurance, banking etc.	27	2.2	54	4.4	82	6.8	89	7.3	1.3
XXV	Professional and scientific services	35	1.0	49	1.4	65	1.8	69	1.9	3.7
XXVI	Misc. services	55	2.3	110	4.5	165	7.0	176	7.6	2.5
	GREAT BRITAIN	186	0.8	352	1.6	517	2.5	546	2.7	20.6

Source: *Employment Gazette*, Table 1.2, changes between November and December 1982

measure) have been, in recent years, invariably upwards. Table 3 repeats and updates this information.

Table 3
Data revisions for GDP(O) 1980-82

		%
1980	1	1.3
	2	1.0
	3	0.4
	4	0.7
1981	1	0.7
	2	0.1
	3	–
	4	–0.1
1982	1	–
	2	0.1

Note: figures refer to percentage difference between the first and most recent estimate.

These revisions reflect the incidence of new information, received by the CSO, most of which occurs outside the industries covered by the index of industrial production. No revisions to GDP have been officially calculated since the latest employment census.

Although employment has been revised upwards by a significant amount (and further upward revisions are likely to be announced in the self-employed category), it is clear that output will not be revised by anything like the same extent.

In the first place the output estimate of GDP is not generally calculated from employment data. The principal exception to this is in the public sector, where no independent measure of output exists, and here the employment data is little revised. In general output is estimated from physical quantities, e.g. by counting the number of cars, etc., produced by industry. Obvious difficulties of measurement exist particularly in the service sector and here the CSO relies on various proxy measures. For example the output of the banking sector is related to the number of cheques cleared, the output of insurance companies to the number of policies issued, that of accountants is derived from figures for VAT and so on. An important counter-example is advertising, where the measurement of output is related to employment but for most sectors the GDP(O) measure is independent of employment. In these sectors revisions to employment data will have no effect on output.

However, we are in a period of rapid change, when the numbers both of bankruptcies and of new firms are at record levels. There are many new and rapidly growing kinds of economic activity (e.g. in the data processing industry and its offshoots) for which adequate physical measures of output do not exist. Under these circumstances it may well be the case that employment is a better guide to output than the current proxy measures which are based on an outdated structure of supply. Employment itself will understate output in service sector industries which are able to achieve large, computer-based increases in productivity.

Some support is given to this view by the fact, shown in Table 4, that of the three measures of GDP, output (O) expenditure (E), and income (Y), it is the output measure which, since 1979, has shown both the lowest level of GDP and also the largest fall in activity. This by itself casts doubt on the accuracy of GDP(O). The discovery that employment was 2-3 per cent higher than previously thought raises further questions about the accuracy of the output measure, and suggests that GDP(O) may have overstated the depth of the recession.

To illustrate the order of magnitude of the measurement error we have calculated, in Table 5, what the revision to the employment data would mean under certain assumptions about productivity and also on the assumption that the output of the newly-discovered employees has not already been taken into account.

We know that a large number of the newly discovered employees are part-time women (334,000 out of 538,000 for Great Britain as a whole). We also know that most of the jobs are in the service sector where productivity is usually lower than in manufacturing. In Table 5 we

Table 4
GDP, various measures

	1979		1980		1981	
	level	%	level	%	level	%
Output measure	110.3	2.1	107.1	–2.9	104.5	–2.5
Expenditure measure	109.9	1.4	107.6	–2.1	105.2	–2.2
Income measure	111.7	1.8	109.3	–2.1	106.5	–2.6
Average estimate	110.7	1.8	108.0	–2.5	105.4	–2.4

Table 5
Outline calculations of revisions to GDP (output)

1. GDP (output)	110.3	107.1	104.5
2. % revision to June employment data	0.8	1.6	2.4
3. Implied output if productivity of new found employees is equal to national average	111.1	108.7	106.9
4. Adjustment to take account of below average productivity of additional employees	–0.3	–0.8	–1.1
5. Estimated level of output	110.8	107.9	105.8
6. GDP (% changes)			
output measure, CSO estimate	2.1	–2.9	–2.5
output measure, derived estimate	2.6	–2.6	–2.0
expenditure measure	1.4	–2.1	–2.2

show what the revisions to employment could imply for output if the productivity of newly discovered workers was equal to the average productivity in their sector. The result would be to narrow the gap between the output and expenditure measure of GDP. Even so there are still substantial discrepancies between the two measures, and as long as the output measure continues to rely on counting physical units which may no longer reflect the true pattern of output in the service sector, these discrepancies will remain. The discovery of extra employees will not, for some time to come, be reflected in official statistics on output.

Conclusions

The output measure of GDP is generally thought to provide the best guide to short-run movements in total output in the economy. For this reason we present forecasts of GDP(O) in *Economic Outlook*, though it has to be recognised that our system forecasts the expenditure measure. We move to forecasts of GDP(O) from GDP(E) via an adjustment about which we know very little and which we are clearly unable to forecast.

However, the revisions to the employment data, which we have described here, cast doubt upon the accuracy of GDP(O) which has been out of line with the other measures of GDP. This casts doubt on the belief that GDP(O) is the better short-term guide to movements in output. Additionally the concentration of revisions to the employment data on the service sector suggests that it is this element of output which GDP(O) fails to estimate in the short term. Equivalently it can be concluded that the weight of industrial production (GDP(O)) is overstated. Thus over the last few years of deep industrial recession, total activity has been far less depressed than industry, and may also have been less depressed than the early estimates suggested.

Medium term prospects for the UK economy

GILES KEATING

Prospects for the economy several years ahead are even more uncertain than projections of the near future. Government policy is currently particularly uncertain given that a general election is due to occur in the next 15 months. This article presents three 'alternative scenarios', one based on Conservative Party policies, the others on the spirit of Labour Party policies.

*The first case described is our central forecast. It is a continuation of current Conservative Party policies. The second and third cases are based on our interpretation of Labour Party policies. These policies are assumed to involve widespread use of government intervention, planning, wage and import controls. Monetary targets are relaxed or abandoned. We consider two possible outcomes of such policies. Under one outcome the policies are relatively successful in boosting output and employment without greatly raising inflation. Under the other outcome, output is lower than on current policies and inflation much higher.**

Summary of main results

The main results, summarised in Table 1, are:

Output and employment

On current policies total output grows nearly 2 per cent per annum between 1983 and 1986, with unemployment fairly stable. In the 'successful planning' case, output growth averages 2½ to 3 per cent per annum with unemployment falling to about 2¾ million (UK, excluding school leavers) by the end of 1986. Under 'less successful planning', output grows only about 1½ per cent per annum and unemployment rises slightly.

Inflation

On current policies this rises to about 7½ per cent in 1984, 1985 and 1986. Under 'successful planning', it increases to between 11 and 12 per cent by 1986. 'Less successful planning' gives a rising rate of inflation reaching 17 per cent in 1986.

Exchange rate and interest rates

Under current policies we expect the effective exchange rate to decline only slightly. Bank base rates of 10½ to 11½ per cent are forecast from next year. We expect similar figures for the exchange rate and for interest rates under 'successful planning'. This reflects accommodating monetary policy and import controls. In the 'less successful planning' case we predict marked falls in the exchange rate and higher interest rates. These high interest rates prevent larger exchange rate falls. Both 'planning' cases assume exchange controls. Because of large, almost uncontrollable 'Euro-sterling' holdings and because of avoidance, we expect these controls to have a major impact for only about six months.

Margins of uncertainty

The 'current policies' case is a central prediction of the likely effects of existing policies. By contrast, the 'successful planning' and 'less successful planning' cases represent optimistic and pessimistic projections. The most likely effects of a 'planned economy' policy probably lie between these two projections. The *Briefing Paper* presents various measures of uncertainty attached to our central forecast. These measures are *conditional* on the policy assumptions. The present article illustrates some likely outcomes on alternative policy assumptions. Each of these outcomes is itself subject to error margins similar to those given in the *Briefing Paper* for the

* Our simulations of Labour Party policies are not directly comparable with those prepared by the Rt. Hon. Peter Shore MP and others. This is because our projections are based on more up-to-date information about unemployment, the exchange rate and other indicators; and because the policies are assumed to be implemented from a later date.

Table 1
Summary of medium-term prospects on alternative policies

	'Current policies' continue	Planning: 'successful'	Planning: 'less successful'
GDP growth, annual average between 1983 and 1986 (%)	1.9	2.7	1.5
Unemployment, level end 1986 UK excl. school leavers, thousands	3150	2810	3220
Inflation, end 1986 (12 month RPI increase, %)	7.7	11.8	16.9
Effective exchange rate, end 1986 (1975 = 100)	78	78	66
UK Bank base rates, end 1986, %	12	12	17

central forecast. When forecasting uncertainty is added to policy uncertainty, the range of possible outcomes becomes extremely wide. Even so, some outcomes are more likely than others and the present exercise, which explores the more probable cases, is helpful for contingency planning.

Main assumptions

Trade performance, investment, wage bargaining and other behaviour follow past relationships in the 'current policies' case. Under 'successful planning' these past relationships are altered by controls and 'planning agreements'. For any given level of competitiveness these reduce *import penetration.* Export market share is boosted by agreements with other nations. For the 'less successful planning' case, *import penetration* is reduced but export market share falls due to retaliatory import controls. In both 'planning' cases, wages and prices are pushed upwards by the relaxation of pressure from competing imports. This upward influence is partially offset by the *downward effect on wages and prices* of agreements and controls, particularly under 'successful planning'. The adjustments used in the three cases are described in the box on page 26.

Current policies imply broad adherence to the Medium-Term Financial Strategy (Tables 2 and 3). This covers the period to 1984/5. Beyond then, we assume monetary growth of about 9 per cent per annum while the nominal PSBR falls further. The 'successful planning' and 'less successful planning' cases both assume higher government spending compared to present policies in 1983/4 and 1984/5. The 'successful planning' case also includes a modest additional tax cut and further spending increases. The government in the 'planning' cases is assumed to dislike very large exchange rate falls. To prevent such falls in the 'less successful planning' case, interest rates are raised and there is some reversal after 1984/5 of earlier government spending increases.

World output is expected to grow 2 per cent per

Table 2
Fiscal Policy

£bn	'Current policies' continue	Planning: 'successful'	Planning: 'less successful'
Public expending 'planning total'(includes spent contingency reserve, excludes debt interest, excludes effect of asset sales)			
1983/4: at current prices	121.3	121.9	122.3
in volume terms (1975 prices)	*49.4*	*49.7*	*49.7*
1986/7: at current prices	154.0	173.8	194.1
in volume terms (1975 prices)	*50.0*	*52.2*	*51.2*
Receipts from taxes on income and expenditure and National Insurance			
1983/4: at current prices	111.7	112.0	112.5
Income tax basic rate (%)	*29*	*29*	*29*
1986/7: at current prices	143.9	156.6	178.8
Income tax basic rate (%)	*25*	*24*	*25*
Note: Apart from income tax basic rate, tax rates are the same under all three policies			
Other net public sector receipts at current prices (includes debt interest)			
1983/4	0.4	0.4	0.7
1986/7	3.7	2.4	3.0
PSBR			
1983/4: at current prices	9.2	9.5	9.1
as % of GDP	*3.9*	*3.8*	*3.7*
1986/7: at current prices	6.4	14.8	12.3
as % of GDP	*2.0*	*4.0*	*3.1*

Table 3
Monetary and exchange rate policy

	'Current policies' continue	Planning: 'successful'	Planning: 'less successful'
Sterling M3 percentage growth during:			
1984/5	10.4	11.3	11.1
1985/6	9.7	12.0	10.4
1986/7	9.3	13.7	10.8
UK bank base rates, average for years:			
1984/5	10.8	10.8	11.7
1985/6	11.6	11.6	15.9
1986/7	11.6	11.6	16.7
Sterling effective exchange rate (1975 = 100) end of year:			
1984/5	79	79	66
1985/6	79	79	66
1986/7	78	78	66

annum between 1983 and 1986 (Table 4). Inflation is forecast to remain at around 6 to 8 per cent per annum. Oil and commodity prices increase by less than this until the end of 1984, after which they are forecast to rise somewhat more rapidly. (See the January 1983 Forecast Release.) These projections apply to our 'current policies', 'less successful planning' and 'successful planning' cases.

Table 4
World Economic Trends

Annual average percentage growth	1972 to 1983	1983 to 1986
World GNP	2.4	2.0
World exports of manufactures	4.4	4.7
World consumer prices	9.6	7.0
Dollar price of marker world oil	36.5	8.5
World non-oil commodity price	9.6	4.1

'World' consumer and commodity prices are in SDRs

UK productivity (manufacturing output per person employed) grows about 1½ per cent per annum on current policies. It is forecast to rise faster under 'successful planning' because of a cyclical boost from higher output. Under 'less successful planning', lower output depresses productivity growth. For all three cases, the population of working age is forecast to rise about 200,000 over the year to early 1984 and by 120,000 per annum from then to the end of the forecast period.

North Sea oil output is expected to grow slowly, roughly in line with the centre of the government's projections. Government revenue from the North Sea is expected to reach about £15 billion per annum in 1986/7 (except under 'less successful planning' where the figure is somewhat higher because sterling falls more).

The following pages contain details of our medium-term projections. The central case (current policies) is described first. This is followed by the 'successful planning' and 'less successful planning' cases.

The results in detail

Current policies

The first of the three cases assumes broad continuation of current policies. This is our central forecast. It is shown in full detail on ~~pages 6-9.~~ Main results are also shown in the summary tables in this article.

There are several key elements in the 'current policies' forecast to 1986. First, wage costs in manufacturing do not rise rapidly enough to offset the beneficial effects of the recent devaluation. Nor do they rise slowly enough to give further significant gains in competitiveness. As a result cost competitiveness is far better than in 1980 and 1981, returning more or less to its historical average level. This allows non-oil corporate real profitability to rise well above the depressed figures recorded in 1980 and 1981, but much of the benefit from restored competitiveness also goes to persons. Real profitability therefore remains well below the average for the 1970s. The projected path for competitiveness prevents further sharp rises in import penetration. However, the UK share of world export markets falls somewhat.

Our projections for manufacturing unit labour costs and for profitability, together with a fairly stable exchange rate and slowly rising world prices, generate our forecast for inflation. This is predicted to be about 7½ per cent in 1984, 1985 and 1986 (measured as twelve-monthly Retail Price Index increases).

The second key element in the forecast is the projected pattern of demand. Company spending on fixed investment and stocks recovers only mildly from the depressed levels of the 1980 to 1982 period. This reflects companies' continuing low real profits. It is also due to their desire to avoid borrowing at fairly high interest rates. Depressed expectations for demand are also a significant influence.

This weak recovery in company spending is combined with slow growth in net exports partly due to previously weak competitiveness. Government spending is permitted to rise only very slowly. Our forecast suggests that only one main component of demand makes a substantial contribution to demand growth after 1984. This is consumers' expenditure, which rises on average 2 per cent per annum over that period. The result is GDP growth averaging just under 2 per cent per annum over that period.

The third key element in the forecast is the financing of the rise in consumer spending. The counterpart to our forecast of a limited recovery in real profitability is that scope exists for some rise in real personal incomes. This is taken largely as a boost to take-home pay of those already with jobs. Employment rises only slightly between 1983 and 1986. Total personal sector real take-home incomes rise about 2 per cent per annum over this period. This is broadly in line with the predicted rise in real consumer spending.

These forecasts of personal income and spending imply that the savings ratio remains around 9 to 10 per cent. This is well below the figure recorded from 1979 to 1981, close to the level estimated for the end of last year and well above 1960s levels. We expect this savings ratio to reflect continued rapid personal sector bank borrowing. This occurs despite our forecast that monetary growth (sterling M3) declines to about 9 per cent by 1986-7. This is possible because of our projection of a falling nominal PSBR and of a cautious approach to bank borrowing by companies.

The final key element concerns the consistency of this money stock forecast with our projections for the exchange rate and for interest rates. We are predicting a difference of 1 to 2½ per cent between UK and 'world' short term interest rates from 1983 to 1986. This is slightly above the assumed ½ to 1 per cent per annum depreciation of sterling. This means that implied expectations of currency market operators are not far wrong. We predict that UK money stock grows about ½ to 1 per cent above 'world' money stock. This is broadly consistent with our exchange rate forecast, allowing for similar growth in real output in the UK and abroad. The derivation of our money stock forecast, given interest rates and sectoral spending and income decisions, was explained above. Our forecasts of monetary growth, exchange rate and interest rates are consistent with one

Table 5
Components of GDP

Annual average percentage growth	1972 to 1983	1983 to 1986		
		'Current policies'	'Successful planning'	'Less successful planning'
Gross Domestic Product: Output measure	0.8	1.9	2.7	1.5
Consumers' expenditure	1.5	2.0	2.8	1.4
Total fixed investment	0.1	1.9	2.0	–1.9
General government consumption	1.8	0.6	2.6	1.0
Exports of goods and services	3.3	1.9	1.4	1.6
Imports of goods and services	2.8	1.7	1.7	–0.6

another and with our projections of incomes and expenditure. They are, however, subject to very great uncertainty.

'Successful planning' case

The policy assumptions for the 'successful planning' case differ substantially from those used for our 'current policies' forecast. Higher government spending and modest extra tax cuts are assumed. Accommodating monetary policy, plus import controls and investment-boosting 'planning agreements' are also assumed. A very important assumption is that an agreement with trades unions reduces wage rises below what they would otherwise be. We expect higher government demand and relaxation of import competition to have a substantial upward influence on average earnings. The assumed agreement with the trades unions partially offsets this upward effect.

Under 'successful planning', we predict that manufacturing unit labour cost competitiveness changes little next year and worsens 4 per cent in both 1985 and 1986. This reflects our assumption that the exchange rate is the same as in our 'current policies' forecast, together with our forecast of somewhat higher earnings and a slightly better productivity performance due to higher output.

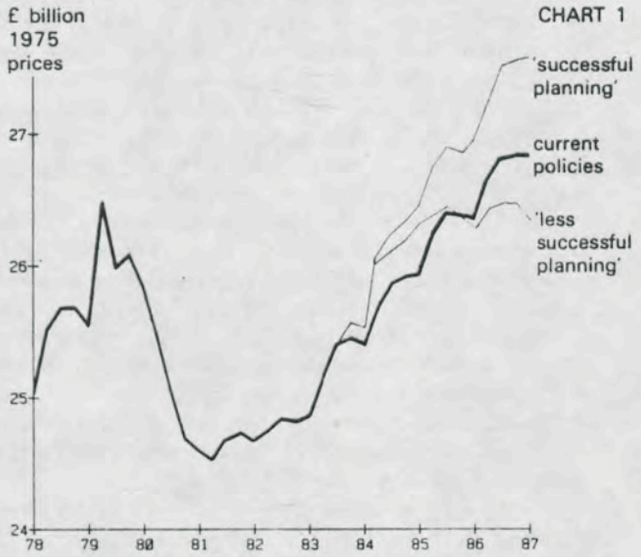
This fairly modest loss of competitiveness under 'successful planning' means that there is only a small tendency for the export market share to fall relative to current policies. This tendency is marginally reduced by our assumption of reciprocal agreements with nations pursuing similar policies. Import penetration into the UK is restricted. The effect is to cause a marginal worsening in our forecast of net export growth under 'successful planning' compared to 'current policies'.

The loss of competitiveness, although small, tends to reduce profits. This tendency is only partially offset by the effect of higher output. Real corporate profitability is therefore significantly lower under 'successful planning' than under 'current policies'. This effect is particularly marked towards the end of our forecast period. In 1985 and 1986 companies' finances are also adversely affected by the need to build up stocks (to meet increased demand) and to invest more (to fulfil 'planning agreements'). The result is that in 1985 and 1986 we expect company borrowing needs to be rising sharply under 'successful planning'. These needs might be met through conventional bank borrowing or through government-organised loans. Either way, it seems unlikely that companies would be willing to sustain this borrowing growth much beyond 1986, unless real profitability started to rise markedly.

Inflation under 'successful planning' is expected to rise slowly, reaching 11 to 12 per cent by 1986. This is faster than our projection under current policies, mainly reflecting higher manufacturing labour costs.

The pattern of demand forecast under 'successful planning' relies on consumer spending and government consumption as its faster-growing elements. Each grows on average 2½ to 3 per cent per annum between 1983 and 1986. Fixed investment and stockbuilding provide a smaller contribution to demand growth. Net exports have no effect, or a small negative impact, in the years from 1983 to 1986. The main contrasts with our 'current policies' projections are the higher government spending and the faster consumer spending growth. The latter largely reflects the boosts to real personal incomes caused by higher wage rises and somewhat higher employment. The higher wage rises are forecast to worsen the external trade balance only marginally, because of import controls and reciprocal trade agreements.

These forecasts for components of demand give GDP growth of 2½ to 3 per cent average between 1983 and 1986. This is sufficient to reduce unemployment by about 350,000 from present levels, to about 2.8 million (UK, excluding school leavers) by end-1986.



COMPARISON OF GDP PROJECTIONS

The monetary growth expected under 'successful planning' is about 11½ to 13½ per cent per annum from early 1984 onwards. Broadly, this reflects a rising PSBR (reaching almost £15 billion in 1986/7) and increasing company borrowing demands, partially financed by a large and growing personal sector surplus. This forecast monetary growth is markedly higher than the 9½ to 10½ per cent per annum projected under current policies. Despite this difference, we have assumed a similar exchange rate path (very slow depreciation) and short-term interest rates (10½ to 11½ per cent) under the two different policies.

This forecast assumes that exchange controls have a significant effect on the exchange rate for only a limited period. The projection therefore does not rely on the 'fixing' of the exchange rate by the government. Instead it assumes that the projections for monetary growth, interest rates and exchange rates are more or less consistent with the present level of control of financial markets. This in turn requires that over the forecast

period foreign exchange markets give more attention to wage settlements and competitiveness (which are roughly consistent with the assumed exchange rate) than they give to money stock growth and the PSBR (which suggest a faster depreciation than is assumed).

This assumption about the behaviour of financial markets is highly uncertain and crucial to the forecast. Therefore our third view of the medium term, 'less successful' planning, uses a somewhat different assumption about financial market reactions. It also assumes less success in holding down average earnings.

'Less Successful Planning'

The 'less successful planning' case assumes that from end 1983 the government begins to pursue a strategy of higher public spending, exchange and import controls and wage and planning agreements. In contrast to the 'successful planning' case, the foreign exchange markets are assumed to react by initially marking sterling down about 5 per cent. Then in Autumn 1984, as the initial impact of exchange controls wears off and as the assumed failure of wage agreements becomes apparent, the markets are assumed to try to reduce sterling's rate again, this time much more sharply. The government is assumed to acquiesce in some depreciation but to want to prevent a fall much greater than 15 per cent below early 1983 levels. As a result, the government is assumed to stabilise the effective rate at around 66 (1975 = 100) by raising short-term interest rates sharply and reversing some of its earlier increases in public spending. Tables 3 and 4 show that public spending volume by 1986 is higher than on current policies but lower than under 'successful planning'. Short-term interest rates reach about 16½ per cent.

The key differences between the 'less successful planning' case and the 'successful planning' case thus arise from the assumed behaviour of four groups. First, trades union and employers agree to significantly higher wage settlements under 'less successful planning'. Second the financial markets believe that the government's policies imply a marked depreciation of sterling. Third, other countries react to UK import controls with retaliation, in contrast to the 'successful planning' case. Fourth, the government reacts to these other groups' actions by partially reversing its own policy.

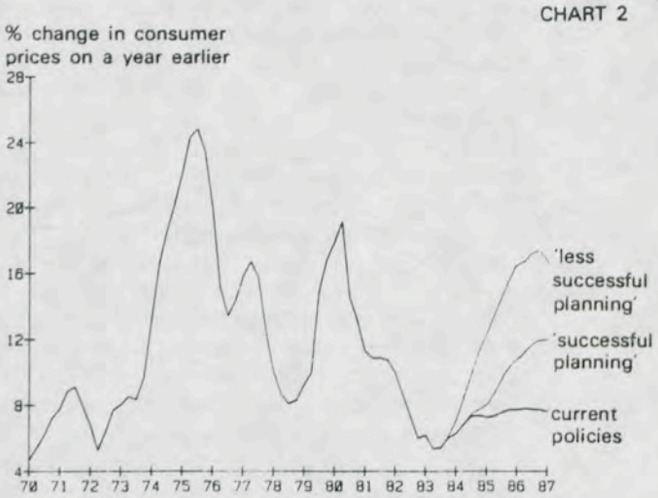
The combination of the exchange rate movements and rapidly rising average earnings causes cost competitiveness to improve during 1984 and then to worsen. By 1986, cost competitiveness has returned to the same level as under 'successful planning', somewhat worse than on 'current policies'. This improved competitiveness, although temporary, has a significant beneficial effect on the trade balance especially in 1985. This beneficial effect is boosted by our forecast of a lower level of domestic demand (explained below), which depresses imports. Retaliation by other nations against UK import controls marginally offsets these other effects. The overall impact gives our projection of about 2 per cent per annum net export growth from 1983 to 1986. This is stronger than forecast under either 'current policies' or 'successful planning'.

Rapidly growing wages and weak output combine to give a forecast of falling real corporate profitability throughout most of the period to 1986. This means that corporate borrowing rises rapidly, despite cutbacks in fixed investment and stocks. Very low (probably negative) real profitability and high borrowing suggest a dangerous position for the corporate sector by 1986.

The falling exchange rate and rapid wage increases combine to give growing inflation. Inflation is forecast to reach almost 17 per cent by 1986: it would be even higher if profitability were not expected to fall. The substantial pay increases permit those with jobs to have rising real incomes over the forecast period, despite high inflation. The upward effect of this on total personal incomes is only marginally offset by falls in employment. The resulting rise in personal incomes is the counterpart to the falls in real company profitability. Because of high and rising inflation, the savings ratio rises throughout the period from 1983 to 1986. This gives our consumer spending growth forecast of about 1½ per cent per annum over this period. In 1984, this is expected to be combined with marked rises in government spending and some increase in fixed investment, stocks and net exports. As a result, GDP increases rapidly in 1984, by 2½ per cent to 3 per cent, and unemployment falls. In 1985 and 1986 this pattern changes. Consumer spending and net exports continue to grow at about 1½ per cent per annum each. However, government and company spending stop rising or fall back. GDP rises by only ¾ per cent on average in 1985 and 1986. Unemployment rises sharply, by some 200,000 in each of those years.

It is assumed that neither public borrowing nor money stock are of direct concern to the government in this 'less successful planning' case. However these items are assumed to be of concern to the financial markets. The government acts to prevent a larger fall in the

CHART 2



COMPARISON OF INFLATION PROJECTIONS

exchange rate by raising interest rates and cutting public spending. In addition to preventing further exchange rate falls, these measures have the 'side-effect' of restraining both public borrowing and monetary growth. We expect a PSBR of £12¼ billion in 1986/7 under this case, with sterling M3 growing 10½ to 11 per cent in that year (see Tables 2 and 3). This rate of monetary growth broadly reflects very high company borrowing needs and the PSBR noted above financed by a very large personal sector surplus.

Monetary growth so far below the rate of nominal output increases is not sustainable. With the company sector under the severe financial strains noted above, a sharp fall in the rate of wage increases is likely, probably accompanied by large cutbacks in output and employment. These developments are not projected to occur within our forecast period.

Conclusion

We have reviewed three possible types of medium term developments: a continuation of present policies; a 'successful' application of planning; and a less successful application of planning. The last of these boosts inflation without reducing unemployment and sets up severe pressures on the company sector which cannot be regarded as sustainable. The 'successful planning' case provides some limited success in reducing unemployment without greatly fuelling inflation, but is based on fairly optimistic assumptions about financial and labour market reaction to government policy. The first case, continuation of current policies, holds inflation down, sets up no great strain on any sector's financial position and relies only on central guesses about financial and labour market behaviour. However, it indicates no reduction in the current rate of unemployment.

North Sea Oil

After previous optimistic predictions of North Sea oil output levels, current official estimates are now cautious. Government forecasts for 1982 suggested a range of 90-105 m. tonnes. The outturn is likely to be about 102 m. tonnes, at the top of this range. In 1983, as more fields come on line, we expect output to be 110 m. tonnes. This is in the upper half of the official band. By 1986 we expect production of 118 m. tonnes, at the mid-point of official estimates.

Whilst we predict that North Sea oil production will remain fairly buoyant, it is likely that its price will remain weak. We expect it to continue to move broadly in line with the OPEC marker price. Past levels for North Sea and OPEC prices have been respectively, in 1979 21 and 18; 1980 34 and 32; and in 1981 36 and 35 (all in dollars per barrel).

The current weakness in the oil market reflects attempts by OPEC to maintain prices without further production cuts, despite weak world demand. Although OPEC may eventually make some formal or informal agreement to cut production, we do not expect any strong recovery in demand for oil. World output (OECD Gross National Product) is expected to grow by less than 2 per cent per annum over the forecast period. Given this background we expect the North Sea oil price to change little in 1983 and 1984, thereafter rising to 41 dollars/barrel by 1986.

These movements are broadly in line with the expected change in other world commodity prices.

One of the major factors influencing North Sea oil revenues is the dollar/sterling exchange rate. Since North Sea oil is (currently) priced in dollars, a depreciation in sterling increases government tax receipts. To underline the importance of currency movements, we illustrate below the impact on North Sea oil revenues of a depreciation in the exchange rate by 10 per cent. The percentage of North Sea revenues accruing to the Treasury has increased from 28 per cent in 1979 to 51 per cent in 1981. For the forecast period this rate will rise further, given the present tax structure. We assume that it will be over 60 per cent by 1986.

10 per cent Depreciation in the Sterling-Dollar Exchange Rate

Changes from the base forecast	1983	1984	1985	1986
Profits from N.S. oil (£bn)	1.4	1.5	1.7	2.0
Total N.S. tax receipts (£bn)	0.8	1.0	1.2	1.5
Consumer Price Index (Annual %)	1.2	2.7	2.7	2.6
GDP (% increase)	0.4	0.4	0.1	0.1

Our forecasts for oil revenues and tax receipts on these assumptions are given below. (The figures apply to the 'current policies' and 'successful planning' cases. Government revenues are somewhat higher in the 'less successful planning' case because sterling is lower):

	1983	1984	1985	1986
Price of North Sea Oil (dollars/barrel)	31	34	37	41
Exchange rate $/£	1.6	1.7	1.7	1.7
Production (m.tonnes)	110	114	118	122
Value of North Sea Oil Production (£bn)	13.1	14.0	15.7	18.6
Contribution to public sector revenues (financial years, £bn)	8.9	10.2	12.7	15.1

List of adjustments and fixes used in the simulations

Variable description and model code	'successful planning'	'less successful planning'	Reason for altering variable
Effective exchange rage (EER)	Fixed at 'current policies' rate	Exogenously made to fall to 66 (1975 = 100)	Explained fully in text
Average earnings in manufacturing (AEM)	Adjustment starting at 0.2% rising to 1½%	Adjustment starting at ¼%, rising to 2%	Reflects impact on wage bargaining of reduced import competition, partially offset by agreement with unions
General Government consumption (G)	Raised £40m (at 1975 prices) in 1983Q4, rising to £400m per quarter by end-1986	Raised £100m (at 1975 prices) in 1983Q4 rising to £200m during 1984 then falling back to £100m	Government fiscal policy instrument
Total import volume (M)	Fixed at 'current policies' level	Prevented from rising above 'current policies' level	Reflects controls on import volumes
Manufactured goods export volume (XGM)	Growth rate adjusted up ½% per quarter from 1984Q4	Growth rate adjusted down ½% per quarter from 1984Q4	Reflects reciprocal trade agreements, or retaliation
Personal income tax payments (TJYP)	Adjusted down £250m (current prices) per quarter 1985Q1, £500m per quarter from 1986Q4	No adjustment from 'current policies'	Reflects cut in basic income tax rate
Private non-residential fixed investment (INPOX)	Adjusted up £100m (1975 prices) from 1986Q1	No adjustment from 'current policies'	Reflects 'planning agreements' between government and industry
UK Treasury Bill rate (RS)	No adjustment from 'current policies'	Adjustment of 1½ points per quarter from 1984Q4	Fully explained in text
Consumer spending volume (C)	No adjustment from 'current policies'	Adjusted down by £40m (at 1975 prices) from 1984Q4 – rising slightly	Reflects redistributive effect of interest rate changes
Manufacturing employment (EEMF)	No adjustment from 'current policies'	Adjusted down 10 thousand per quarter from 1985Q1	Reflects impact of severe financial squeeze on company behaviour

Note: The effect of 'adjustments' is fully or partially cumulative in some cases. See LBS Model Manual. All adjustments mentioned are relative to the 'current policies' main forecast. The adjustments used in the main forecast are printed in Tables 14-17, pp. 81 to 84.

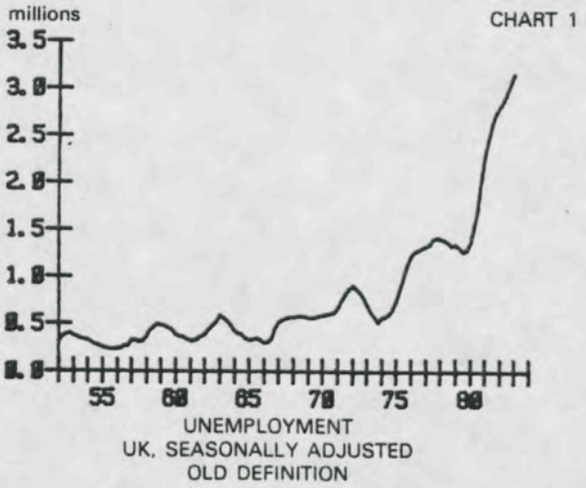
Economic Viewpoint

The Economy: Returning to Balance?

ALAN BUDD and GEOFFREY DICKS

In October 1981 in "An Economy Out of Balance" we examined the state of the economy following the severe shocks of 1979 and 1980. We warned that adjustments in some markets, particularly for goods and labour, might be "painfully slow". In this Viewpoint *we bring that study up to date. We argue that the recent fall in the exchange rate has helped to correct some of those imbalances and that there should now be the basis for a recovery of output and a check to the rise in unemployment.*

In our previous article we started by suggesting that "with manufacturing output 20 per cent below its mid-1979 level and unemployment at a post-war record and still rising, it is clear that the economy is severely out of balance". Charts 1 and 2 show that there appears to have been little or no progress in restoring that balance in the past 15 months. At the time, we expected



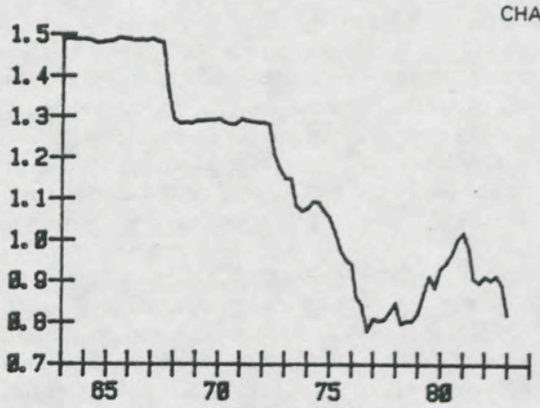
manufacturing output to fall by a further 1 per cent during 1982 but it now looks as if the fall will be about 3 per cent. Unemployment has also risen more rapidly than we expected. One rather gloomy conclusion that could be drawn is that the labour and goods markets are in fact in balance and that there has been a permanent rise in unemployment and a permanent fall in the underlying level of manufacturing output. We believe that that is too pessimistic; we shall suggest that those markets have been affected by a particularly unfavourable combination of costs and prices and that for most of 1982 there was little further adjustment. We interpret that as a sign of how slowly they adjust rather than as a sign that they were in equilibrium. Since October of last year there has been a further significant adjustment through the fall in the exchange rate. We shall consider, as before, the current state of the markets for foreign currency, for domestic money, for goods and services and for labour.

The Exchange Rate

After its fall during the summer of 1981, the effective exchange rate remained remarkably stable until near the end of 1982. As Charts 4 and 5 show, during this period the exchange rate was high, by comparison with previous trends, in relation to the money supply and in relation to UK prices. In the past we have particularly emphasised the role of the money supply in determining movements in the exchange rate. The idea is that the exchange rate anticipates future movements in relative prices. If, in the long run, competitive forces ensure that our prices move roughly in line with those of our competitors, when measured in a common currency, then a relative rise in the UK money supply will cause the exchange rate to fall. The rise in the money supply will raise prices in sterling and the fall in the exchange rate will keep our prices, in a common currency, in line with those of our competitors.

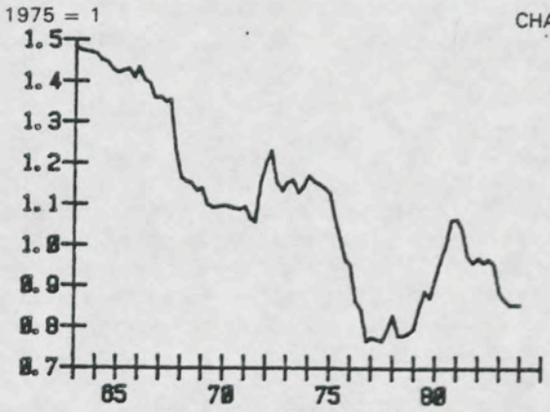
From the beginning of 1979 to the beginning of 1981 there was little sign of these processes operating. Although the money supply grew rapidly the exchange rate actually rose; far from the movement in the exchange rate bringing our prices into line with those of our competitors it actually exaggerated the loss of competitiveness caused by the rapid rise in UK costs. The fall in the exchange rate in the middle of 1981 removed part of the imbalance and the most recent fall has gone a considerable way to restoring the exchange rate to the levels that would be expected from underlying relationships. Further evidence that the fall in the exchange rate has now brought UK prices into line with those in the rest of the world is provided by Chart 6. It shows the relationship between import prices and world prices of manufactured goods (each measured in the same currency). Although the UK is an open economy and only represents a small part of the total world market, during 1979 and 1980, the UK was a "price-setter" rather than a "price-taker" in its own domestic

CHART 3



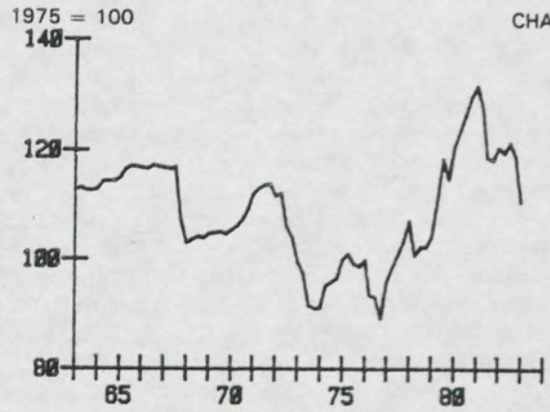
EXCHANGE RATE
TRADE-WEIGHTED, 1975 = 1

CHART 4



RELATIVE MONEY SUPPLY
UK VS 'WORLD'
IN COMMON CURRENCY

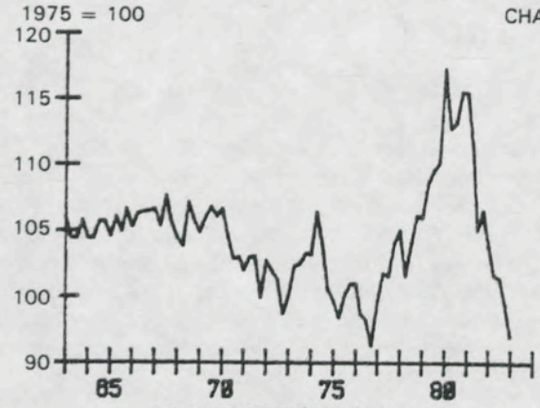
CHART 5



COMPETITIVENESS WHOLESALE PRICES
IN COMMON CURRENCY

market. Foreign manufacturers sold their goods in the UK at UK prices rather than at world prices and thereby made large profit margins rather than seeking a large volume of sales by holding their prices lower. (Had they done the latter they might have feared that the UK would extend protection.) As the exchange rate has fallen, foreign suppliers have cut their prices in foreign currency terms and import prices have now come back into line with world prices. (One important implication of this development is that *further* falls in the exchange rate are likely to lead to a proportionate rise in import prices.)

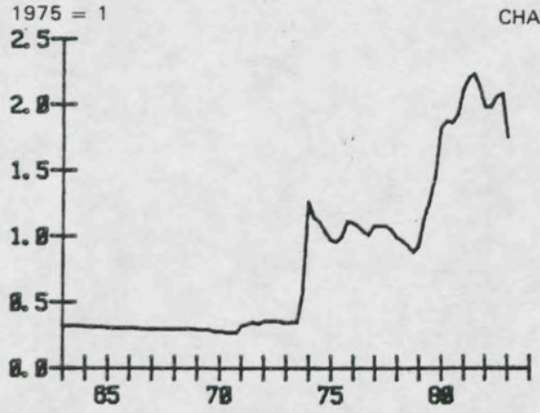
CHART 6



MANUFACTURING PRICES
RATIO OF UK IMPORT PRICES
TO WORLD EXPORT PRICES

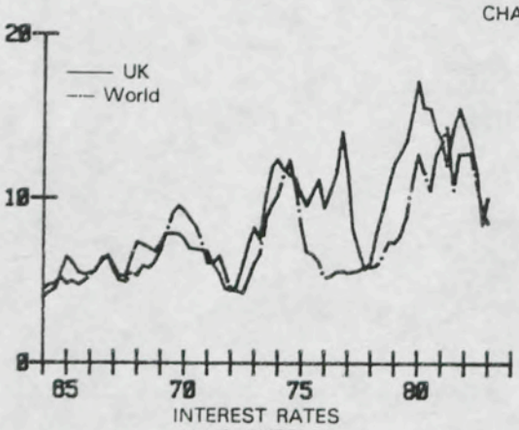
It is difficult to quantify the relative importance of a number of possible causes of the recent fall in the rate. Political uncertainty appears to have played a part but more concretely there has been the fall in oil prices, with further falls expected, and a relative decline in UK interest rates (Charts 7 and 8).

CHART 7



REAL OIL PRICE

CHART 8



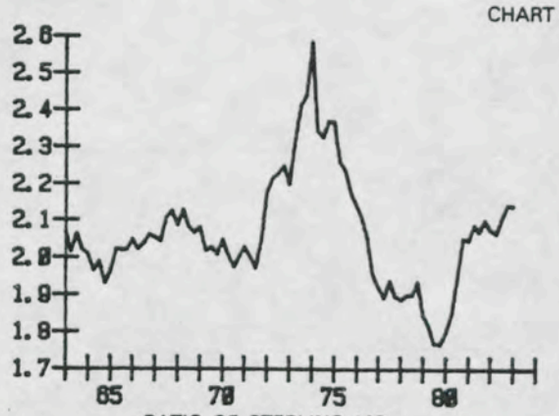
INTEREST RATES
UK & 'WORLD'
3-MONTH TREASURY BILLS

Although the fall in the exchange rate has largely restored our relative prices to their expected levels, there is still some discrepancy, compared with past trends, between the exchange rate and the quantity of money in the UK. This discrepancy matches the discrepancy between the money supply and prices, which reflects conditions in the market for money. We consider it next.

Money

The growth of the money supply (sterling M3) is currently being held within the upper limit of the range of 8-12 per cent set at the last Budget. If the outturn is about 11 per cent for the current financial year, the cumulative growth of the money supply over the three years of the MTFS (since April 1980) will have been about 60 per cent. Over the same period nominal GDP has risen by about 30 per cent and private expenditure, in current prices, has risen by about 25 per cent. Those developments appear to raise serious doubts about the basis of the government's strategy of reducing the growth of the money supply in order to reduce the growth of nominal income and inflation.

CHART 9



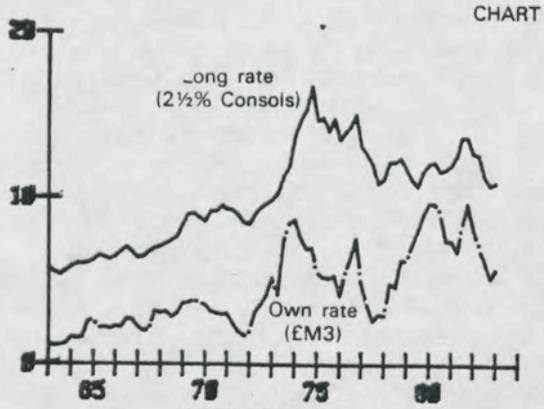
RATIO OF STERLING M3
TO PRIVATE SECTOR GDP

Chart 9 shows the ratio of sterling M3 to private sector expenditure. There was a much larger rise in the ratio at the time of the monetary explosion of 1972-3 but that was followed by a return to more normal levels. That adjustment came about almost entirely through a rise in prices. A crucial question is whether there will be a similar reaction (though on a smaller scale) from the current position. To use more familiar terms, we have seen a significant fall in the velocity of circulation of money and the question is whether it will rise again to its former rate. If it does, there is the further question of how the rise in nominal expenditure will be shared between price rises and increases in real expenditure. (Finally there is the question of how much of any increase in real expenditure will be met from domestic output and how much will be spent on foreign goods.)

The first point to be made is that the starting point for the calculations of monetary growth and expenditure growth mentioned above – the first quarter of 1980 – was untypical. The growth of the money supply was being artificially held down by the operation of the corset and people were being forced to hold other forms of financial asset. Part of the fall in the velocity of circulation since then has been due to the unwinding of that effect. However, the Treasury has hitherto based its choice of monetary targets on the assumption that there is an underlying rise in the velocity of circulation – i.e. a fall in the ratio of the money supply to nominal GDP – through time. Roughly speaking, past trends suggest that nominal GDP rises between 1 and 2 per cent a year faster than the money supply. On that basis the current ratio of 2.1 (money stock/quarterly private sector nominal GDP) may be compared with an expected trend value of 2.0. If that calculation were correct it would suggest that the current level of the money supply is sufficient to finance an additional 3 per cent of private expenditure.

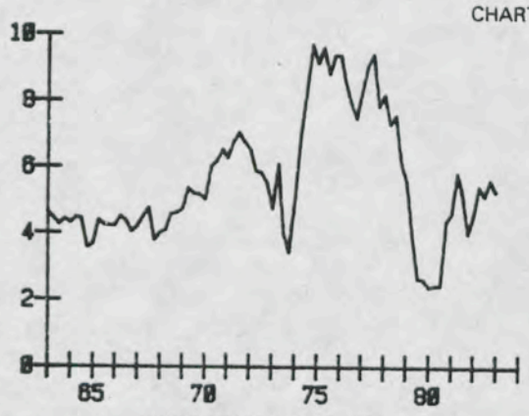
The Treasury's view, in setting the monetary targets for the Medium-Term Financial Strategy, appears to be that there has been a permanent shift in the demand for money, i.e. a permanent fall in the velocity of circulation. We have on several occasions suggested reasons

CHART 10



INTEREST RATES
UK LONG RATE & OWN
RATE ON MONEY

CHART 11



OPPORTUNITY COST OF
STERLING M3

for a *temporary* fall in velocity. The most important explanation was the rise in the relative return on money balances, compared with other financial assets. Chart 10 shows the movements in the average return on money balances and the return on 2½ per cent consols; Chart 11 shows the difference between the two series. For much of 1980 the gap between the two rates was exceptionally small. Money therefore became an attractive asset and the demand for money balances rose relative to expenditure. However the gap between the two returns has opened up since the end of 1980 and one would expect on those grounds to see some rise in velocity. Chart 9 does not suggest that this has yet happened. It is, however, possible that there has been a permanent shift towards money. For much of the post-war period, the UK has been exceptional in experiencing a rising velocity of circulation in terms of broad definitions of the money supply. This may be because cartel arrangements among the clearing banks and rising inflation have generated very low or negative real returns on time deposits. In more recent years competition has become far more intense and we may be reaching the end of the era in which the public is prepared to lend funds to the banks at low interest rates. Thus there will be less incentive to economise on money balances.

We have implicitly accepted arguments of this type in our forecasts and we are forecasting little further change in the velocity of circulation. However, we cannot be completely sure that the money market is in balance. There is still the possibility of a rapid growth of expenditure if velocity returns to its previous trend level. In the short run much of the response would be felt on output but in the longer term our forecasts of inflation could prove far too optimistic. For the moment we are assuming that the market for money, like the market for currency, is back in balance.

If we extend our discussion to the wider question of balance in financial markets as a whole, we have in the past emphasised the strains that can be placed on the market by an excessively large PSBR in relation to money supply targets. The rapid reduction in the ratio of the PSBR to GDP (from nearly 6 per cent in 1980/81 to less than 3 per cent in the current financial year) has greatly eased the financing problem. Private sector pressures on the money supply (from bank borrowing) have been stronger than expected and may account for the persistence of high real interest rates; but the current broad fiscal/monetary policy mix is about right.

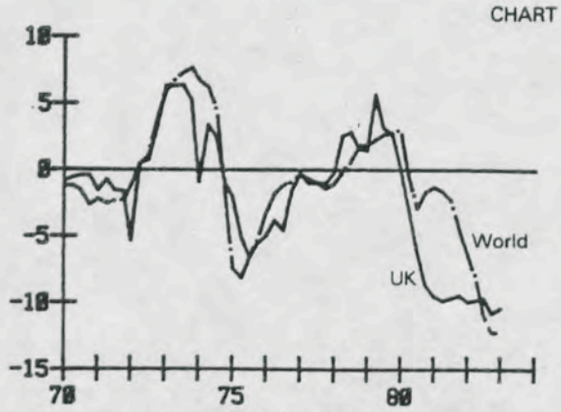
Goods and Services

We argued in the previous *Economic Viewpoint* that disequilibrium in the market for money had affected the market for goods and services during 1980. The high return on money had raised the demand for money, and people tried to switch from expenditure into money, thereby reducing the level of demand and output. Also the exceptionally high level of the real exchange rate had the conventional effect of increasing imports and harming exports. The accompanying high rates of interest affected investment and stockbuilding.

We do not believe that the arguments relating to money markets or to the high exchange rate apply with the force they did. In each case there has been a significant change, although the fall in the exchange rate has been too recent for it to have had any effect on the market for goods and services so far. Real interest rates have, however, remained high. We believe that this helps to explain the further reduction in stock levels in the second half of last year.

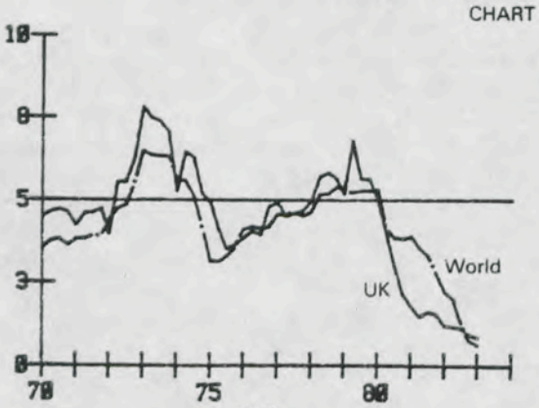
A further possible source of imbalance in the economy is through a weakness of world demand. We argued in October 1981 that, at that stage, the world recession could only have been a minor factor compared with domestic developments. Charts 12 and 13 suggest that the position has changed markedly. Chart 12 compares industrial production in the UK and the world and Chart 13 shows developments in GDP. Chart 12 should be the more significant in terms of causation. The main effect of world demand on our economy comes through exports of goods which will tend, in turn, to depend on world industrial production. In the past, as Chart 12 shows, movements in UK industrial produc-

CHART 12



INDUSTRIAL PRODUCTION
% DEVIATION FROM TREND
UK & WORLD

CHART 13



GDP
% DEVIATION FROM TREND
UK & WORLD

tion have closely matched movements in world industrial production when each is measured in terms of deviations from a trend. During 1980 and 1981 the UK economy, quite exceptionally, experienced a recession which was far deeper than the world recession.

Since 1981, however, there has been a considerable improvement in the relative position of the UK and the world recession is, if anything, now deeper than that of the UK. This can be seen for both industrial production and for GDP. (The relative position of manufacturing output is rather worse.) One can say that other economies have been suffering similar problems of imbalance as they have pursued counter-inflationary policies. (It is not possible, by definition, for all countries to have an over-valued currency but, as discussed in January's *Forecast Release*, the US has certainly suffered from the rise in its real exchange rate and the strong dollar imposed inflationary problems on other industrial economies.) Charts 12 and 13 suggest that the UK will now benefit from the expected recovery in world output in 1983 and 1984.

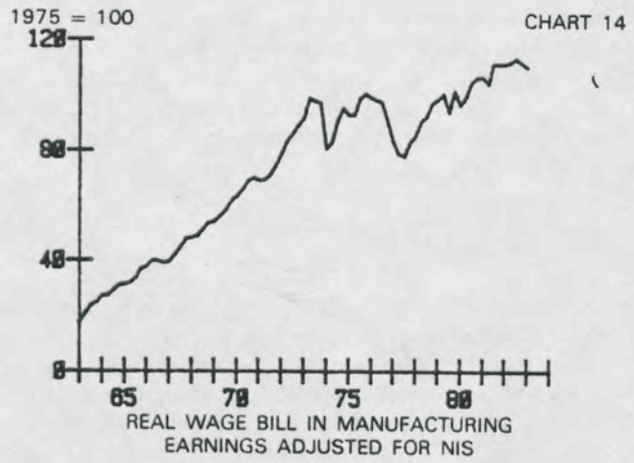
Finally, the government's policy of reducing the PSBR has had the short-term effect of cutting domestic demand. Although we are expecting the downward trend in the ratio of the PSBR to GDP to continue, this is consistent, thanks to North Sea oil, with a reduced burden of tax on the personal sector and the non-oil companies, and there is scope for a steady increase in domestic demand.

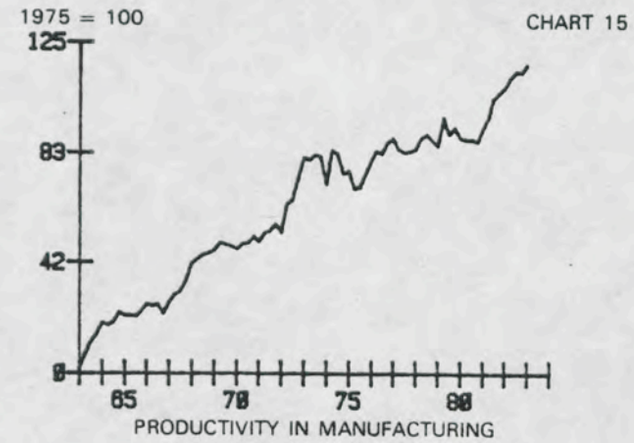
Labour

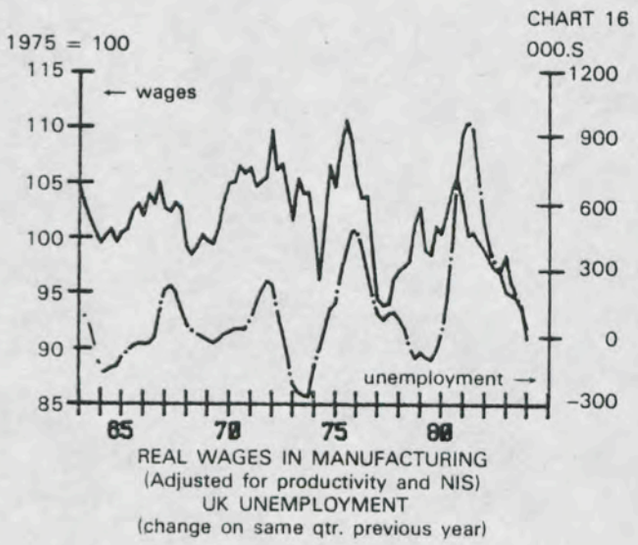
It is the labour market which is taking longest to come into balance. Throughout this recession, and in spite of the rapid rise in unemployment, average earnings in manufacturing have risen faster than producer prices. In terms of decisions about employment it is the marginal cost of labour that matters and it may be that the marginal cost, i.e. the cost of employing an extra worker, has risen rather less rapidly than average earnings since the latter includes increases in working hours. However, it is discouraging that the recession has had so little effect on pay levels. (The rate of nominal increases in pay has fallen but the rate of inflation has fallen even more rapidly.)

Although the recession has had little effect on average earnings it appears to have had a marked impact on labour costs. The rate of increase of unit labour costs in manufacturing during 1980 was 22 per cent; during 1981 it was 10 per cent and during 1982 it was probably about 5 per cent. At the risk of over-simplification one can say that productivity increases together with reductions in the national insurance surcharge have brought about the reductions in costs that were needed, given the rise in wages.

Charts 14 to 16 show what has happened. Chart 14 shows the movements in the ratio of wages to prices and Chart 15 shows productivity. Chart 16 shows that when the exceptional increases of productivity in recent years are taken into account the ratio falls significantly. The chart makes allowance for movements in other input prices and therefore provides a reasonable guide to the average profit margin in manufacturing. In the past, as Chart 16 shows, the level of the ratio has roughly matched the change in unemployment. A high ratio has been associated with rapid increases in unemployment







and a low ratio has been associated with stable or falling unemployment. We emphasised before that we cannot necessarily deduce a causal relationship between the two. A recession caused by external factors – a world recession for example – will tend to increase unemployment and raise the ratio of labour costs to prices because productivity falls. Also the recent rise in productivity has itself been brought about by a fall in employment rather than by a rise in output so that the increase in unemployment has necessarily accompanied the rise in productivity and the fall in the ratio. We can, however, suggest that if the ratio is held at its current level as a result of wages rising at about the same rate of prices, there are reasonable prospects for an end to the rise in unemployment.

Back in Balance?

In October 1981 we particularly emphasised two points at which the economy seemed to be out of balance. The first was the exchange rate and the second was wages. The two were connected since both wages and prices had been slow to adjust to the rise in the exchange rate since the beginning of 1979. At that time we forecast that the effective exchange rate would fall steadily during 1982 and would reach a level of 79 by the first quarter of 1983. In the event the exchange rate stayed much higher than we expected until the end of 1982. However, cost competitiveness improved about as much as we expected because productivity rose much more rapidly than we expected. The most recent fall in the exchange rate goes a long way to restoring balance in terms of our competitiveness and we have seen a significant shift in the relationship between wage costs and prices.

These developments suggest that we can now hope to see some restoration of balance in the markets for goods and for labour. On our calculations, the growth of output in 1982 (as measured by the expenditure estimate of GDP) was equal to the growth of final expenditure (consumption plus exports plus investment). In other words there was no net drain on the growth of output from destocking or imports. That is by strong contrast with the position in recent years, particularly in 1980 when final expenditure was unchanged but output fell by 2 per cent.

We are forecasting that final expenditure will grow by about 1.9 per cent in 1983 and that output will grow slightly less rapidly. There is a good chance that with the economy back in balance we shall see a rise in the proportion of expenditure which is met out of domestic production and that the growth of output will be more rapid than our forecasts suggest.

Briefing Paper

Forecasting uncertainty; How accurate can we be?

R. J. CORKER

This Briefing Paper *is the second in our series of three papers concerning aspects of forecasting and model building. In last October's* Economic Outlook *we discussed the structure of econometric models and how they are used, in conjunction with our judgement, to produce macroeconomic forecasts. It was stressed in that paper that the equations we use in our economic models cannot describe economic behaviour precisely. There are unpredictable, random elements, which affect actual outcomes – in other words our equations are* stochastic. *In this paper we investigate the stochastic nature of the equations and the model more closely and we describe ways of quantifying the uncertainty of our published forecasts. We publish, for the first time, projected error bands about our central forecast. To a large extent we are attempting to answer the question, "How accurate* can *we be?". The related question "How accurate* have *we been?" will form the basis of the third article, to be published in June. The paper is divided into three parts. Part I is mainly expositional; Part II describes our methodology and Part III presents the empirical results.*

I SOURCES OF FORECAST ERROR

Before we discuss how we might quantify forecast uncertainty, it is instructive to catalogue the sources of error in a macroeconomic forecast produced by a large-scale computer model. (A brief summary of the key features of econometric models as described in the October 1982 *Briefing Paper* can be found opposite. The reader who is familiar with the operation of economic models should turn to Part II, where we discuss our methodology or to Part III where we present our empirical results.)

In considering the possible sources of errors in our forecasts it is convenient to distinguish between model and non-model errors.

Model errors

Model-generated forecast errors derive from two sources; equation misspecification and the stochastic nature of the model. Taking the first of these, errors in specification relate to our having an incorrect model. In other words our equations are an incorrect description of economic behaviour. For example, we may include explanatory variables which are irrelevant or exclude variables which have an important influence on the economic activity in question. We may have the right variables but expressed in the wrong form. Also we may wrongly specify the dynamics of economic behaviour. The search for correct behavioural relationships requires that we have the correct economic theory and that the theory is correctly expressed and estimated. This is not a simple problem. All models of the UK economy are inevitably misspecified to some extent and will remain so despite continued research efforts.

The misspecification errors are perhaps the most

In the October 1982 *Briefing Paper* we described the main features of an econometric model. We may briefly summarise these as follows:

An econometric model is made up of a set of mathematical equations. These equations represent relationships between macroeconomic quantities – e.g. inflation, total consumption, the money supply, etc. – and are of three types. The most important – and contentious – equations are those described as *"behavioural"* and which express our theoretical perception of how the economy behaves. Identities and technical relationships (the other types of equation) have less contentious origins.

A forecast is just a mathematical solution for the future values of economic quantities that is consistent with all the behavioural equations, technical relationships and identities in the model. The solution procedure is somewhat complicated since the equations are *simultaneous*. We need to know the forecast value of one variable before we can forecast another, but the forecast of the first variable again depends on the forecast of a third variable which may depend on the first and so on. A computer algorithm is needed to find the consistent solution path.

The model is also *dynamic* with current values of economic variables depending on past values of either themselves or other variables. Such a feature means that our model does not exhibit instant adjustment; for example, the price level will only respond to a change in the money supply gradually and after a delay.

Finally there is an important distinction between variables which we denote as *endogenous* and those designated as *exogenous*. Both types of variable will be found in behavioural equations helping to forecast other variables but the forecast of the exogenous variables is determined by a process outside the model structure. For example we decide at an early stage of the forecast the projected volume of government spending for the next five years. Hence there is no equation in the model to determine government spending, but government spending is used to forecast other variables such as government employment and the PSBR which are endogenous. The move to cash limits and the planning of public expenditure in cash terms means that we do have to reconsider our initial projections in the light of our forecasts of the public sector wage bill and the authorities' planning total.

serious kind since it is not possible to quantify their likely magnitude in advance. For this reason statements about forecast uncertainty are conditional on the absence of specification error. Stochastic errors arise because the equations in our model cannot be exact descriptions of economic activity and are necessarily simplifications of what we know to be more complex processes. We know that our equations do not precisely fit past observations and we do not expect them to predict outcomes precisely in the future. But any statement about the magnitude of the errors is based on the assumption that the equation is an unbiased representation of reality.

We can illustrate these sources of model error by referring again to the equation for consumption of non-durables which we described in the previous *Briefing Paper*. (See below). The equation will almost certainly be misspecified. For example, there is no mention of the personal sector's wealth, or the level of unemployment, although both probably affect consumers' behaviour. Also we have only one measure of income whereas consumption will depend on how income is distributed between different groups of people. The term ϵ_t records our recognition that this is a stochastic equation. Our statistical techniques provide an estimate of the distribution (or pattern) of the stochastic errors.

Over the estimation period the average value of these errors is zero but, as we described in the previous *Briefing Paper*, we sometimes project non-zero error terms, which we call "constant adjustments".* It should be noted that these projections do not necessarily mean that we know precisely what the future value of the error term will be, rather we have some view of what its expected or average value will be in future periods. Thus for all our forecasts using behavioural equations there will be stochastic errors in the future and these contribute to the uncertainty of the forecast.

The fact that we choose non-zero values for some of the residual terms in the future implies something about the *prior certainty* we possess about the actual outcomes. We only impose the non-zero constant adjustment because we are more confident that this will improve the accuracy of the forecast. This confidence hinges on the forecaster's access to external information such as industrial surveys, monthly data, etc., which are not reflected in the equations of the model. Therefore, although we can measure the distribution of stochastic errors in the past, this distribution may not be an accurate representation of *our view* of the pattern of errors in the future. By drawing on our external information and judgement, we believe that for the short period of, say, up to four quarters into the future, the pattern of random errors will be more tightly clustered around our chosen constant adjustment than they have been in the past. So departures from the constant adjustment are *less likely to be as large* as the model equation suggests. Obviously as we forecast further into the future our confidence in external information diminishes and our expected distribution of future residuals is then best described by historical outcomes. Statements about the certainty we have in our forecast should reflect this judgemental confidence.

* For the present forecast, tables of constant adjustments can be found on pages 81-4

The consumption equation in the LBS model

$$\Delta \ln CND_t = -0.0045 - 0.470\,\Delta \ln CND_{t-1} - 0.344\,\Delta \ln CND_{t-2} + 0.208\,\Delta \ln YD/_t + 0.151\,\Delta_2 \ln YD/_{t-2} - 0.096 \ln \frac{CND_{t-3}}{YD/_{t-4}} - 0.201\,\Delta \ln PC_t - 0.213\,(\Delta \ln PC_{t-1} - \Delta \ln PC_{t-2}) - 0.166\,\Delta \ln PC_{t-3} + \epsilon_t$$

Key

CND = Non-durable consumption (1975 prices)
YD/ = Real disposable income
PC = Consumption price deflator

ln = Natural logarithm of variable
subscript t = Time period (in quarter years)
Δ = difference of variable, e.g. $\Delta \ln CND_t = \ln CND_t - \ln CND_{t-1}$
Δ_2 = two-period difference, e.g. $\Delta \ln YD/_t = \ln YD/_t - \ln YD/_{t-2}$
ϵ_t = (random) error term

For a description of this equation, see *Economic Outlook*, October 1982, p. 28.

Finally, the parameters or coefficients, such as the numbers –0.470 and –0.344 are also subject to uncertainty. Statistical techniques generate the expected value of these parameters but we cannot be certain, even if the equation is correctly specified, that these numbers are correct. Uncertainty about the values of parameters provides another possible source of model error.

Non-model errors

Non-model errors can occur even if the model is correctly specified and is not subject to stochastic errors in estimated equations. One important source is errors in the published data. Largely this is a problem of scale. The official statisticians collect vast numbers of returns from firms, shops, banks etc., which they aggregate into single observations. This process will involve considerable measurement error and it would be impossible to calculate exactly the true value of GDP, for example, for a country as large as the UK (even if a satisfactory, unambiguous definition could be agreed upon). By itself, this means that our estimation of model equations are based on data that only approximate the true values of economic outturns.

A more serious problem, however, is that the data are often revised by the official statisticians, particularly when series are *seasonally adjusted.* Seasonal adjustment is a process of smoothing raw data to remove an underlying or systematic seasonal pattern. For example the level of unemployment is usually seasonally adjusted to take account of such factors as the end of the school year or holiday-related jobs. The techniques of seasonal adjustment are frequently updated and so, perhaps as long as 12-18 months after the first publication, official estimates are revised. The consequence is that the latest data we have are largely provisional. Since our equations are dynamic this means that these recent values are used to predict future values for other variables. Hence there is a possibility that forecast errors are made because we start with wrong historical values.

A second non-model error source is in our prediction of the likely paths of exogenous variables. These, it will be recalled, are not generated by the model but must be predicted independently beforehand. In our model most policy variables such as tax rates and the level of public expenditure are forecast exogenously.

Errors in exogenous variable forecasts can be broken down into two components in much the same way that model forecast errors have in the previous section. In one sense there is a stochastic component: government spending, world interest rates etc., can only be forecast to within a certain tolerance. It is possible, as we see later, to allow for this source of error when evaluating overall forecast uncertainty.

A second component, which is usually unquantifiable, is the probability that our underlying assumptions break down. To take an example, we know there will be a general election in the near future. The outcome of this election will determine the course of the economy in the short and medium term. It is much more difficult to allow for the possibility of fundamental changes of policy using the statistical techniques we are applying here. Thus our statements about uncertainty are dependent on the policy assumptions which are set out on pp. 6 to 10.

Just as we impose non-zero constant adjustments in which we have more confidence than historical estimation of behavioural equations might otherwise suggest, generally we are more confident about our immediate exogenous variable forecasts than our projections for the medium or longer term. For example, over the next twelve months we could view large random departures from our expected forecast for current government spending to be less likely than in subsequent periods. So for exogenous variables we also have a prior view of the distribution of the future stochastic components which may well differ from some historically measured pattern of deviations from past trends. Again we attempt to reflect these prior views in the measurement of future forecast certainty to which we now turn.

II QUANTIFYING FUTURE UNCERTAINTY

From the preceding discussion we have suggested that there are ways of quantifying at least part of a forecast's uncertainty. In this section we describe one way of doing this. Firstly, though, we describe a summary measure which is used to capture the size of uncertainty. This is usually referred to as the *standard error.*

Suppose we take all our forecasts made in the past and compare them with actual outcomes. The difference between actuals and predictions are then measurable forecasting errors. If our model is unbiased, on average those errors are zero although in certain cases they may be of substantial size. The standard error is calculated by squaring all these errors, adding all the squared errors together, dividing the sum by the number of forecasts and then taking the square root (see below).

Constructing the forecast standard error

Let A_t = actual value of the variable in period t
$P_{i,t}$ = i^{th} predicted value of the variables in period t
n = the number of predictions
s_t = the standard error at time t

Then,

$$s_t = \sqrt{\frac{\sum_{i=1}^{n} (P_{i,t} - A_t)^2}{n}}$$

As described in the text, each $P_{i,t}$ is generated by stochastic simulation to produce an artificial sample of predictions consistent with the idea that each forecast has an unpredictable random component. A_t is chosen to be the base forecast value since actual values are obviously unknown in the future.

The advantage of this seemingly complicated measure is that it has certain statistical properties that we can use to our advantage in the following way. If we can predict the size of the standard error for each variable in the future, then, by making some not too onerous mathematical assumptions*, we can make probability statements about the certainty of the forecast. In particular if the assumptions we make about the quality of our model and about government policy are correct then there is only a one-in-twenty chance that the actual outcome will lie outside a band ±2 standard errors either side of the central forecast. The forecast uncertainty can therefore be quantified if we can in some way measure future standard errors of variables.

Stochastic simulations

Our aim in this paper is to quantify *some* elements of the uncertainty and future errors of our forecasts. We shall particularly concentrate on the errors that arise from the stochastic nature of the behavioural equations and from the uncertainty of our forecasts of exogenous variables. Even though this is a limited exercise it is an extremely complex one. Our model is highly interdependent. Therefore errors in one part of the forecast will generate errors in another part of the forecast. For example, errors in forecasting real personal disposable income (which is itself generated by several separate equations) will cause errors in forecasting consumption even if the equation for consumption is exactly correct. Our forecast for GDP depends on the interaction between a large number of behavioural equations and exogenous forecasts. It is virtually impossible to calculate the standard error of the forecast of GDP or of the other key variables in our forecast analytically. Instead we use the technique of *stochastic simulations*.

Stochastic simulations are produced by programming the computer to generate a large number of forecasts. Each forecast uses the estimated structure of the model but in each case where stochastic errors can occur it chooses random numbers according to the rules (or probability distributions) which we estimate generated the errors observed in the past. (As we explain in the next section, in some cases we alter the probability distributions for the future.) In the equation for non-durable consumption, for example, stochastic errors can arise in each of the coefficients on the right hand side or through the residual term, ϵ_t. There will also be an equation elsewhere in the model for the consumer price index which will in turn have its own stochastic elements – in particular a residual term and a dependence on exogenously determined tax rates. In the past we have observed, or at least can estimate, the size of the standard error of all these sources. For example, the standard error of the residual of non-durable consumption is 0.6 per cent of its average value in the past and that for consumer prices is 0.4 per cent. So the random numbers chosen are scaled by these standard errors. The scaling is such that 68 per cent of the random numbers for the non-durable consumption residuals lie within a range ±0.6 per cent of the base forecast value (i.e. the chosen value of any future constant adjustment) and 95 per cent will lie in the band ±1.2 per cent either side of the base forecast in each future period. The stochastic simulations of the model will provide a range of forecasts for all the endogenous variables in the model. We can then estimate the standard error of these forecasts and use them as a measure (in the limited sense already emphasised) of the uncertainty of our forecasts.

We have only found it practicable to generate stochastic simulations based on two sources of random error: the residual error in estimated equations and the error in forecasting exogenous variables. We have not included the errors that can be generated from the stochastic nature of the estimates of the parameters or coefficients of the equations.

Allowance for judgement

A further possibility is to take account of the judgemental skill of the forecaster when we evaluate forecast uncertainty (see Corker, Ellis and Holly, "Uncertainty and Forecasting Precision", CEF Discussion Paper No. 98). One of the conclusions of the first *Briefing Paper* in this series was that a forecaster's judgement is a legitimate addition to the forecasting procedure. The forecaster typically has some additional information which he wishes to incorporate in the forecast through imposing a constant adjustment. In some cases this means that the forecaster will be less uncertain about the future than perhaps the stochastic experiments suggest – at least for, say, six to twelve months into the future. To capture this feature we have thus devised a scheme for rescaling the measured standard errors of constant adjustments and exogenous variables in the immediate future when we conduct stochastic simulations on the model.

For constant adjustments imposed in the immediate future our prior view is that sizeable deviations from these values are less likely than in the more distant future. We therefore scale down the standard errors of constant adjustments in the short run relative to those in the longer run. Similarly we allow the standard errors of exogenous forecasts to grow with time once again to reflect our prior views.

Hence the forecast standard error bands we publish in this edition of *Economic Outlook* take into account three factors: the stochastic nature of model equations, the stochastic nature of exogenous variable forecasts and the certainty content of forecasters' judgement. The quantification of the latter is somewhat subjective, but we believe that the results give a better estimate of the true margin of error than if we simply ignore the problem.

* Namely stationarity, normality and linearity.

Interpretation of the standard error bands

We emphasise that the standard errors we present are *conditional* measures of uncertainty. They are conditional on

a) A correctly specified model.
b) The policy assumptions which have been used.
c) No fundamental change in the structure of the economy.

A way of extending the scope of the uncertainty measures to overcome condition (b) would be to produce an alternative forecast based on an alternative set of assumptions about economic policy*. The forecast standard errors would then be recomputed for this second 'scenario'. The alternative forecast would thus have associated confidence bands. For the *conditional* standard errors presented there is a 95 per cent chance that the actual outcome will lie within ±2 standard errors of the central forecast. There is a 68 per cent probability that the outcome will lie in a ±1 standard error band.

III UNCERTAINTY AND THE CURRENT FORECAST

In Table 1 we present the results of the stochastic experiments which quantify the uncertainty of the forecast contained in this *Economic Outlook*. We concentrate on just a few key variables, reporting annual totals or averages for the next three years.

Considering all the variables together we observe certain common features. The standard errors all become larger the further into the future we are forecasting. Intuitively this is what we would expect. The confidence we have in our 1983 forecast is higher than that for 1984 and 1985. Increasing standard error bands with time is not, however, a feature we would observe for all variables indefinitely. A mathematical property of our model ensures that for many variables the forecast standard errors eventually settle down to constants. By 1985 several variables have reached this upper limit – the public sector borrowing requirement being a notable exception. For example this limit would appear to be about 1.5 percentage points for the growth rate of GDP, slightly lower for consumption and about 3 per cent for fixed investment. As we have repeatedly stressed, this interpretation is conditional on our having the correct model and there being *no fundamental shocks* to world events or domestic economic policy. If indeed we do have the correct model and domestic and world economic institutions do not change fundamentally in character then there seems no reason why forecast uncertainty should increase simply with the passage of time. It is because we do give increasing weight to the possibility of *political and structural change* that subjectively we are increasingly less confident about outturns the further into the future we look. Thus our intuitive assessment of uncertainty is not entirely consistent with the measure presented here. The former includes diminishing confidence in the continued economic status quo whereas the latter is conditional on the continuation of the status quo. In this sense the standard errors presented here represent the minimum irreducible amount of precision that can be attached to our forecasts.

The general reasons why we find increasing standard errors at least for the next three years are two-fold. Firstly the model, as explained earlier, is dynamic. For this reason the uncertainty in one period feeds through to the next with a cumulative effect. Secondly the possession of additional non-model information allows us to be more certain about the near future than the model by itself might otherwise suggest. As explained, this is the reason why we impose constant adjustments to amend the pure model forecast. In our stochastic experiments we have allowed for this improved confidence in the way we have scaled the standard errors of residuals and exogenous variables. This auxiliary information extends into 1983 for many variables.

It should be recognised that, in February 1983, we only know the full 1982 outcomes for a limited number of variables (interest rates and exchange rates are obvious examples). Indeed many of the last available data (mostly for 1982 Q3) are provisional and could well be revised. For example we know from the 1981 Labour Force Survey that estimates of employment have been revised upwards by 800,000. This implies that the CSO will also be revising upwards the level of output (see Focus, p. 16). So our forecast of standard errors reflects the uncertainty about the past.

Much of our non-model information relates to this so-called "ragged-edge" data period. For example we often have up-to-date data on retail sales which is a useful indicator of consumers' expenditure or we have the latest total unemployment figure but no disaggregated figures for employment in different sectors. Or we may possess two months' data for the most recent quarter for certain variables. We can use all such information to make more accurate estimates of the unknown recent past. Even so, our assessment of 1982 is uncertain and this uncertainty carries forward to 1983 and subsequent years.

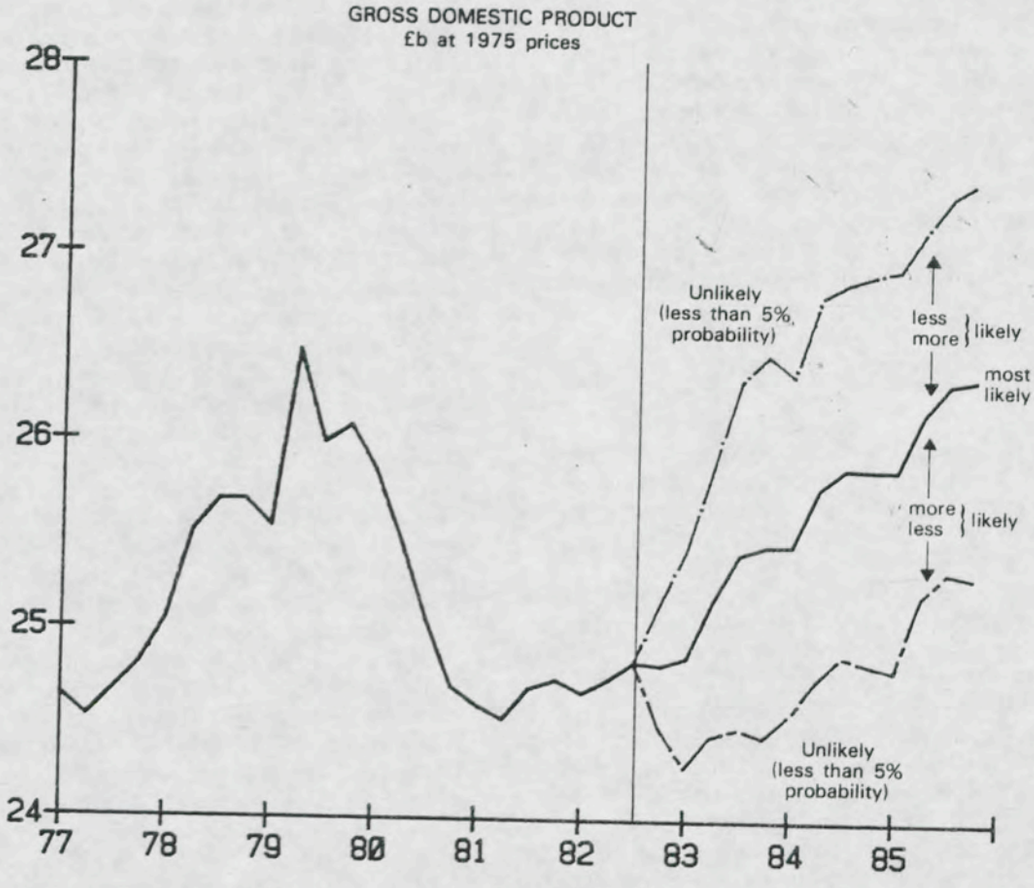
We now turn to a discussion of the standard errors of particular variables. The components of demand which are reported are consumption, fixed investment, exports and imports which, together with stockbuilding and government expenditure (not reported), constitute expenditure on GDP at market prices. The standard errors for the annual growth rate of GDP increase each year to a maximum of approximately 1.5 per cent, implying for the *level* of GDP the band shown in Chart 1. On the basis of current information we are forecasting a growth of 1.8 per cent in GDP in 1983. But because of the uncertainty attached to forecasting there is a 95 per cent chance that the growth in GDP will lie in a range from – 0.6 per cent to 4.2 per cent. So although our forecast for GDP in 1983 implies that there will

* As we do in the section on the medium term (p.19).

probably be positive growth, there is a distinct possibility that growth could be negative.

It is very important at this stage to emphasize that it is *not equally* as likely that GDP will fall in 1983 as it will rise. Conditional on the model and the information we have at present the *most likely* outcome is what we have forecast. The further we move away from the mid-range of the band shown in Chart 1 overleaf, the *less likely* the outcome (see below).

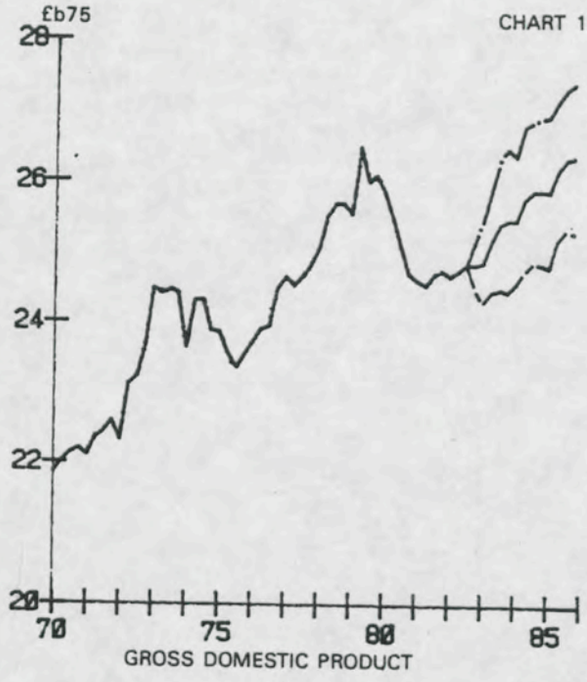
Looking at the components one notices that exports, imports and investment are all more difficult to forecast accurately (i.e. have larger standard errors) than GDP whereas consumption can be predicted with more precision. The reason for this is largely that the consumption function is a well researched area of economics and consumption decisions tend to be reasonably predictable stable relationships. Export, import and investment decisions are more difficult to



The meaning of forecast error bands

The above chart reproduces on a larger scale the forecast and standard error bands for Gross Domestic Product shown in Chart 1. Data was available at the time the forecast was completed, up to the third quarter of 1982. Beyond this period, the chart forks three ways. The central line is our published forecast. This is our best estimate of the future evolution of GDP, i.e. the path we think GDP is *most likely* to follow if our underlying assumptions are correct. We regard outcomes away from the central path as progressively less likely, although still a possibility. The two broken lines (±2 standard errors) mark a boundary outside which we consider outcomes to be unlikely. There is only a one-in-twenty chance that outcomes will lie in these regions. Clearly the ±2 standard error boundary is a subjective choice. Less cautious people might consider that a one-in-ten or one-in-five chance is sufficiently small to demark unlikely outcomes. In these cases the upper and lower bounds would be much closer to the central forecast. It should be stressed that in the 'less likely' region, the possibility of outcomes away from the central forecast does not diminish proportionally with the size of such deviations. If the broken lines are viewed as contours on a map then further lines could be drawn symmetrically about the central forecast. Such lines, if each represented a ten per cent decrease in probability, would be clustered much more densely around the central forecast than in outlying regions.

CHART 1



capture mathematically and also tend to be more volatile data series.

The next three variables in Table 1 are all price variables. The first of these, average annual consumer price inflation (Chart 2), has a steadily growing standard error over the next three years. Our expected outcome for consumer price inflation in 1983 is thus the centre of the range 4.2 per cent to 7.4 per cent. By 1985 the range is 3.3 per cent to 11.7 per cent which although larger than that for 1983 still seems narrow when one considers the erratic movements of prices over the last decade. The narrowness of the range is, however, largely a consequence of our 'consistent policy' assumptions. A new government committed to reflation or even a U-turn by the current government could well force the actual outcome through the top of the forecast range.

The reported precision of average earnings in manufacturing is similar quantitatively to that for price inflation. The same qualitative remarks about the continuation of anti-inflation policy also apply to this variable.

The third price variable reported is the trade-weighted exchange rate – the price of sterling. The standard error, as a proportion of the forecast value, is fairly large, (e.g. two standard errors in 1985 is 18 per cent of the expected value and implies a range 0.65 to 0.93). The exchange rate has proved notoriously difficult to forecast in the past largely because the speed of adjustment in exchange markets can be extremely fast and is dependent on fairly unpredictable speculative expectations. The 'fundamental' determinants of a long-run equilibrium exchange rate may be reasonably certain, but large sustained movements away from equilibrium are quite common. Most forecasters would, therefore, view even

Table 1
Forecast Standard Errors

GDP and Demand Components at 1975 prices
(annual % changes)

	1983	1984	1985
GDP (output measure)			
forecast	1.8	2.0	2.0
standard error	1.2	1.3	1.5
Consumers' expenditure			
forecast	2.3	1.5	2.3
standard error	0.8	1.1	1.3
Fixed Investment			
forecast	3.3	4.0	1.5
standard error	2.4	2.8	3.2
Exports			
forecast	1.7	1.5	2.4
standard error	1.5	2.0	2.3
Imports			
forecast	4.6	2.0	1.8
standard error	1.5	2.2	2.6
Earnings, Prices, Money & Exchange Rate			
Consumer prices (index 1975 = 100) annual % change			
forecast	5.8	7.0	7.5
standard error	0.8	1.8	2.1
Average earnings in manufacturing			
forecast	8.1	7.2	8.3
standard error	0.7	1.4	2.1
Sterling exchange rate trade weighted, index 1975 = 1.0			
forecast	0.81	0.80	0.79
standard error	0.04	0.06	0.07
Money Supply (£M3) end year 4-qtr change			
forecast	9.6	10.0	9.8
standard error	2.1	2.6	2.9
Key Balances			
Public Sector Borrowing Requirement £ billion, financial years			
forecast	9.2	8.4	7.4
standard error	1.6	3.4	5.9
Balance of Payments £ billion			
forecast	1.5	0.0	–0.1
standard error	1.4	3.3	5.1
UK unemployment, excl. school leavers millions			
forecast	3.14	3.17	3.13
standard error	0.18	0.22	0.25

the reported uncertainty band as uncomfortably narrow. More than any other variable the exchange rate depends on market perceptions of the government's policy stance, and the narrowness of our error bands (as for prices and wages, but to a far greater degree) is conditional on the policy assumptions.

The next variable on the table shows the precision with which we can predict money supply growth (Chart 3). It also gives some indication of the ease with which the money supply can be controlled. Target bands much tighter than the ±2 standard error range reported here would seem to us fairly ambitious.

This point is reinforced when we look at the precision of our forecasts of the public sector borrowing requirement (Chart 4) which by 1985 ranges (±2 standard errors) from – £4.4bn to £19.2bn. This is largely because the PSBR is calculated at the end of a long chain of economic transactions and is particularly sensitive, as a balance, to small changes in both government revenue and spending. This lack of precision underlies the difficulty in forecasting the room for manoeuvre of the Chancellor in the next

CHART 2

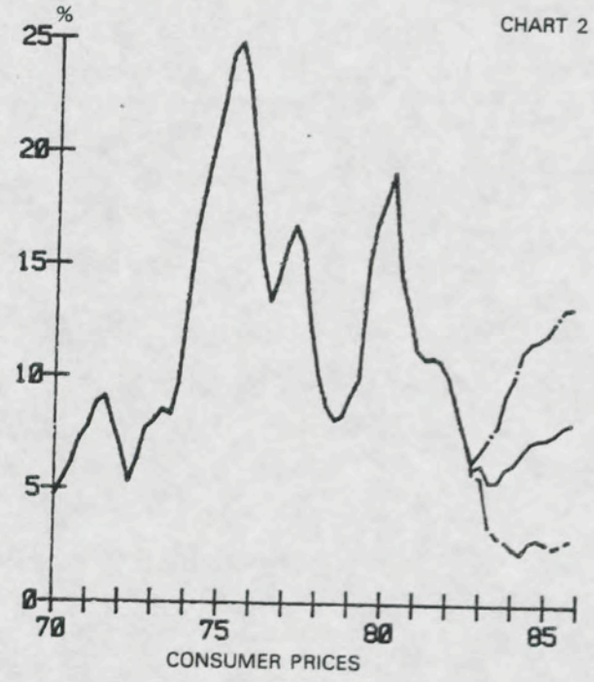


CHART 3

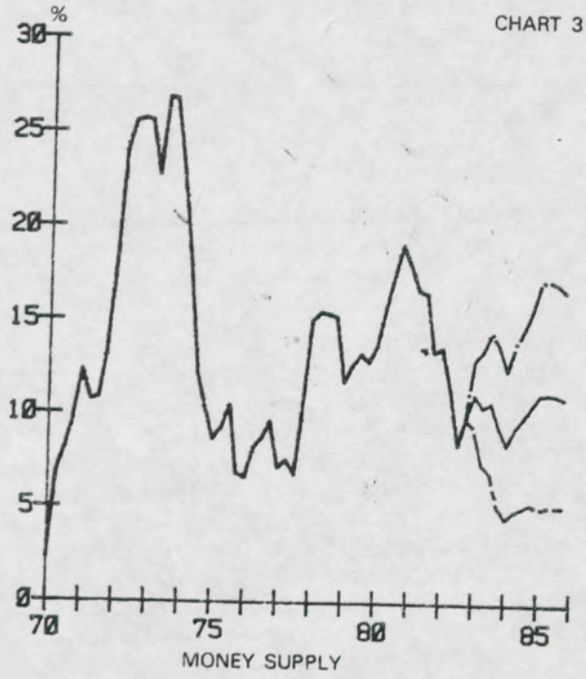


CHART 4

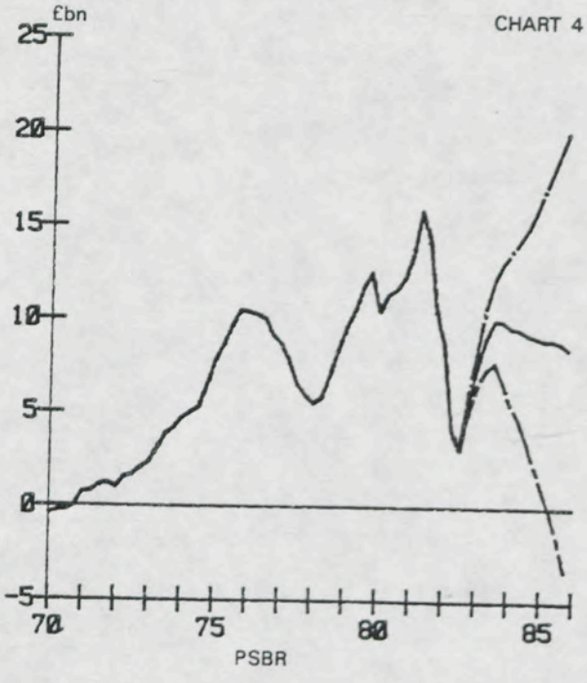
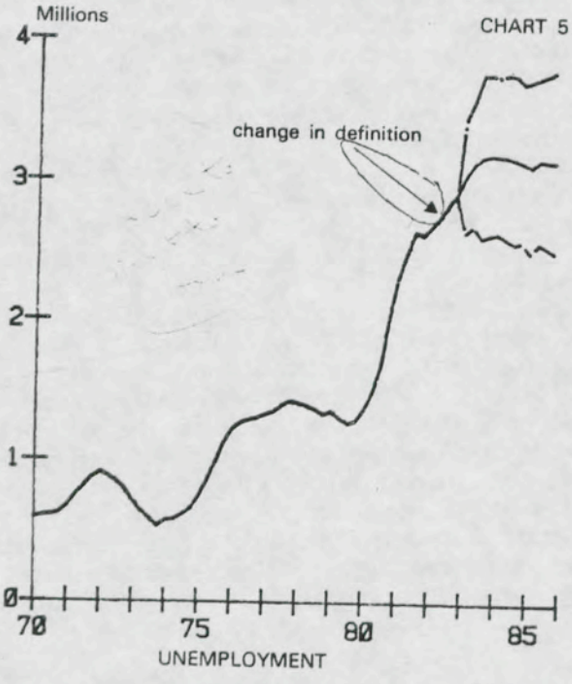


CHART 5



Budget.

The same is true for the forecast of the current account of the balance of payments. Although the net balance is forecast to be only a small number, small changes in any of the components – exports, imports, volume and prices – can cause large changes in the outcome. This is reflected in the relatively large standard errors.

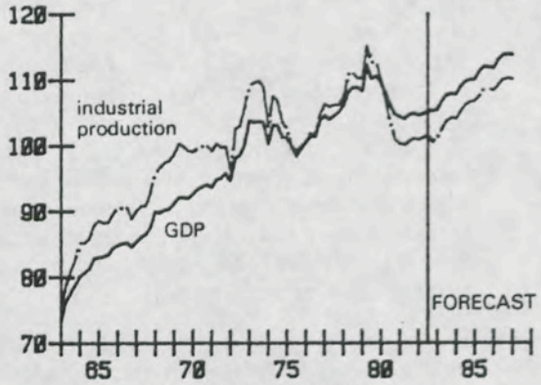
The final variable in the table is UK unemployment (Chart 5) which has a surprisingly low standard error given the size of movements in the unemployment rate over the last few years. Our reported bands say that our model predicts almost certainly no significant change in unemployment from the 3 million level over the next three years.

It is clear from Charts 1-5 that the uncertainty we attach to our current forecast is qualitatively very different for different variables. For some variables our estimated precision is fairly uniform over the forecast period (e.g. Chart 5) whereas for others uncertainty grows quite rapidly (e.g. Chart 4 and to a lesser extent Chart 2). The explanations we have offered in the text are partly technical and partly economic. In particular our chosen measure of uncertainty relies heavily on unchanged economic policy. If indeed policy is as we assume then the standard errors presented here are a reasonable assessment of how accurate we can be as economic forecasters. However our simulations of the medium term outlook under different policy assumptions (see p.19) illustrate how great is the influence of policy on economic prospects. When "policy uncertainty" is taken into account the margins of error attached to our forecast are far greater than shown in Charts 1-5.

UK Sector Analysis

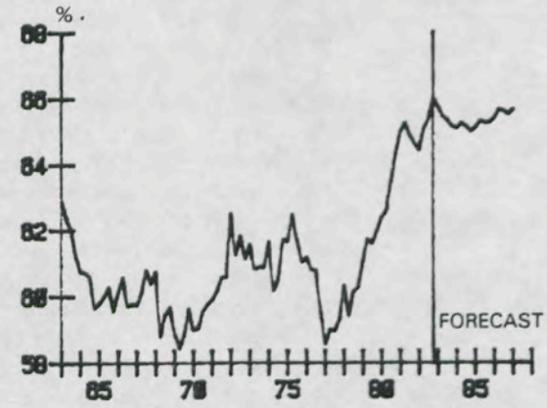
1. The Allocation of Resources

(see Appendix table 1)



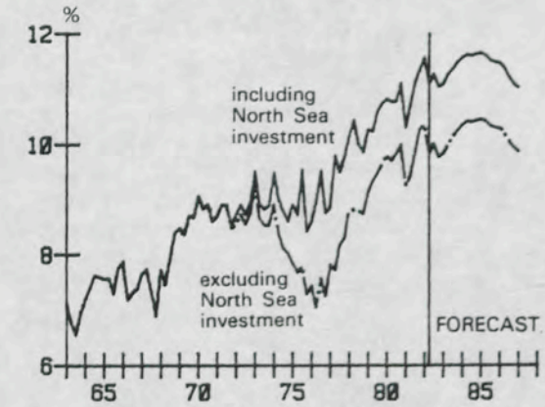
INDUSTRIAL PRODUCTION
AND GROSS DOMESTIC PRODUCT
(OUTPUT MEASURE)
(INDICES 1975 = 100)

Figure 1 The output measure of GDP rose by nearly ½ per cent between the second and third quarters of 1982. This was despite a ½ per cent fall in the expenditure measure in the same period. In the fourth quarter we estimate that the fall in expenditure was more than fully recovered but that output overall was little affected. For the forecast period we are assuming that output and expenditure will move in line. They rise only slightly in the current quarter, more quickly in the rest of the year. This translates into output growth of 2½ per cent during 1983 and produces 1.8 per cent for the year as a whole. The recovery continues in 1984-6 during which GDP grows by nearly 2 per cent p.a. Industrial production in the latest month (November) was at the lowest level of the year. From this low base we expect industrial output to grow marginally more rapidly than total output. But even so it has not attained previous peaks by the end of the forecast period.



SHARE OF CONSUMERS' EXPENDITURE
IN GROSS DOMESTIC PRODUCT

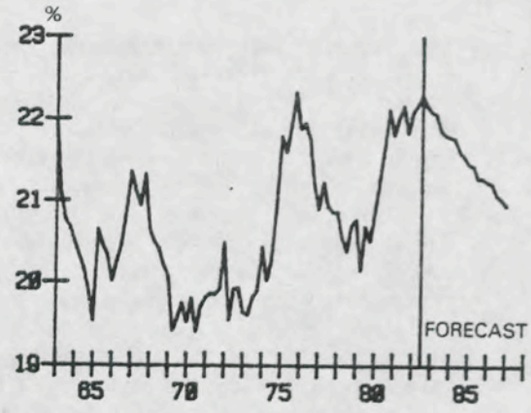
Figure 2 1982 ended with consumers' expenditure rising rapidly – by 2¾ per cent in the second half of the year alone – and thereby surpassing the previous peak (1979Q2 when spending was boosted by the pre-announced rise in VAT). As a share of GDP, consumers' expenditure is also at an all-time high, having raised its share by eight percentage points in the last five years. In 1983 we expect the growth of consumption to mark time in the first half of the year as some re-building of savings takes place. But in the second half of the year, helped by income tax reductions, consumer spending resumes its upward path. Over the forecast period its share of GDP is expected to be consolidated at around current levels.



SHARE OF PRIVATE NON-RESIDENTIAL
FIXED INVESTMENT IN GROSS DOMESTIC PRODUCT

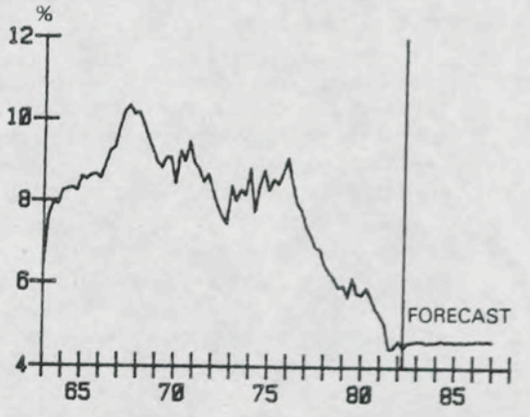
Figure 3 Private non-residential fixed investment has also been increasing its share of total resources over the last five years (by about three percentage points) – only in 1981 did this category of investment record a fall and this was, we estimate, more than recovered last year. This is despite the weakness of manufacturing investment and reflects the comparative strength of investment within the personal and service sectors (where the growth of leasing has been an additional factor). In 1983 we expect the recent recovery in profits to produce a 2¼ per cent increase – a little more than the intentions surveys suggest – and a further 5½ per cent in 1984. Some slowdown is forecast in 1985-6, as the recovery in profits tails off.

All shares in this section are expressed as a percentage of GDP at market prices and are in volume terms (1975 prices).



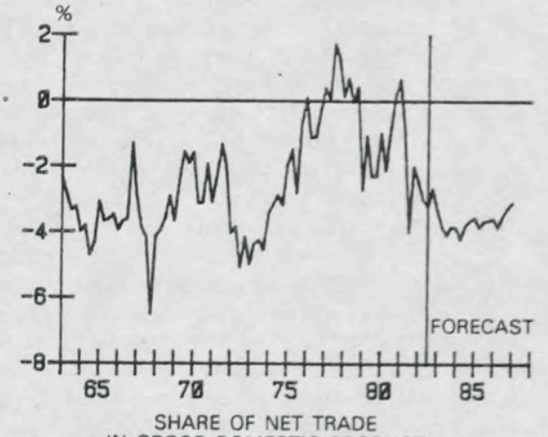
SHARE OF GOVERNMENT CURRENT EXPENDITURE
IN GROSS DOMESTIC PRODUCT

Figure 4 General government current consumption has also been growing more rapidly than GDP in the last few years, so that its share is back at previous peak levels. Within the total, however, the major categories of spending have moved rather differently – under the present government defence and the national health service have grown, education is unchanged and only the "other" category has actually shrunk. Over the forecast period we are projecting growth of public consumption of about ½ per cent p.a., rather less than either GDP or the historical trend. Within the total we expect some increase in the share of procurement (spending on goods and services produced outside the general government sector), little or no change in employment.



SHARE OF GOVERNMENT CAPITAL EXPENDITURE
IN GROSS DOMESTIC PRODUCT

Figure 5 Recent trends in public sector fixed investment have been obscured by large increases in council house sales (which are measured as 'negative' public investment). However, even allowing for this effect public fixed investment as a proportion of GDP has fallen to very low levels by historical standards. The latest data (1982Q2) show that the decline in investment in the nationalised industries came to an end in the middle of 1981 but that it is still continuing in the rest of the public sector. We are forecasting a general revival in public investment which we assume will rise at about 2 per cent p.a. from now on. This is more or less in line with GDP which leaves the share stable at the recent, low level. Within the total general government investment is forecast to grow at about 2 per cent p.a., public corporation investment a little faster.

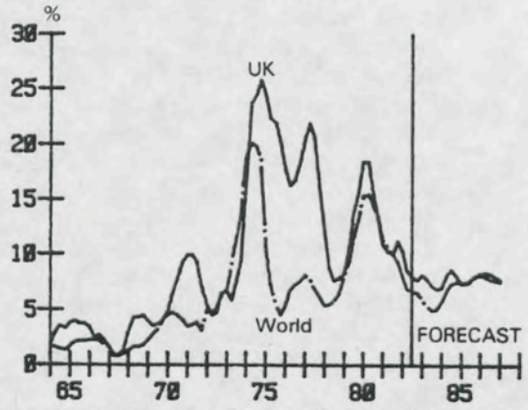


SHARE OF NET TRADE
IN GROSS DOMESTIC PRODUCT

Figure 6 From the beginning of 1981 until the middle of 1982, erratic movements aside, imports grew more rapidly (or fell less rapidly) than exports. More recently, however, this trend has been reversed and at the end of last year exports were showing remarkable resilience in the face of a depressed world economy, while imports were falling, as UK industry continued its rapid destocking. Nevertheless we estimate that import volumes were 4 per cent higher in 1982 than a year earlier, whereas exports were unchanged. We expect this sort of gap to remain in 1983, with imports rising as destocking slows down. In 1984-6, however, exports should be benefiting from buoyant world demand and the recent improvement in competitiveness, so that by the end of the forecast period we expect a small positive contribution to GDP from net trade.

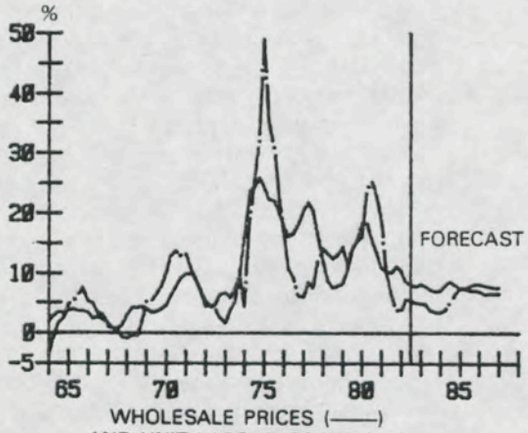
2. Prices, Costs and Earnings*

(see Appendix tables 2 and 3)



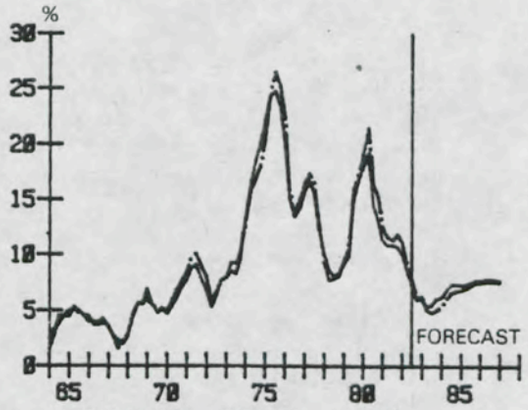
WHOLESALE PRICES OF MANUFACTURES
UK AND WORLD

Figure 7 Over the 3½ years since the OPEC II oil price explosion, UK wholesale price inflation has moved broadly in line with (though somewhat above) world inflation. In the forecast period we expect world inflation to continue falling throughout 1983 and thereafter to rise to around 7-8 per cent. Initially we do not expect UK inflation to match the fall in world inflation, remaining 2-3 percentage points above the world rate – a consequence of the recent fall in the exchange rate. However we are not forecasting any substantial further falls in the pound, and in the later years of the forecast period UK and world inflation rates are forecast to come in line.



WHOLESALE PRICES (——)
AND UNIT LABOUR COSTS (---)
(MANUFACTURERS)

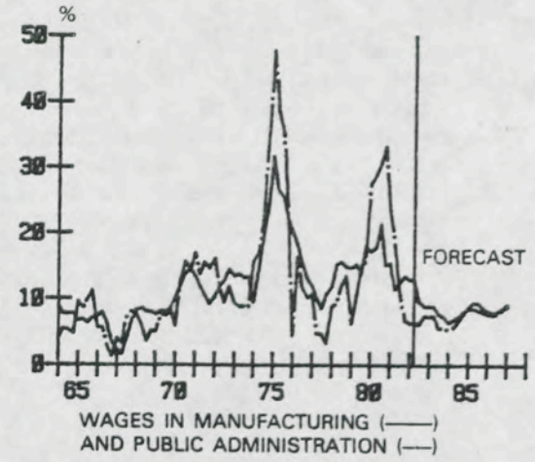
Figure 8 The profitability of UK manufacturing industry depends on the relative growth rates of manufacturing output prices and unit labour costs. Profits were severely squeezed after the second oil price shock as unit labour costs rose much more rapidly than prices. The response of industry was to cut costs (by negotiating lower wage settlements and by securing productivity improvements from a 20 per cent smaller labour force) so that by the end of 1981 unit labour costs in manufacturing were rising at a rate of under 4 per cent. The gap between output prices and unit costs narrowed during 1982 to about 2-3 per cent. We forecast that this difference will be maintained in 1983 and 1984 but that it will be eroded thereafter.



CONSUMER PRICES (——) AND
RETAIL PRICES (---)

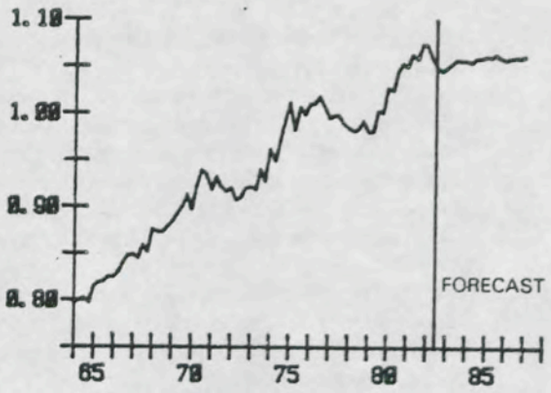
Figure 9 The chart shows the implied deflator for consumers' expenditure (CPI) and the retail price index (RPI). The two indices generally move very closely in line, but diverge noticeably when interest rates are changing rapidly. This represents a difference of treatment of mortgage payments as a result of which the inflation rate as measured by the RPI is likely to be below that of the CPI when interest rates are falling. Consumer price inflation is likely to continue falling for another six months and should reach a low of 5½ per cent this year. For retail prices a low of under 5 per cent may be achieved. By the end of 1983 we expect both measures to be moving upwards again, settling in the 6-8 per cent range in the upswing of the next cycle.

*All data in this section except Figure 11 are annual percentage changes.



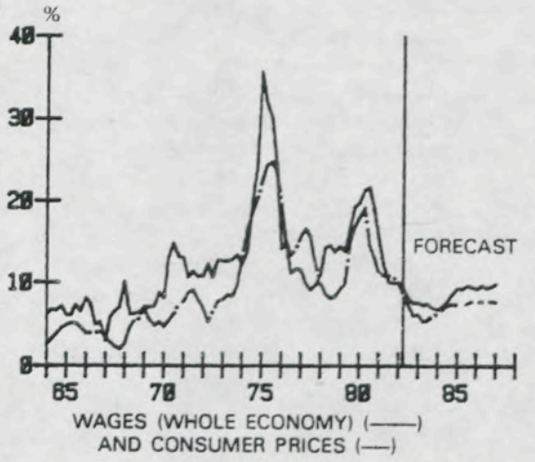
WAGES IN MANUFACTURING (——)
AND PUBLIC ADMINISTRATION (—·—)

Figure 10 Although public and private wages tend to move in line over the medium term, there are periods of acute divergence. In the two inflationary surges of 1974-5 and 1979-80, for example, public sector wages rose far more rapidly than manufacturing – partly in order to 'catch up' with rates prevailing in the private sector. In the last pay round the reverse was true – wage rates moved more or less in line but less short-time and more overtime working in manufacturing pushed industrial earnings ahead. This is expected to persist in the current round although the discrepancy between the two sectors is expected to diminish. Towards the end of 1984 public and private sector wages are forecast to move in line.



RATIO OF PUBLIC CONSUMPTION
DEFLATOR TO GDP FEFLATOR
(INDEX 1975 = 1)

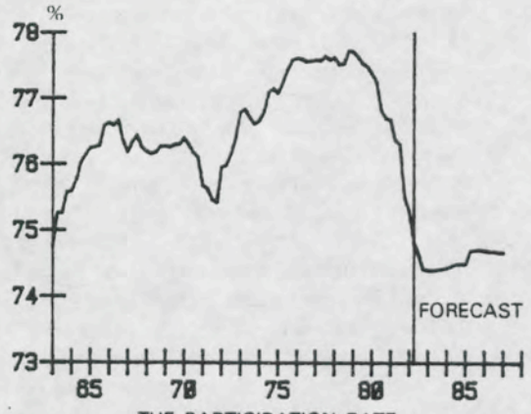
Figure 11 In the past twenty years the price of government consumption has tended to rise steadily relative to the GDP deflator. This 'relative price effect' (RPE) occurs because wage increases in the private sector are offset by productivity gains whereas in the public sector, where there is no independent measure of output, productivity gains are by convention non-existent. In general it is only possible to reverse the RPE by incomes policies which, in the UK experience, have been applied more firmly or for longer in the public sector. But, as in 1980 after the public sector catch-up following the Clegg awards, the process is usually reversed and a very strong RPE emerges. In the forecast we expect the operation of cash limits to exert downward pressure on public sector wages and, until the mid-1980s, keep the public consumption deflator in line with that for total GDP.



WAGES (WHOLE ECONOMY) (——)
AND CONSUMER PRICES (—·—)

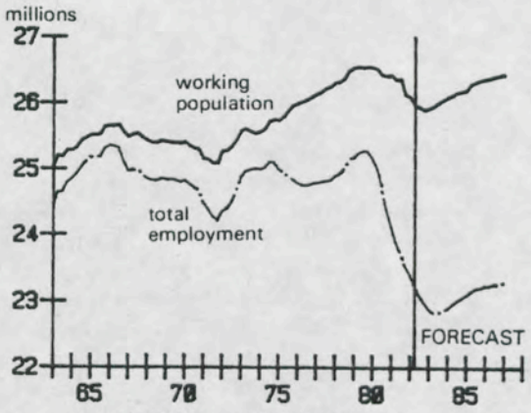
Figure 12 The gap between wage and price inflation measures the increase in real earnings for those in work. These rise in line with labour productivity in the medium term; within the cycle real wages tend to fall under the operation of an incomes policy or with high and rising unemployment (the level of real wages is also a determinant of the level of unemployment). Despite the depth of the current recession, however, real earnings have continued to rise in the last few years – although the rate of increase is below that of the 1970s. In the forecast we expect a level of unemployment approaching 3¼ million to hold back real earnings growth to around one per cent per annum.

3. Employment and Unemployment



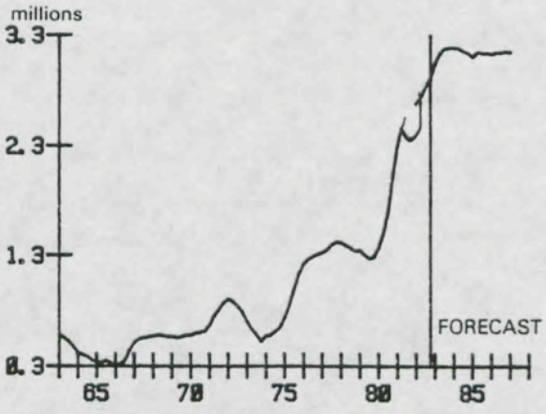
THE PARTICIPATION RATE:
WORKING POPULATION AS A PROPORTION
OF POPULATION OF WORKING AGE

Figure 13 The participation rate shows the proportion of the population of working age who are working or registered as seeking work. Revisions to employment data show that the steep fall in the ratio since 1979 has not been as pronounced as previously shown. In the later years of the forecast we expect unemployment to stop rising and, reflecting revised employment data and forecasts, we expect the participation rate to settle at around 74-75 per cent.



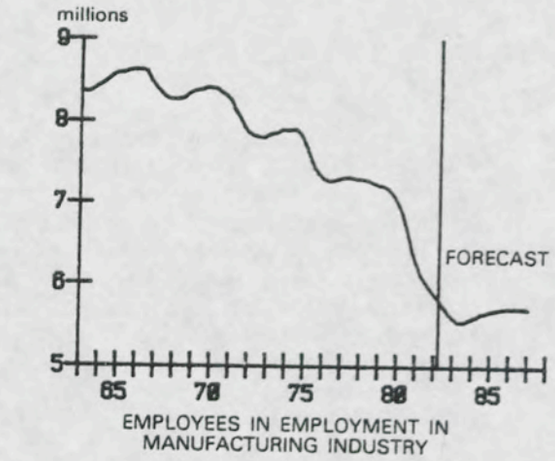
WORKING POPULATION AND
TOTAL EMPLOYMENT

Figure 14 Following the 1981 Labour Force Survey the figures for total employment have been revised upwards by some 800,000. The "discovered workers" were found mainly in the "other employment' sector shown in Figure 18. The figures for the working population have also been revised upwards in line. The population of working age is forecast to grow by about 600,000 over the forecast period, the working population by around 400,000 and the employed labour force by only 75,000. The employed labour force has fallen rapidly since its cyclical peak in the third quarter of 1979. Even by the end of the forecast, total employment is expected to be over 2 million below its highest 1979 level.



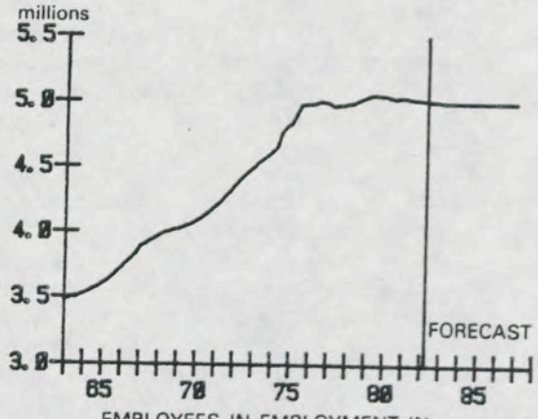
UNEMPLOYMENT IN THE UNITED KINGDOM
(EXCLUDING SCHOOL LEAVERS
AND SEASONALLY ADJUSTED)

Figure 15 The Department of Employment has recently changed its method of calculating the total number of unemployed. The new definition uses the more accurate computer count of those receiving benefits instead of the manual count of those registering as unemployed. As a result the November 1982 figure on the new measure was lower by some 190,000 than on the old basis. This introduces a break on the chart in the fourth quarter of 1981 (as marked). The figures do not include school leavers of whom about 300,000 are currently unemployed. In the forecast we expect unemployment to peak on the new measure at about 3.2 million at the beginning of 1984, thereafter retaining a fairly flat profile around the 3.1 million mark.



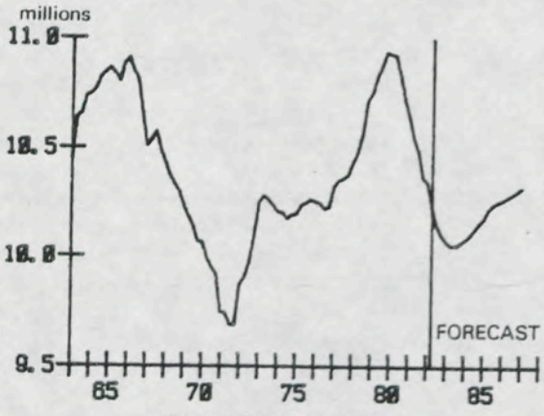
EMPLOYEES IN EMPLOYMENT IN MANUFACTURING INDUSTRY

Figure 16 The rise in unemployment is largely associated with the collapse of employment in manufacturing, although employment has fallen in all three main sectors of the economy. Manufacturing employment has been declining since the mid 1960s. Typically, after each cyclical downturn less than half the loss of manufacturing employment has been regained during the subsequent recovery. The falls in both manufacturing output and employment have been unusually dramatic in the current cycle (manufacturing output has fallen more than in the 1930s and manufacturing employment has fallen 21 per cent during the government's period of office). We expect the decline to be arrested by the middle of this year as prospects for the manufacturing sector improve following the recent fall in the exchange rate. Thereafter manufacturing employment grows at approximately 1 per cent per annum to a level of 5.7 million by 1985.



EMPLOYEES IN EMPLOYMENT IN GENERAL GOVERNMENT

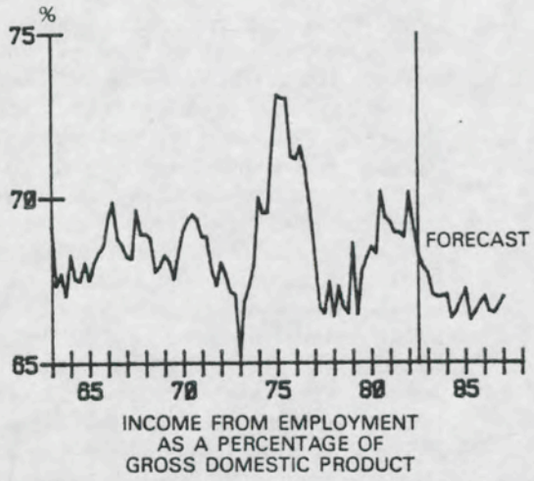
Figure 17 General government includes central government and local authorities but excludes public corporations. In the 1960s and 1970s general government employment expanded rapidly – particularly in local authorities and the National Health Service. This trend was broken following the 1976 sterling crisis. Subsequently government employment was broadly stable until the present recession during which it has fallen by about 1 per cent. Over the forecast period we expect general government employment to remain broadly flat.



OTHER EMPLOYMENT (EXCLUDING ARMED FORCES AND SELF-EMPLOYED)

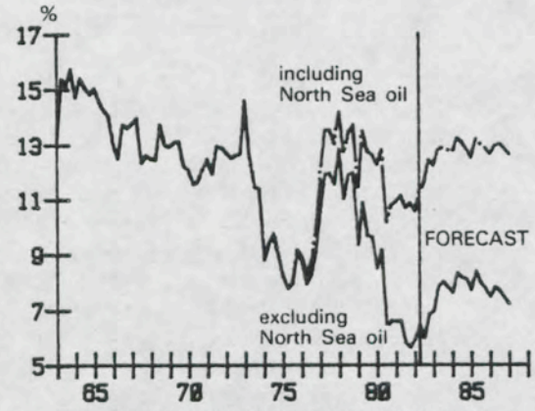
Figure 18 The category 'other employment' now covers almost one half of total civilian employment against 28 per cent in manufacturing and 24 per cent in general government. It includes employment in the service sector, public utilities, construction, agriculture and North Sea oil. The proportion of female and part-time workers in this sector is high and labour released elsewhere in the country has often been absorbed into it. Employment in this category has fallen 7¼ per cent from its 1979 peak. We expect a further 1 per cent fall in 1983 and growth thereafter of about 1 per cent p.a.

4. The shares of national income: wages and profits



INCOME FROM EMPLOYMENT
AS A PERCENTAGE OF
GROSS DOMESTIC PRODUCT

Figure 19 The share of employment incomes in GDP moves counter-cyclically, tending to be high when economic activity is depressed and low when demand is buoyant. The wage share peaked in late 1980/early 1981. It has since declined significantly. This decline is expected to continue during the recovery phase of the current cycle, mirroring the pattern observed from the mid-1970s onwards. Important influences are the more modest rate of wage increases and falling employment. This means that part of the expected recovery in output helps corporate profits. North Sea activities also boost profits and depress the wage share over the forecast period.



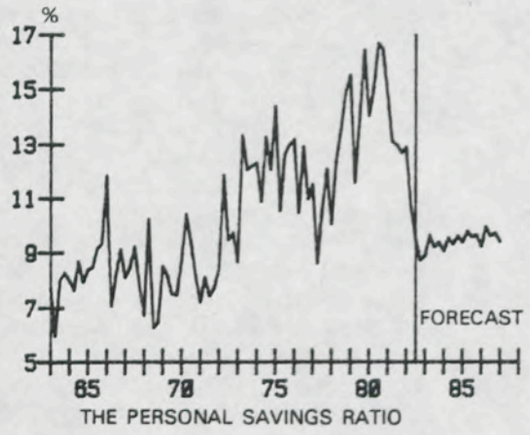
SHARE OF COMPANIES' TRADING PROFITS
NET OF STOCK APPRECIATION
IN GROSS DOMESTIC PRODUCT

Figure 20 The share of profits in GDP is largely the obverse of the share of wages and salaries (incomes from rent and self-employment tend to be stable at about 16-17 per cent of GDP). When the share of employment incomes increased during 1980 the profits share fell sharply. The share of profits (excluding stock appreciation and profits earned in the North Sea) has recovered somewhat to around 6 per cent and is projected to rise further – to a level approaching 8 per cent – over the next eighteen months. This rise would leave the share of non-oil profits at a low level by historical standards. For non-oil companies the peak share of profits is likely to be achieved in the course of 1985. By the end of the forecast period about 40 per cent of profits earned in the UK are expected to come from the North Sea.

The Shares of National Income

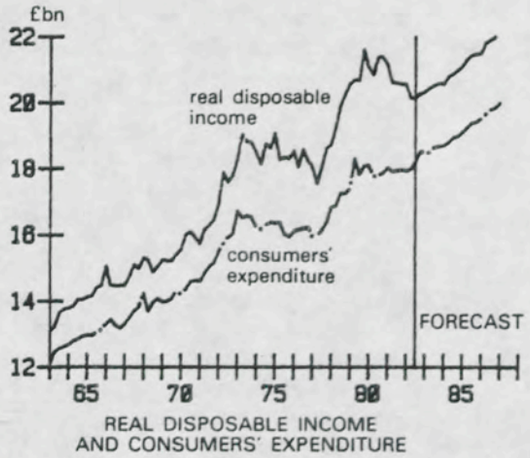
Annual percentage changes	1982	1983	1984	1985	1986
Income from employment	5.5	5.5	8.2	10.4	9.9
Company profits (exc. stock appreciation)	11.2	19.9	11.3	9.8	9.8
Company profits (exc. stocks & North Sea oil)	9.8	31.0	14.3	9.1	4.8
Public sector profits	16.5	20.5	13.0	12.0	10.0
Rent & self-employment income	7.0	8.1	8.8	10.3	9.4
Gross domestic product (current prices)	7.1	7.7	8.9	10.3	9.8
Deflator for GDP	6.9	6.2	6.8	8.2	8.2
Share of profits (levels %)	11.5	12.7	13.0	12.9	12.9

5. Real Incomes, Savings and Consumption



THE PERSONAL SAVINGS RATIO

Figure 21 Consumption patterns tend to change rather slowly in response to changes in real incomes. Hence when real incomes rise (as in 1977-80) the savings ratio goes up. The fall in the savings ratio since 1980 partly reflects the squeeze on real incomes. It is also linked to the fall in the rate of inflation and to the fall in interest rates. The rapid fall in the rate of inflation in 1982, and the continued squeeze on real incomes produced a further sharp fall in net personal savings, which was achieved mainly by a large increase in borrowing. We estimate that the savings ratio fell below 9 per cent in the fourth quarter of 1982, but we expect some rebound this year when real incomes are boosted by the Budget measures. Over the forecast period as a whole, when real income growth is a fairly steady 1½-2 per cent and inflation stays in the 6-7 per cent range, we expect the savings ratio to remain close to 9 per cent.



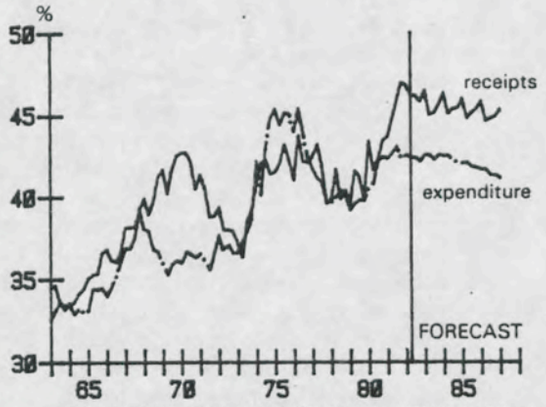
REAL DISPOSABLE INCOME AND CONSUMERS' EXPENDITURE

Figure 22 Real disposable incomes have fallen over the past two years by over 5 per cent – broadly in line with the fall in total employment. The real income of those in work is little changed. Over the forecast period we expect real incomes to start rising again, as the rate of inflation falls below the rate of increase in wages and the decline in employment slows to a halt. The pick up is modest in 1983 – despite the assumed cuts in personal taxation and the less-than-complete revalorisation of specific duties – mainly because the fall in employment is still substantial. But in later years the growth of real disposable income accelerates, as employment stops falling, and consumers' expenditure rises in time.

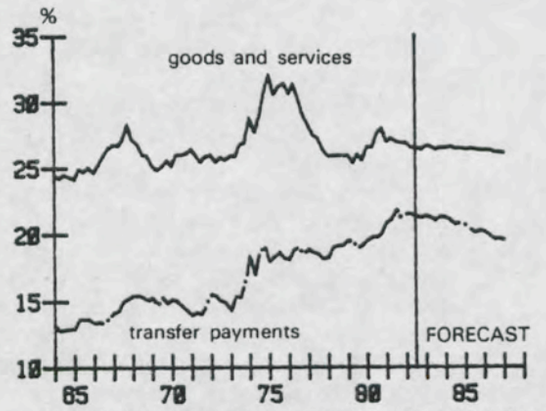
Personal Disposable Income: Key Elements

Annual percentage changes	1982	1983	1984	1985	1986
Wages and salaries	5.6	5.5	8.2	10.4	9.9
Current grants	14.2	10.5	8.5	7.5	7.8
Other personal income	4.9	6.9	9.1	10.6	9.8
Total personal income	6.6	6.5	8.4	10.0	9.6
UK tax on income – personal sector	9.5	2.3	6.0	8.4	5.7
Disposable income	5.6	6.8	8.7	10.2	10.1
Deflator for consumption	8.0	5.8	7.0	7.5	7.8
Real disposable income	–2.2	1.0	1.6	2.5	2.2
Consumption	1.1	2.3	1.5	2.3	2.2
Personal savings ratio (levels)	10.5	9.3	9.4	9.6	9.6

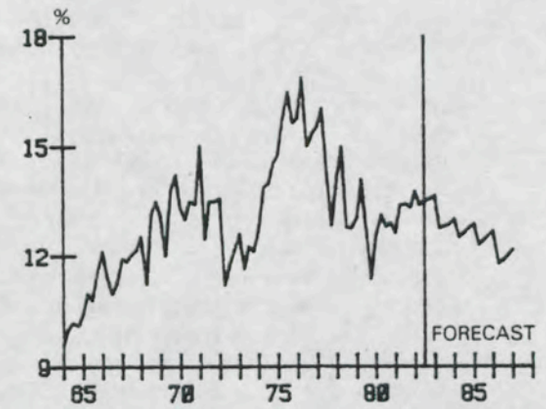
6. The Fiscal Structure



PUBLIC SECTOR RECEIPTS AND EXPENDITURE (EXCL. DEBT INTEREST) AS A PROPORTION OF GROSS DOMESTIC PRODUCT AT CURRENT PRICES



PUBLIC EXPENDITURE ON GOODS AND SERVICES AND TRANSFER PAYMENTS AS A PROPORTION OF GROSS DOMESTIC PRODUCT AT CURRENT PRICES

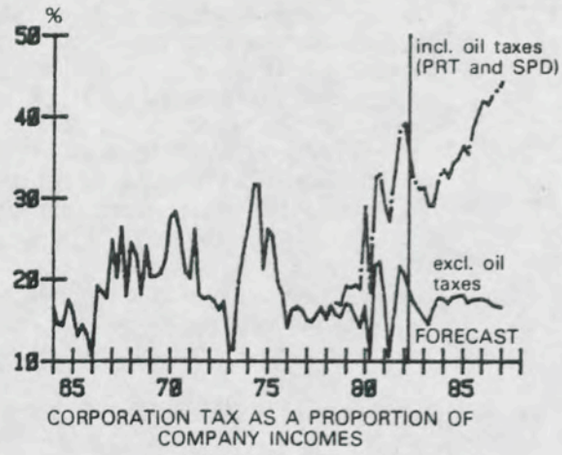


PERSONAL INCOME TAX AS A PROPORTION OF TOTAL PERSONAL INCOME

Figure 23 During the life of the present government the public sector deficit has been reduced despite a major recession which has tended to lower receipts and increase expenditure. Figure 23 shows that this reduction has been brought about mainly by an increase in taxes. Over the forecast period we expect a reduction in tax rates, so that total revenue falls slightly as a share of GDP even though it would normally tend to rise during a recovery period. The share of public expenditure also falls, mainly because it grows slightly less rapidly than GDP in volume terms.

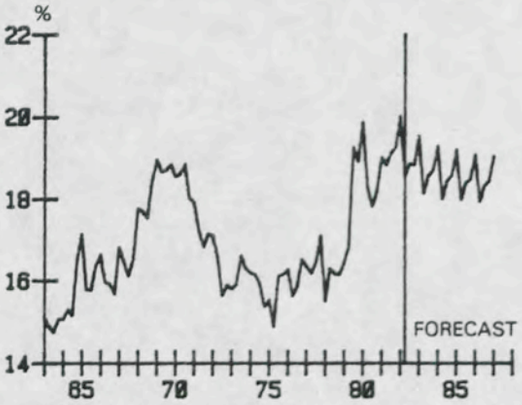
Figure 24 Although the 1980-82 recession has been as severe as that of 1974-5, the share in GDP of public expenditure on goods and services (which tends to go up in recessions) has not risen nearly as sharply. This mainly reflects the repeated cuts in public investment, which has fallen sharply as a share of GDP (see Figure 5). Public consumption has been relatively unscathed. Transfer payments (pensions, unemployment pay, debt interest and subsidies) have taken a steadily increasing share of GDP over the years. They have risen particularly rapidly during the present recession, reflecting the sharp increase in the number of unemployed, and the high interest payments on public sector debt. Over the forecast period we expect public expenditure on goods and services to rise, but less rapidly than GDP. Transfer payments fall significantly as a share of GDP because unemployment stops rising while interest payments and subsidies are stable or falling in real terms.

Figure 25 Taxes on income, expressed as a share of total personal income (employment income, rent dividends and interest, self-employment incomes and grants) fell steadily in the late 1970s, culminating with the substantial cuts in tax rates implemented in the first Conservative Budget. Over the past two years the personal tax burden has risen again, most notably because of the decision not to implement the Rooker-Wise increase in personal allowances in 1981. We assume that some of this fall in the real value of personal income tax allowance will be made good in the coming Budget and that in later years allowances will be indexed in line with inflation. We also assume that there will be repeated cuts in the basic rate of income tax, bringing it down to 25 per cent by 1986-7. As a consequence the personal tax burden falls from 1983 onwards.



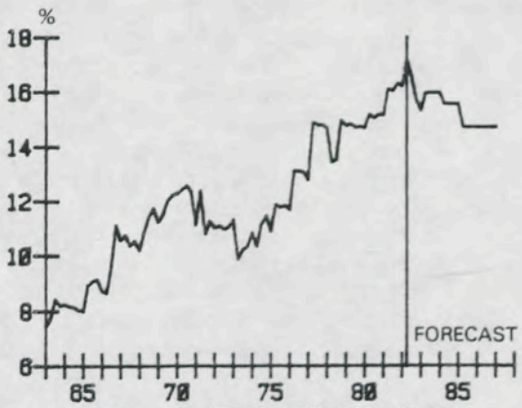
CORPORATION TAX AS A PROPORTION OF COMPANY INCOMES

Figure 26 Corporate tax is paid in arrears, so that in recession years the company sector pays a high proportion of its current income in taxes which reflect the profits earned before the recession. This explains the peaks in the corporate tax burden in 1970 and 1974-5. In the present recession profits have moved erratically, recovering in 1981, falling back in the first half of 1982 and recovering sharply in the second half, and their movements are reflected in the corporate tax ratio. The recent fall in the tax burden of the non-oil corporate sector is expected to continue this year as profits go on rising. In later years, however, we are forecasting a steady increase in the tax burden on oil companies as an increasing proportion of oil revenue is taxed at the marginal PRT rate.



TAXES ON EXPENDITURE AS A PROPORTION OF CURRENT PRICE CONSUMPTION

Figure 27 Taxes on consumers' expenditure (VAT plus specific duties) rose sharply as a proportion of consumers' expenditure following the increase in the VAT rate from 8 to 15 per cent in 1979. The ratio has moved erratically over the past two years as consumers have adjusted their patterns of expenditure to the new tax regime. Over the forecast period we assume a constant VAT rate. We have however departed from our usual assumption that specific duties are uprated in line with inflation: for 1983 we assume only partial uprating (see Assumptions, p. for details) and this implies a fall in the percentage of personal consumption that is taken in tax. In later years we assume that full indexation occurs at Budget time (which produces a pronounced seasonal pattern in the ratio). Because the income elasticity of goods bearing specific duties is less than unity there is a fall in the percentage of consumer spending taken in tax over the forecast period.

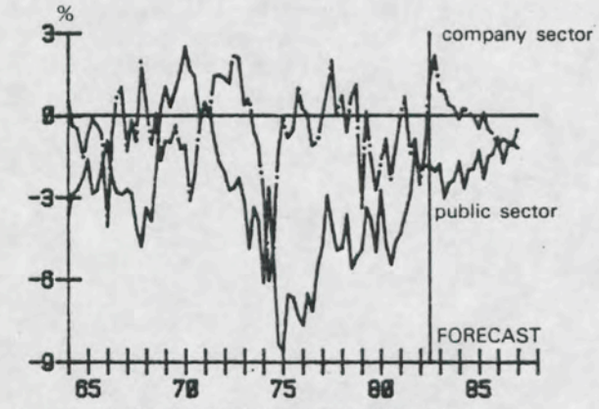


NATIONAL INSURANCE CONTRIBUTIONS AS A PROPORTION OF THE WAGE AND SALARY BILL

Figure 28 Because the National Insurance fund is largely self-financing, increases in pensions and (especially recently) increases in the number of unemployed, have required an increase in contribution rates. The percentage of wages and salaries paid in National Insurance contributions (including the Surcharge) has thus risen steadily over the years and rose further in 1982 (despite the Budget reduction in the Surcharge) when contribution rates went up again. We expect another increase in the ratio when National Insurance contributions go up again in April, but in later years we expect no further change (because the National Insurance fund stays in balance at present rates when unemployment stops rising). We are, however, assuming the abolition of the National Insurance Surcharge in two stages, and it is this which brings down the ratio in 1984 and 1985.

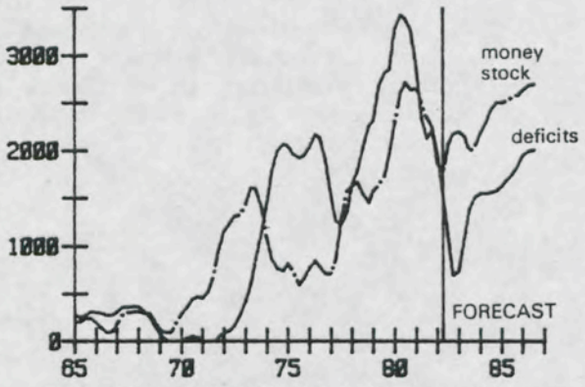
7. Sector Flows and Monetary Behaviour

(see Appendix tables 5, 6 and 7)



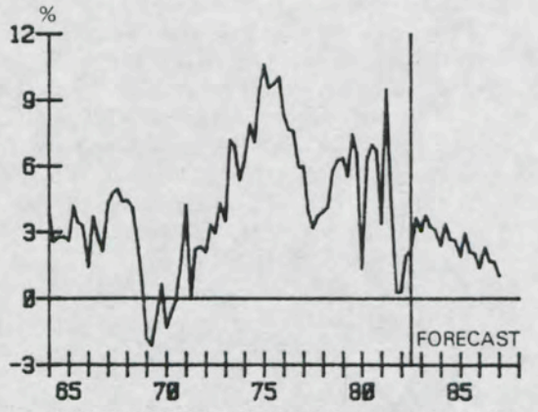
SECTOR FLOWS AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT AT CURRENT PRICES

Figure 29 An important feature of the recent UK recession has been the effort made by the public and corporate sectors to improve their financial positions. The government has raised taxes while companies have cut back expenditure. The resulting fall in demand partly frustrates their attempt by reducing profits and tax receipts and boosting social security payments. Despite this industrial and commercial companies (ICCs) switched from a deficit of £1.4bn in 1980 to a £1.0bn surplus in 1981. The public sector's deficit fell £2½bn in the same period. In the forecast period we expect the ICCs to be in surplus until 1985 and in balance thereafter. For the public sector we expect little further reduction in its deficit over the next eighteen months because we are assuming that taxes will be cut in the 1983 and 1984 Budgets. From late 1984 we expect some decline in the public sector deficit as demand boosts tax receipts.



COMBINED DEFICIT OF PUBLIC AND COMPANY SECTOR AND CHANGE IN MONEY STOCK (£M, FOUR-QUARTER MOVING AVERAGE)

Figure 30 To the extent that deficits in the public and company sectors are financed through the banks, they have a direct influence on monetary growth. The chart compares the combined deficit of the two sectors with the change in the money stock (both variables are shown as 4-quarter moving averages). The largest discrepancy between the combined deficit and money growth is between 1974 and 1977, when personal sector bank borrowing was particularly depressed. Over the forecast period we expect monetary growth to exceed the combined deficit. This partly reflects fairly rapid growth of personal borrowing to finance consumption.



PUBLIC SECTOR BORROWING REQUIREMENT AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT

Figure 31 The PSBR is expected to fall as a proportion of GDP throughout our forecast period. This reflects our assumption of public spending growth slower than GDP and of only very modest tax cuts. The projected PSBR is slightly above the figures in the Medium-Term Financial Strategy.

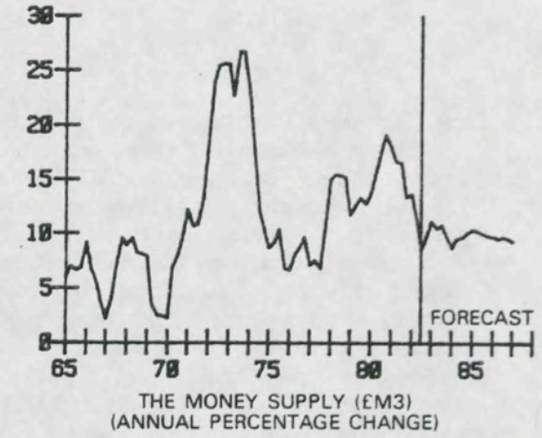


Figure 32 We expect growth in sterling M3 to be within the government's 8 to 12 per cent range for the current target period. In later years, growth slows further – to about 9½ per cent in 1986. This reflects a lower demand for finance from the public sector, stable real company loan demand until 1984 with some rise thereafter, and continued fairly rapid personal bank borrowing.

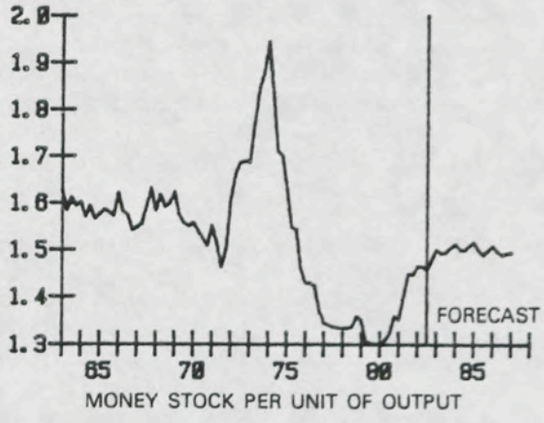


Figure 33 The stock of money (£M3) per unit of output (GDP at market prices) has risen nearly 10 per cent over the past two years. This fall in the velocity of circulation reflects declining inflation and continued recession at a time of fairly rapid monetary growth. We do not expect further substantial falls in velocity. Instead we expect it to stabilise around current levels.

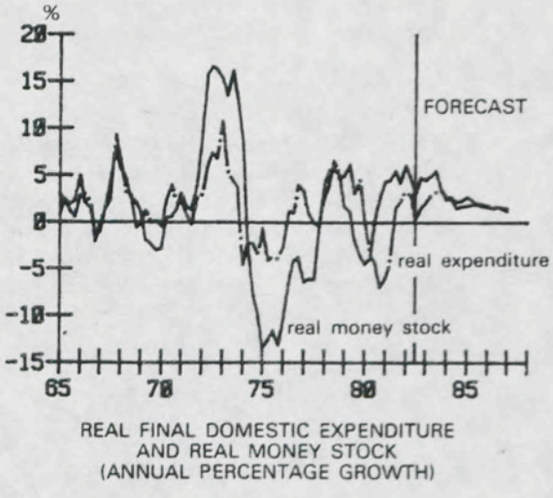
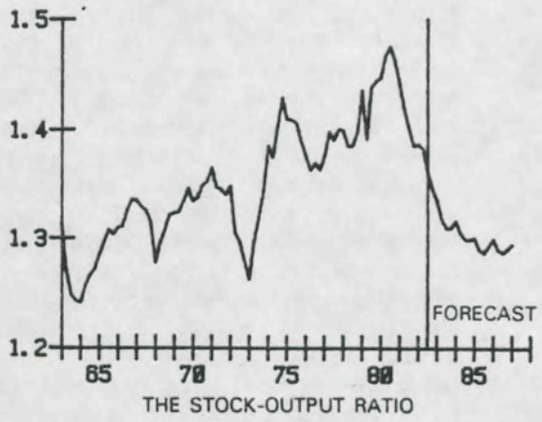


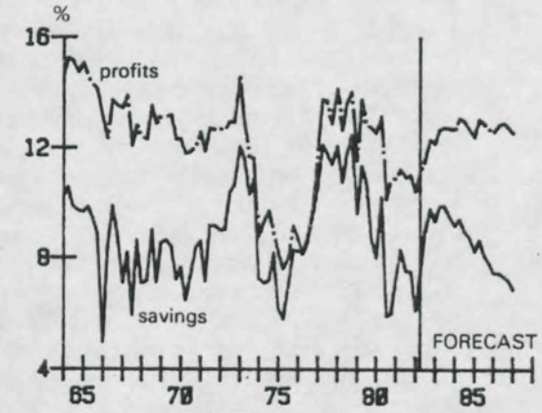
Figure 34 Changes in real final expenditure tend to be less volatile than previous changes in the real money stock. The relationship can also be disturbed by sharp changes in interest rates. Thus two years of high real interest rates and a high rate of return on money itself have reduced the expenditure response to the rapid monetary growth of 1980-1. But interest rates have now fallen and the distortions should begin to unwind. In the forecast period the real money supply should re-establish itself as a robust leading indicator of final expenditure.

8. The Company Sector



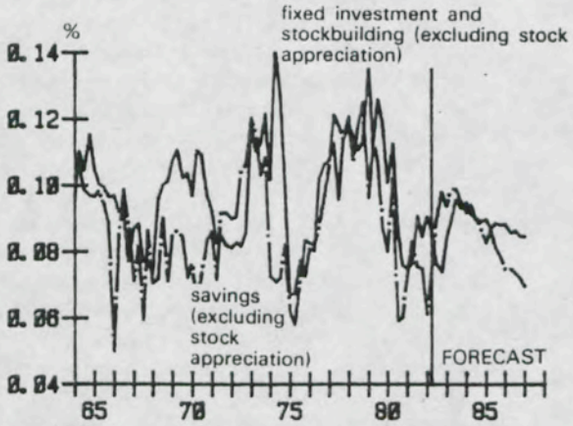
THE STOCK-OUTPUT RATIO

Figure 35 The chart shows the ratio of stocks to quarterly GDP. The ratio tends to rise in recessions and fall during recovery periods. This ratio fell relatively little during the weak recovery of 1978-9. This was probably partly due to frustrated expectations of a stronger recovery and partly due to tax relief on stockholdings. The ratio rose at first in the 1980 recession. Massive destocking has subsequently brought it down. We expect some further fall over the forecast period to around the levels recorded in the 1960s and early 1970s. The lower share of manufacturing output in GDP and improved stock-keeping methods suggest that further falls from present levels are still possible.



COMPANY PROFITS AND SAVINGS
EXCLUDING STOCK APPRECIATION
AS A PERCENTAGE OF GDP

Figure 36 Company savings are equal to company profits plus other corporate income less expenditure on dividends, interest and taxes. The chart shows that profits are the main determinant of savings (both are measured net of stock appreciation) but the downward trend is less evident in savings than in profits. However savings and profits are subject to large cyclical swings. Both have fallen in the present recession. Both are currently recovering as economic activity picks up. However, the chart shows that savings (as a proportion of GDP) are expected to fall after 1984 despite stable profits. This mainly reflects higher tax, interest and dividend payments.

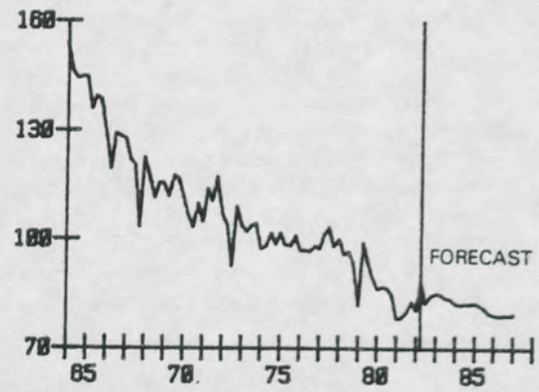


COMPANY SAVINGS AND EXPENDITURE
AS A PERCENTAGE OF GDP

Figure 37 Companies' savings and their capital expenditure have moved fairly closely together over the historical period shown. In 1983 and 1984 we expect the rise in savings to be reflected in a rise in investment, an end to destocking and some modest stockbuilding. From 1985 company savings fall as a percentage of GDP. We expect the growth of expenditure on fixed investment to continue, financed by increased borrowing.

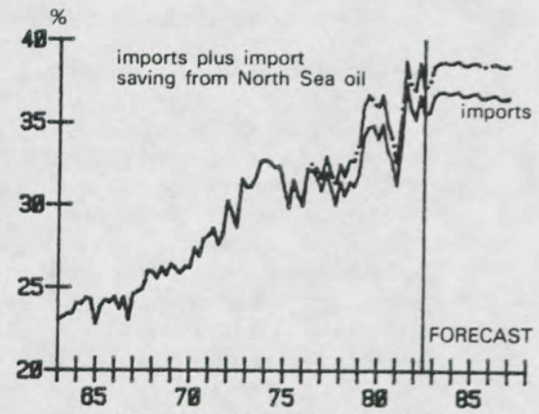
9. The Balance of Payments — export and import volumes

(see Appendix tables 8, 9 and 10)



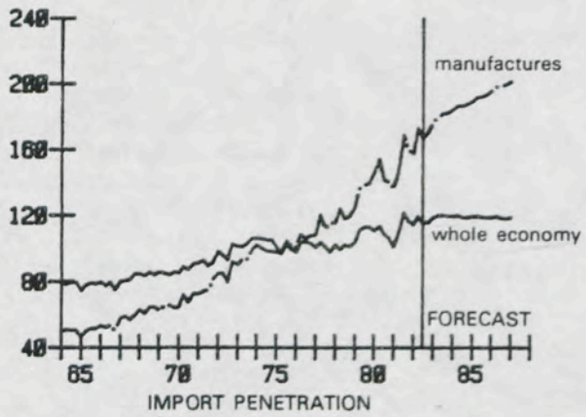
UK SHARE OF WORLD MANUFACTURING EXPORTS
(INDEX 1975 = 100)

Figure 38 UK manufacturing exports ended 1982 reasonably strongly, and the 1982 average was unchanged on the previous year. This was at a time when, we estimate, total world trade in manufactures contracted by about 5 per cent. Relative to the historical trend of a declining share of trade UK manufactures did exceptionally well last year, especially as the fall in the exchange rate only occurred at the end of the year. The improvement in competitiveness notwithstanding, we do not expect this performance to be maintained during the world recovery – UK manufacturers have historically performed relatively well during world downturns, relatively badly in recovery periods. Over the next four years we expect world trade growth of 3½ per cent p.a. and UK export growth of 2 per cent p.a.



SHARE OF IMPORTS IN GROSS
DOMESTIC PRODUCT (VOLUMES)

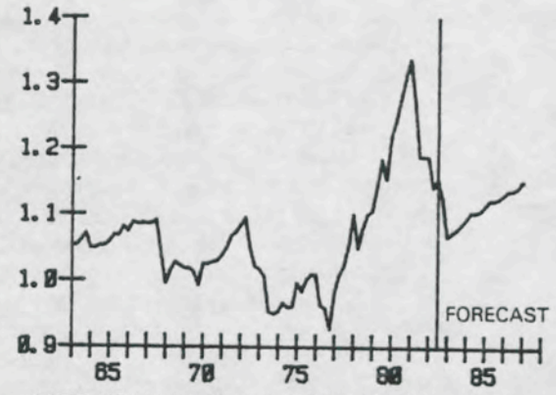
Figure 39 The share of imports in GDP grew steadily in the 1960s and early 1970s. Some stability accompanied the weakness of sterling in the mid 1970s but, with UK output falling more sharply than the rest of the world during the current recession, the import share has risen further. Over the last six months, however, the economy has begun to recover while import volumes have been falling. We expect the most recent trend in imports to be reversed in early 1983 as the renewed bout of destocking comes to an end. By the end of the year imports and GDP should be rising at about the same rate, so that no further increase in the import share is recorded in the latter part of the forecast period.



IMPORT PENETRATION
(INDEX 1975 = 100)

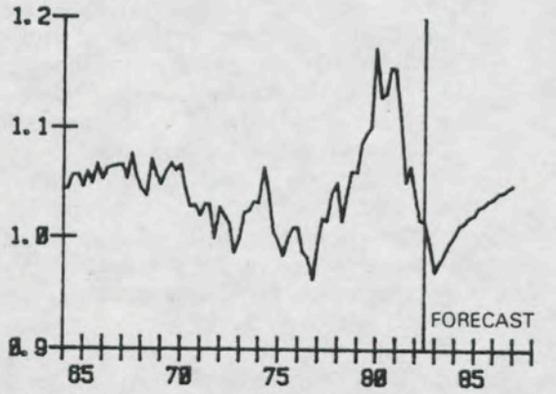
Figure 40 The chart shows, in index form, the ratio of total imports to total output and also the ratio of imports of manufactures to manufacturing output. Over the last twenty years there has been an upward trend in total import penetration. The more pronounced trend in manufactures shows that import penetration is largely a manufacturing phenomenon. Import penetration was reversed in the 1980 recession but this was a temporary pause linked to the rundown of stocks. As destocking came to an end and output started to recover, import penetration rose again and for manufacturing reached new peaks. From now on we expect the upward trend to be resumed in manufacturing although this will be offset for the economy as a whole by North Sea oil. As shown above we expect little change in the degree of import penetration overall.

10. The Balance of Payments — the terms of trade



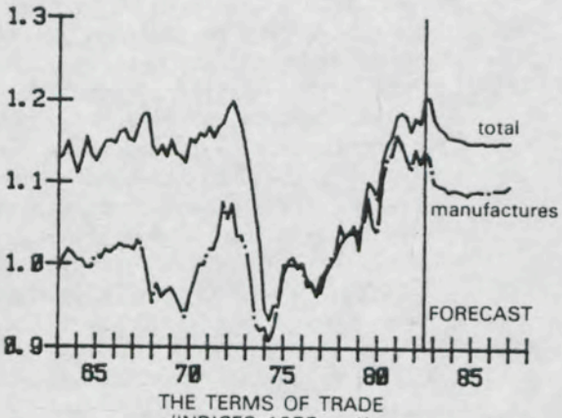
RATIO OF UK MANUFACTURING EXPORT PRICES
TO WORLD EXPORT PRICES
(INDEX 1975 = 1)

Figure 41 The chart shows UK competitiveness as measured by the ratio of UK export prices to competitors' prices. After the exchange rate appreciation over the period 1977-81, and the rapid rise in domestic costs, UK export prices were well out of line on international markets, and the subsequent fall in the exchange rate has been taken as an opportunity to improve price competitiveness. We forecast that the recent fall in the exchange rate will produce a further improvement but the equilibrium level of relative prices is now, because of oil, higher (less competitive) than in the past. In the medium term we expect UK export prices to rise faster than competitors, implying a deterioration in export price competitiveness despite a small fall in the exchange rate.



RATIO OF UK MANUFACTURING IMPORT PRICES
TO WORLD EXPORT PRICES
(INDEX 1975 = 1)

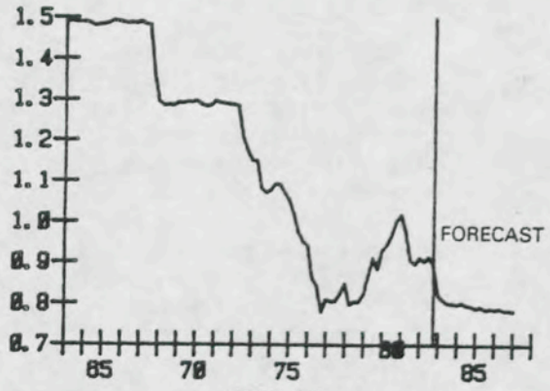
Figure 42 The price of UK manufacturing imports is closely linked to the average world price of manufacturing exports. However, there is some tendency for those exporting to the UK to reduce their prices in foreign currency terms when sterling falls (in order to match the lower prices of domestic suppliers) and to put up their prices when sterling rises (taking advantage of the easier competitive position to boost their profits). This pattern was evident in sterling's appreciation in 1979-80 and its fall in 1981. We expect the recent fall to have a similar effect, but not to the same extent, as importers' profits margins are now lower. Over the forecast period we expect the ratio to rise as margins are rebuilt.



THE TERMS OF TRADE
(INDICES 1975 = 1)

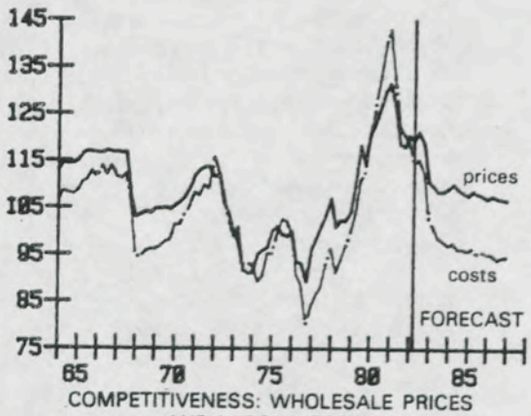
Figure 43 The terms of trade in manufactures, which is the ratio of the two preceding charts, depends in the short term on the effect of exchange rate movements on the relative profit margins of exporters and importers. A rise in the exchange rate has historically tended to squeeze importers' profit margins more than exporters' and resulted in an improvement in the terms of trade. A fall in the exchange rate similarly has tended to worsen the terms of trade. This happened when the exchange rate fell in 1981 and we expect it to happen again following the recent fall. However, the expected deterioration still leaves the terms of trade (manufacturing and total) much better than in any previous post-war cycle, an improvement which is explained by the move to self-sufficiency in oil.

11. The Balance of Payments — exchange rate and competitiveness



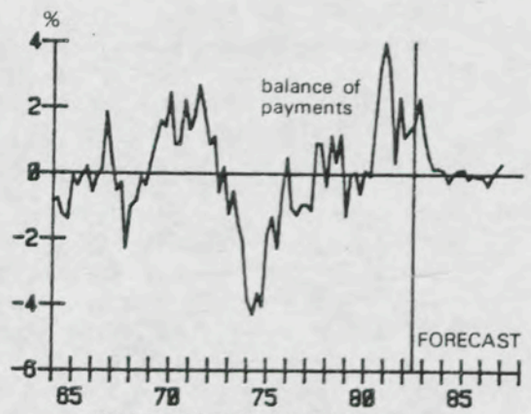
STERLING
TRADE-WEIGHTED EXCHANGE RATE
(INDEX 1975 = 1)

Figure 44 The 15-month stability of the exchange rate came to an end last November – in the three months from the end of October to the end of January sterling fell 12-13 per cent against the basket of currencies, 8-9 per cent against the US dollar. Factors underlying the recent weakness include weaker oil prices, lower UK interest rates and projections of a current account deficit by the end of 1983. As a result of the depreciation, however, UK competitiveness is no longer out of line and domestic fiscal and monetary policy remain reasonably tight. On the assumption of no change in policy and erratic short-term movements apart, we expect sterling to be more or less stable at its current level over the next four years.



COMPETITIVENESS: WHOLESALE PRICES
AND LABOUR COSTS
(INDEX 1975 = 100)

Figure 45 The recent depreciation of sterling has boosted the competitiveness of UK industry just as it did in 1981. As a result both sterling and competitiveness are back at about the levels which the government inherited in May 1979. On the cost side the improvement has been supplemented by the reduction in the national insurance surcharge. From now on we expect UK costs and prices to move in line with those in other countries so that competitiveness is little changed over the forecast period. Some improvement on the price side follows the modest sterling fall which we project; on the cost side our assumption of a reduction and then the abolition of the NIS provides further gains.



THE BALANCE OF PAYMENTS AS A
PROPORTION OF GROSS DOMESTIC
PRODUCT AT CURRENT PRICES

Figure 46 The chart shows the current account as a percentage of GDP. From 1975 to 1981 there was a fundamental improvement in the current account, initially due to North Sea oil revenues and subsequently to the reduction of imports in conjunction with the 1980-2 stock rundown. More recently exports have been at record levels while imports have been falling so that the current account surplus for 1982 passed £4½bn. In 1983 the combination of J-curve effects following the fall in sterling, the boost to imports from the end of destocking and the relative weakness of our main European trading partners is expected to eliminate the surplus. Thereafter we expect modest deficits in 1984-5 and a return to surplus by the end of 1986.

APPENDIX: Sector Analysis Tables

The allocation of resources — Table 1

Annual percentage changes	1982	1983	1984	1985	1986
Consumption	1.1	2.3	1.5	2.3	2.2
Government current consumption	1.7	0.9	0.6	0.6	0.6
Public investment	–3.8	2.8	2.0	2.2	2.1
Private residential investment	10.7	12.0	4.7	–2.3	0.2
Private non-residential investment	4.1	2.5	4.8	1.7	–0.7
Change in stocks as % of GDP	1.0	0.8	0.4	0.1	0.1
Domestic expenditure	1.8	2.6	1.9	2.0	1.6
Exports	–0.1	1.7	1.5	2.4	1.8
Imports	4.1	4.6	2.0	1.8	1.3
Factor cost adjustment	1.9	3.3	1.6	2.7	2.6
Gross domestic product	0.5	1.8	2.0	2.0	1.6

Prices, costs and earnings — Table 2

Annual percentage changes	1982	1983	1984	1985	1986
World price of exports of manufactures	7.0	5.3	6.8	7.7	8.2
Effective exchange rate	–4.7	–10.8	–1.2	–1.1	–0.5
UK export price of manufactures	7.6	11.1	10.8	10.6	10.3
Wholesale price index – manufacturing	8.6	7.5	8.0	7.7	7.9
Productivity in manufacturing industry	5.1	3.1	2.2	–.8	1.1
Average earnings in manufacturing	11.0	8.1	7.2	8.3	8.0

Table 3

Annual percentage changes	1982	1983	1984	1985	1986
Income from employment	5.5	5.5	8.2	10.4	9.9
Gross Domestic Product	0.5	1.8	2.0	2.0	1.6
Wage cost per unit output (Exc. North Sea Oil)	5.5	3.9	6.2	8.3	8.3
Deflator for GDP	6.9	6.2	6.8	8.2	8.2
Terms of trade	1.0	–2.1	–1.1	–0.3	0.0
UK import prices	6.7	13.0	10.8	10.3	10.8
Tax rate on final expenditure	10.8	–0.3	5.0	3.9	5.8
Consumer prices	8.0	5.8	7.0	7.5	7.8

Investment and stockbuilding — Table 4

Annual percentage changes	1982	1983	1984	1985	1986
Private non-residential investment (including oil)	4.1	2.5	4.8	1.7	–0.7
(excluding oil)	3.6	2.8	5.4	1.9	–0.8
Housing investment (total)	9.2	8.0	3.7	–0.8	0.8
Ratio of company fixed investment to GDP (current prices – annual ave.)	9.3	9.0	9.1	8.6	8.4
Stock level (quarterly average £b)	33.9	33.2	33.6	33.9	34.4
Gross domestic product (quarterly average £b)	24.8	25.2	25.7	26.2	26.7
Stock-output ratio	1.37	1.32	1.30	1.29	1.29
Stockbuilding (annual total £m)	–859	–44	333	441	509

The borrowing requirement and monetary behaviour — Table 5

Quarterly average	1982	1983	1984	1985	1986
Real money balances (£b)	36.6	38.2	39.1	40.0	40.6
Money supply/income ratio	1.47	1.50	1.50	1.50	1.50
Real domestic expenditure (£b)	28.6	29.5	30.1	30.7	31.1
Percentage change					
Real money balances	4.6	4.6	2.4	2.2	1.6
Real domestic expenditure	1.9	2.9	2.1	1.9	1.6
Nominal money supply (end year, £b)	86	94	104	114	125
Borrowing requirement as % GDP at market prices (fiscal year)	2.7	3.1	2.6	2.1	1.7

Table 6

Annual percentage changes	1982	1983	1984	1985	1986
Nominal GDP – expenditure estimate	8.0	8.1	9.0	10.4	9.9
Public sector current receipts					
Income taxes – total receipts	11.8	3.4	9.5	10.7	8.8
Expenditure taxes – total receipts	9.5	2.6	6.5	6.9	8.5
National Health and Insurance contributions	13.4	11.0	9.4	10.4	9.9
Public sector – current expenditure					
Current spending – goods and services	8.2	6.8	7.8	9.3	8.7
Subsidies	–12.0	–0.4	5.6	8.2	8.2
Debt interest	7.4	1.4	4.0	4.3	3.7
Current grants	14.3	9.3	8.5	7.5	7.8
Public sector capital formation	1.3	9.3	10.8	10.0	10.0
Level (fiscal year)					
Acquisition of financial assets (£b)	–5.1	–7.0	–6.2	–5.2	–4.2
Borrowing requirement (£b)	7.4	9.2	8.4	7.4	6.4

Table 7

Level as a % of nominal GDP at market prices Net acquisition of financial assets by:	1982	1983	1984	1985	1986
Government	–1.9	–2.4	–2.1	–1.6	–1.2
Companies	–0.1	0.6	0.1	–0.4	–1.0
Persons	4.1	2.7	2.4	2.3	2.4
Overseas	–1.5	–0.5	0.0	0.0	0.1

The balance of payments

Table 8

Annual percentage changes	1982	1983	1984	1985	1986
UK export prices	7.8	10.6	9.6	10.0	10.8
UK import prices	6.7	13.0	10.8	10.3	10.8
Terms of trade	1.0	–2.1	–1.1	–0.3	0.0
World export prices in sterling	16.1	18.8	8.1	8.8	8.7
Value index of exports of manufactures	7.6	11.1	10.8	10.6	10.3
Value index of imports of manufactures	7.9	15.0	11.3	10.6	10.1

Table 9

Annual percentage changes	1982	1983	1984	1985	1986
World industrial production	–4.5	0.1	3.9	3.2	3.0
World trade	–4.9	0.1	5.2	4.5	4.5
Exports – goods and services	–0.1	1.7	1.5	2.4	1.8
Domestic expenditure	1.8	2.6	1.9	2.0	1.6
Imports – goods and services	4.1	4.6	2.0	1.8	1.3
Oil savings as a % of imports (level, current prices)	22.2	20.3	19.3	18.9	19.6

Table 10

Annual percentage changes	1982	1983	1984	1985	1986
Exports of goods	0.2	2.2	2.4	3.2	2.1
Imports of goods	5.4	5.5	2.4	1.9	1.4
Terms of trade (goods only)	2.0	–1.5	–0.6	0.3	0.6
Annual total £m					
Visible trade balance	1663	–1085	–1571	–583	542
Balance of services	4010	3591	2998	2529	2131
Net property incomes and transfers	–1472	–1055	–1458	–2042	–2931
Current balance of payments	4202	1452	–31	–96	–257

Forecast Tables

This section comprises seventeen tables containing forecast data for over 150 economic time series, together with constant adjustments for 50 variables.

Please note that:

(i) Growth rates in the quarterly section of the table are the percentage change over the same quarter in the previous year.

(ii) The date shown in the line marked DATA under the annual totals (e.g. 8104) indicates the latest quarter for which data is available at the time of going to press.

Table 1: Expenditure on the Gross Domestic Product and other key indicators.

(i) GDP = GDPE – ADJ

(ii) GDPE = C + IF + II + G + X – M – FCA

Table 2: Prices and costs.

Table 3: Personal income and consumption.

(i) YJ = YWS + YFP + YEC + YJG + YJO

(ii) The identity for disposable income is built up such that:
YWS + YFP + YEC +YJG +YJO – EJTA – ENIH – TJYP = YD
NB EJTA = personal transfers abroad (net) and taxes paid. This variable is not shown in the table.

(iii) Real disposable income is disposable income (YD) deflated by the consumption deflator (PC)

Table 4: Fixed investment and stockbuilding.

(i) Series in the table run across such that:
IF = IFP + IFG; IFP = INP + IHP; IFG = IGG + IPCOR; IGG = INGG + IHG
INP = INPOX + INSO

(ii) Included are stockbuilding, the stock level and a stock output ratio which is average annual stock level as a ratio of the quarterly average level of GDP.

Table 5: Public sector — flow of funds.

(i) The current surplus indentity reads across such that:
SGA = TYA + TEA + ENIH + YGTP + YGRA – G£ – EDBA – ESAB – EGGA

(ii) The net acquisition of financial assets FG = SGA + FTKG – IDG£

Table 6: Balance of payments.

(i) The balances are built up such that:
BALV = XG.PXG – MG.PMG
BALI = XS.PXS – MS.PMS + BYPA + BTAB
BAL = BALV + BALI

Table 7: Money supply and related items.

Table 8: Factor incomes in GDP and expenditure on GDP (current prices).

(i) GDP£E is the expenditure measure of GDP in current prices, it equals PGDP · GDPE

(ii) The current price of GDP identity is built up such that:
GDP£E = YEM + YCTP + YGTP + YRSE – YSA + RESEY = C£ + IF£ + II£ + G£ + X£ – M£ – FCA£

(iii) The residual error, RESEY, the discrepancy between expenditure and income estimates of GDP, may differ from the residual error, RES2, shown on Table 12, when the latest data for the balance of payments current account used in the sector flows are not consistent with the latest published national accounts.

Table 9: Company sector — flow of funds.

(i) YCTP = YCT– + YSAC

(ii) SC = YCTP + YCNT – ECDV – ECOI – ECTP

(iii) SC– = SC – YSAC

(iv) FC = SC– –IFC£ –IIC£ + FTKC
NB FTKC = capital transfers is not shown.

Table 10: Output, employment and unemployment.

(i) ET = EEMF + EEGG + EEBAR + ESFOR
NB ESFOR = self-employed + forces is not shown.

Table 11: North Sea oil.

(i) Variable YTPN includes the public sector's share of North Sea profits.

Table 12: Sector flows — net acquisition of financial assets.

(i) FG, FP, FO and RES2 sum to zero.

(ii) FP = FC + FJ

(iii) RES2: see note (iii) to Table 8.

Table 13: World variables.

Tables 14-17: Constant adjustments.

Variables contained in the tables

Code	
ADJ	Expenditure estimate of GDP *minus* output estimate at 1975 prices
AEM	Average earnings in manufacturing 1975 = 100
BAL	Current balance of payments, £m, seasonally adjusted
BAL/	Current balance of payments as a % of GDP
BALI	Invisible balance, £m, seasonally adjusted
BALV	Trade balance, £m, seasonally adjusted
BTAB	Net private and government transfers abroad, £m, seasonally adjusted
BYPA	Net interest profits, and dividends payments abroad, £m, seasonally adjusted
C	Total consumers' expenditure, at 1975 prices, £m, seasonally adjusted
C£	Total consumers' expenditure, £m, seasonally adjusted
CD	Durable consumption, at 1975 prices, £m, seasonally adjusted
CND	Non-durable consumption, at 1975 prices, £m, seasonally adjusted
CPET	Petroleum consumption (primary fuel input basis) millions of tonnes
ECDV	Payments of dividends on ordinary shares, £m, seasonally adjusted
ECOI	Other dividends and interest payments, corporate sector, £m, seasonally adjusted
ECTP	Corporate payments of UK taxes on income, £m, seasonally adjusted
EDBA	Public sector debt interest payments, £m, seasonally adjusted
EEBAR	Other employment, thousands, seasonally adjusted
EEGG	Employees in employment, general government, thousands, seasonally adjusted
EEMF	Employees in employment, manufacturing, thousands, seasonally adjusted
EER	Sterling exchange rate index, trade-weighted, 1975 = 1
EGGA	Current grants from the public sector, £m, seasonally adjusted
ENIH	Employees' National Health and Insurance contributions, £m, seasonally adjusted
ENSA	Expenditure on invisible account of the balance of payments due to North Sea oil, £m
ESAB	Subsidies, £m, seasonally adjusted
ET	Employees in employment, total employment, UK, thousands, seasonally adjusted
FC	Net acquisition of financial assets by the company sector, £m, seasonally adjusted
FC/	Net acquisition of financial assets by the company sector as a % of GDP
FCA	Factor cost adjustment at 1975 prices, £m, seasonally adjusted
FCA£	Factor cost adjustment, £m, seasonally adjusted
FCOX	Net acquisition of financial assets by the non-North Sea company sector, £m, seasonally adjusted
FG	Net acquisition of financial assets by the public sector, £m, seasonally adjusted
FG/	Net acquisition of financial assets by the public sector as a % of GDP
FJ	Net acquisition of financial assets by the personal sector, £m, seasonally adjusted
FJ/	Net acquisition of financial assets by the personal sector as a % of GDP
FO	Net acquisition of financial assets by the overseas sector, £m, seasonally adjusted
FP	Net acquisition of financial assets by the private sector, £m, seasonally adjusted
FTKG	Net capital transfers public sector, £m, seasonally adjusted
G	Public authorities' current expenditure on goods and services at 1975 prices, £m, seasonally adjusted
G£	Public authorities' current expenditure on goods and services, £m, seasonally adjusted
GDP	Gross Domestic Product output based at 1975 prices, £m, seasonally adjusted
GDPE	Gross Domestic Product, expenditure based at 1975 prices, £m, seasonally adjusted
GDPOX	Gross Domestic Product output based at 1975 prices, £m, seasonally adjusted excluding North Sea oil
GDP£E	Gross Domestic Product, £m, seasonally adjusted, expenditure measure
IDG£	Gross domestic capital formation by the public sector, £m, seasonally adjusted
IF	Fixed investment at 1975 prices, £m, seasonally adjusted
IF£	Fixed investment, £m, seasonally adjusted
IFC£	Gross domestic fixed capital formation: company sector, £m, seasonally adjusted
IFG	Gross domestic fixed capital formation at 1975 prices, public sector, £m, seasonally adjusted
IFP	Gross domestic fixed capital formation at 1975 prices, private sector, £m, seasonally adjusted
IGG	Gross domestic fixed capital formation at 1975 prices, general government, £m, seasonally adjusted
IHG	Public dwellings investment at 1975 prices, £m, seasonally adjusted
IHP	Private dwellings investment at 1975 prices, £m, seasonally adjusted
II	Stockbuilding at 1975 prices, £m, seasonally adjusted
II£	Stockbuilding, £m, seasonally adjusted
IIC£	Value of the physical increase in stocks and work in progress: company sector, £m, seasonally adjusted
INGG	Gross domestic non-residential fixed capital formation at 1975 prices, general government, £m, seasonally adjusted
INP	Private non-dwellings fixed investment at 1975 prices, £m, seasonally adjusted
INPOX	Private non-dwellings fixed investment at 1975 prices, £m, seasonally adjusted excluding investment in North Sea oil
INS£	Private fixed investment in North Sea oil, £m, seasonally adjusted
INSO	Private fixed investment in North Sea oil at 1975 prices, £m, seasonally adjusted
IPW	World industrial production, 1975 = 100
KII	Stock level at 1975 prices, £m, seasonally adjusted
KII/	Stock-output ratio
KM3/	Money stock per unit of quarterly expenditure
KM3*	Real money stock
KM3£	Money stock, sterling M3, £m, end-quarter seasonally adjusted (old basis)
LUKA	Unemployed, excluding school leavers in UK, thousands, seasonally adjusted
M	Imports of goods and services at 1975 prices, £m, seasonally adjusted
M£	Imports of goods and services, £m, seasonally adjusted
MG	Imports of goods (f.o.b.) at 1975 prices, £m, seasonally adjusted

MG2	Imports of fuel (c.i.f.) at 1975 prices, £m, seasonally adjusted
MS	Imports of services at 1975 prices, £m, seasonally adjusted
MXO	Oil import savings at 1975 prices, £m, seasonally adjusted
NSO	Production of North Sea oil in millions of tonnes
OSWI	Index of average earnings, residual and tertiary sector, 1975 = 100
PC	Consumer prices index. 1975 = 1, seasonally adjusted
PCOMM	World non-oil commodity prices index, 1975 = 1
PEFD	Deflator for final domestic expenditure, 1975 = 1
PFL	Unit value index for imports of fuels, 1975 = 1
PG	Price index for government current expenditure on goods and services, 1975 = 1, seasonally adjusted
PGDP	Price index for the Gross Domestic Product, 1975 = 1, seasonally adjusted
PIF	Price index for fixed investment, 1975 = 1, seasonally adjusted
PIMI	Index of wholesale input prices, manufacturing, 1975 = 1
PIMO	Index of wholesale prices of manufacturing output, 1975 = 100
PM	Price index for imports 1975 = 1, seasonally adjusted
PMAN	Unit value index for manufactured imports, 1975 = 1
PMG	Price index for imports of goods, 1975 = 1, seasonally adjusted
PMS	Price index for imports of services, 1975 = 1, seasonally adjusted
POIL$	$ price of barrel of oil (average OPEC export price)
POIL*R1	Index of real oil price, 1975 = 1
POPWA*	Population of working age, UK, thousands
PRDM	Index of productivity in manufacturing industry, 1975 = 100
PROD	Index of industrial production, 1975 = 100, seasonally adjusted
PRODMF	Index of manufacturing production, 1975 = 100, seasonally adjusted
PSBR	Public sector borrowing requirement, £m, seasonally adjusted
PSWI	Index of average earnings, general government, 1975 = 100
PX	Price index for exports, 1975 = 1, seasonally adjusted
PXG	Price index for exports of goods, 1975 = 1, seasonally adjusted
PXGM	Unit value index for manufactured exports, 1975 = 1
PXS	Price index for exports of services, 1975 = 1, seasonally adjusted
PXWM	Unit value index for world exports of manufacturers in sterling, 1975 = 1
RESEY	Discrepancy between the expenditure and income estimates of Gross Domestic Product, £m, seasonally adjusted
RES2	Residual error in the sector financial accounts, £m, seasonally adjusted
RES2/	Residual error as % of GDP
RL	Interest rate on undated consols
RS	3-month Treasury Bill rate
SC	Corporate sector savings, £m, seasonally adjusted
SC-	Corporate sector savings net of stock appreciation, £m, seasonally adjusted
SGA	Balance undistributed income of the public sector, £m, seasonally adjusted
SJ£/	Personal sector savings ratio (%)
TEA	Taxes on expenditure, £m, seasonally adjusted
TJYP	Payments of UK personal income tax, £m, seasonally adjusted
TPRT	Payments of Petroleum Revenue tax, £m (includes Supplementary Petroleum Duty)
TROY	Payments of royalties on North Sea oil, £m
TYA	Payments of income tax, £m, seasonally adjusted
ULCM	Unit labour cost in manufacturing industry, 1975 = 100
WCPI	Index of world consumer prices, 1975 = 100
WGNP	World gross national product index, 1975 = 100
WM3	World money supply, 1975 = 100
WM3/	World real money supply, 1975 = 100
WPOP	Working population, UK, thousands
WWPI	Index of world wholesale prices, 1975 = 100
X	Exports of goods and services at 1975 prices, £m, seasonally adjusted
X£	Exports of goods and services, £m, seasonally adjusted
XG	Exports of goods at 1975 prices, £m, seasonally adjusted
XG2	Index of volume of exports of fuels, 1975 = 100, seasonally adjusted
XGM	Index of exports of manufactures, 1975 = 100
XS	Exports of services at 1975 prices, seasonally adjusted
XWM	Index of world exports of manufactures, 1975 = 1
XXO	Exports of crude petroleum at 1975 prices, £m, seasonally adjusted
YCNT	Corporate gross non-trading profits, £m, seasonally adjusted
YCTP	Gross trading profits of companies, £m, seasonally adjusted
YCT-	Corporate gross trading profits net of stock appreciation, £m, seasonally adjusted
YC-N	Corporate gross trading profits net of stock appreciation and North Sea oil profits, £m, seasonally adjusted
YD	Personal disposable income, £m, seasonally adjusted
YD/	Personal disposable income at 1975 prices, £m, seasonally adjusted
YEC	Employers' contributions, £m, seasonally adjusted
YEM	Income from employment, £m, seasonally adjusted
YFP	Forces pay, £m, seasonally adjusted
YGRA	Public sector receipts of rent, interest and dividends, £m, seasonally adjusted
YGTP	Public sector trading profits, £m, seasonally adjusted
YJ	Total personal incomes, £m, seasonally adjusted
YJG	Current grants to the personal sector from the public sector, £m, seasonally adjusted
YJO	Other personal income, £m, seasonally adjusted

YNSV	Savings on the balance of payments current account due to production of North sea oil, £m
YRSE	Income from rent and self-employment (including imputed charge for consumption of non-trading capital), £m, seasonally adjusted
YSA	Stock appreciation, £m, seasonally adjusted
YSAC	Stock appreciation: company sector, £m, seasonally adjusted
YSE	Self-employment incomes, £m, seasonally adjusted
YTPN	Gross trading profits arising from North Sea oil, £m, (including the public sector's share of North Sea oil profits)
YWS	Wages and salaries, £m, seasonally adjusted (%)

TABLE 1 EXPENDITURE ON THE GROSS DOMESTIC PRODUCT & KEY INDICATORS

	GDP:	ADJ	GDPE:	C	IF	II	G	X	M	FCA:	PROD	LUKA	EER	PC:
	GROSS DOMESTIC PRODUCT	DIFFERENCE EXP & OUTPUT EST. GDP	GDP EXPENDITURE ESTIMATE:	CONSUMER EXPENDITURE	FIXED INVESTMENT	STOCK BUILDING	GOVERNMENT CONSUMPTION	EXPORTS GOODS & SERVICES	IMPORTS GOODS & SERVICES	FACTOR COST ADJUSTMENT	INDEX OF INDUST. PRODUCTION	UK UNEMPLOYMENT (SA)	STERLING WEIGHTED INDEX	DEFLATOR FOR CONSUMPTION
	£M 75	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	75=100	'000 A	75=1	75=1
	ANNUAL VALUES													
1976:	96084	1709	97793	64707	20640	658	23178	29595	30234	10751	102.1	1272	.86	1.16
1977:	98655	535	99190	64517	20139	1382	22951	31508	30562	10745	106.1	1377	.81	1.33
1978:	101933	351	102284	68227	20845	1146	23438	32092	31754	11710	109.9	1376	.81	1.45
1979:	104103	-392	103711	71599	21039	1782	23866	32914	35326	12163	112.6	1302	.87	1.63
1980:	101061	427	101488	71550	20443	-1555	24311	33057	34143	12175	105.3	1648	.96	1.90
1981:	98561	702	99263	71871	18774	-1871	24302	32335	34042	12102	100.4	2509	.95	2.11
1982:	99065	1195	100260	72667	19236	-859	24712	32290	35439	12329	100.9	2793	.91	2.27
1983:	100888	1200	102088	74339	19866	-44	24940	32826	37078	12741	102.9	3135	.81	2.40
1984:	102912	1200	104112	75453	20668	333	25100	33320	37805	12943	105.5	3166	.80	2.57
1985:	104996	1200	106196	77174	20968	441	25260	34122	38467	13299	107.8	3131	.79	2.76
1986:	106650	1200	107850	78846	20990	509	25420	34720	38980	13643	109.4	3143	.79	2.98
DATA:	8203	8203	8203	8204	8203	8203	8203	8203	8203	8203	8203	8204	8204	8203
81 1:	24599	561	25160	18040	4690	-642	6055	7853	7672	3160	100.2	2304	1.02	2.02
81 2:	24528	262	24790	17926	4667	-694	6048	8029	8251	2936	100.0	2482	.98	2.09
81 3:	24693	-247	24446	17934	4663	-226	6127	8133	9241	2943	100.5	2641	.91	2.13
81 4:	24740	127	24867	17971	4754	-309	6072	8320	8879	3063	101.0	2609	.90	2.18
82 1:	24670	409	25079	17927	4902	-62	6147	8010	8687	3158	100.7	2679	.91	2.22
82 2:	24740	349	25090	17998	4693	2	6132	8249	9076	2909	101.1	2743	.90	2.27
82 3:	24835	136	24971	18242	4846	-371	6223	7925	8827	3066	101.5	2838	.91	2.29
82 4:	24820	300	25120	18500	4795	-428	6210	8106	8849	3196	100.4	2913	.89	2.32
83 1:	24863	300	25163	18523	4851	-203	6220	8175	9095	3306	101.2	3043	.82	2.36
83 2:	25164	300	25464	18482	4933	-40	6230	8201	9271	3069	102.4	3131	.81	2.39
83 3:	25408	300	25708	18659	5012	115	6240	8197	9361	3147	103.7	3177	.80	2.42
83 4:	25454	300	25754	18675	5070	84	6250	8254	9352	3219	104.2	3191	.80	2.45
84 1:	25411	300	25711	18715	5108	87	6260	8237	9349	3339	104.1	3188	.80	2.50
84 2:	25698	300	25998	18807	5162	92	6270	8279	9487	3124	105.1	3182	.80	2.55
84 3:	25874	300	26174	18941	5185	72	6280	8367	9475	3198	106.2	3157	.80	2.59
84 4:	25929	300	26229	18990	5214	82	6290	8436	9493	3282	106.6	3135	.79	2.64

TABLE 1 EXPENDITURE ON THE GROSS DOMESTIC PRODUCT & KEY INDICATORS

	GDP:	ADJ	GDPE:	C	IF	II	G	X	M	FCA:	PROD	LUKA	EER	PC:
	GROSS DOMESTIC PRODUCT	DIFFERENCE EXP & OUTPUT EST. GDP	GDP EXPENDITURE ESTIMATE	CONSUMER EXPENDITURE	FIXED INVESTMENT	STOCK BUILDING	GOVERNMENT CONSUMPTION	EXPORTS GOODS & SERVICES	IMPORTS GOODS & SERVICES	FACTOR COST ADJUSTMENT	INDEX OF INDUST. PRODUCTION	UK UNEMPLOYMENT (SA)	STERLING WEIGHTED INDEX	DEFLATOR FOR CONSUMPTION
	£M 75	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	75=100	'000 A	75=1	75=1
	% CHANGES OVER PREVIOUS YEAR													
1976:	1.9	--	3.7	.1	1.1	--	1.0	8.8	4.2	3.2	2.1	--	-14.3	15.6
1977:	2.7	--	1.4	-.3	-2.4	--	-1.0	6.5	1.1	-.1	3.9	--	-5.2	15.2
1978:	3.3	--	3.1	5.8	3.5	--	2.1	1.9	3.9	9.0	3.5	--	.4	8.8
1979:	2.1	--	1.4	4.9	.9	--	1.8	2.6	11.2	3.9	2.5	--	7.1	12.8
1980:	-2.9	--	-2.1	-.1	-2.8	--	1.9	.4	-3.3	.1	-6.5	--	10.1	16.1
1981:	-2.5	--	-2.2	.4	-8.2	--	-.0	-2.2	-.3	-.6	-4.6	--	-1.2	10.9
1982:	.5	--	1.0	1.1	2.5	--	1.7	-.1	4.1	1.9	.5	--	-4.7	8.0
1983:	1.8	--	1.8	2.3	3.3	--	.9	1.7	4.6	3.3	1.9	--	-10.8	5.8
1984:	2.0	--	2.0	1.5	4.0	--	.6	1.5	2.0	1.6	2.6	--	-1.2	7.0
1985:	2.0	--	2.0	2.3	1.5	--	.6	2.4	1.8	2.7	2.2	--	-1.1	7.5
1986:	1.6	--	1.6	2.2	.1	--	.6	1.8	1.3	2.6	1.5	--	-.5	7.8
DATA:	8203	8203	8203	8204	8203	8203	8203	8203	8203	8203	8203	8204	8204	8203
	% CHANGES OVER SAME PERIOD PREVIOUS YEAR													
81 1:	-4.8	--	-2.2	-.4	-11.4	--	-.1	-7.7	-12.8	-1.3	-8.7	--	9.5	11.3
81 2:	-3.7	--	-2.6	1.1	-9.6	--	.4	-3.5	-7.4	3.0	-6.4	--	3.5	10.9
81 3:	-1.4	--	-3.2	.6	-7.4	--	.8	.2	10.5	-3.0	-2.9	--	-6.3	10.9
81 4:	.2	--	-.9	.6	-4.0	--	-1.2	2.5	9.9	-.9	.1	--	-10.5	10.8
82 1:	.3	--	-.3	-.6	4.5	--	1.5	2.0	13.2	-.1	.5	--	-10.4	10.0
82 2:	.9	--	1.2	.4	.6	--	1.4	2.7	10.0	-.9	1.1	--	-7.7	8.7
82 3:	.6	--	2.1	1.7	3.9	--	1.6	-2.6	-4.5	4.2	1.0	--	1.0	7.4
82 4:	.3	--	1.0	2.9	.9	--	2.3	-2.6	-.3	4.4	-.6	--	-.6	6.0
83 1:	.8	--	.3	3.3	-1.1	--	1.2	2.1	4.7	4.7	.5	--	-10.1	6.2
83 2:	1.7	--	1.5	2.7	5.1	--	1.6	-.6	2.2	5.5	1.3	--	-10.3	5.4
83 3:	2.3	--	3.0	2.3	3.4	--	.3	3.4	6.0	2.6	2.2	--	-12.6	5.4
83 4:	2.6	--	2.5	.9	5.8	--	.6	1.8	5.7	.7	3.8	--	-10.3	6.0
84 1:	2.2	--	2.2	1.0	5.3	--	.6	.8	2.8	1.0	2.9	--	-2.5	6.3
84 2:	2.1	--	2.1	1.8	4.6	--	.6	1.0	2.3	1.8	2.6	--	-.8	6.8
84 3:	1.8	--	1.8	1.5	3.4	--	.6	2.1	1.2	1.6	2.4	--	-.6	7.4
84 4:	1.9	--	1.8	1.7	2.8	--	.6	2.2	1.5	1.9	2.3	--	-.8	7.4

TABLE 2 PRICES AND COSTS

	PGDP: DEFLATOR :- GROSS DOMESTIC PRODUCT	PC DEFLATOR FOR CONSUMPTION	PIF DEFLATOR - GROSS DOMESTIC FIX.CAP.	PG DEFLATOR PUBLIC CONSUMPTION	PX DEFLATOR -EXPORTS GOODS & SERVICES	PM: DEFLATOR -IMPORTS GOODS & SERVICES	AEM: AVERAGE EARNINGS IN MANUFACT'G	PRDM PRODUCTIVITY IN MANUFACTURING	ULCM UNIT LAB COST IN MANUFACTURING	PXWM: WORLD EXPORT MANUFACT STERLING	PIMI :WHL/SALE PR.INDEX MANUFACT INPUT	PIMO WHL/SALE PR.INDEX MANUFACT OUTPUT	PXGM PRICE OF MANUFACT -URED EXPORTS	PMAN: PRICE OF MANUFACT -URED IMPORTS
	75=1	75=1	75=1	75=1	75=1	75=1	75=100	75=100	75=100	75=1	75=1	75=100	75=1	75=1
	ANNUAL VALUES													
1976:	1.14	1.16	1.14	1.15	1.20	1.22	117	105	111	1.25	1.27	117	1.20	1.23
1977:	1.28	1.33	1.28	1.27	1.38	1.39	129	106	120	1.39	1.46	141	1.42	1.42
1978:	1.43	1.45	1.43	1.41	1.49	1.43	147	107	136	1.45	1.45	153	1.57	1.51
1979:	1.62	1.63	1.64	1.61	1.66	1.54	170	109	155	1.49	1.68	172	1.71	1.62
1980:	1.92	1.90	1.93	1.99	1.91	1.70	200	107	189	1.51	2.01	200	1.91	1.74
1981:	2.13	2.11	2.10	2.26	2.10	1.78	227	113	207	1.65	2.28	221	2.05	1.81
1982:	2.28	2.27	2.17	2.41	2.26	1.90	252	119	217	1.92	2.43	240	2.21	1.95
1983:	2.42	2.40	2.28	2.55	2.50	2.14	272	123	227	2.28	2.63	258	2.45	2.24
1984:	2.58	2.57	2.42	2.73	2.74	2.38	292	125	237	2.46	2.83	279	2.72	2.49
1985:	2.80	2.76	2.60	2.96	3.01	2.62	316	126	255	2.68	3.12	300	3.00	2.76
1986:	3.02	2.98	2.82	3.20	3.34	2.91	341	128	272	2.91	3.52	324	3.31	3.03
DATA:	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8204	8204	8203	8203
81 1:	2.06	2.02	2.07	2.17	2.01	1.70	216	109	206	1.48	2.14	212	1.98	1.71
81 2:	2.11	2.09	2.08	2.25	2.04	1.72	220	112	204	1.58	2.26	219	2.02	1.76
81 3:	2.17	2.13	2.12	2.29	2.14	1.82	233	115	208	1.75	2.36	224	2.08	1.84
81 4:	2.18	2.18	2.12	2.34	2.18	1.88	238	116	210	1.79	2.37	229	2.13	1.91
82 1:	2.21	2.22	2.15	2.37	2.21	1.88	244	117	213	1.84	2.38	234	2.18	1.91
82 2:	2.26	2.27	2.16	2.39	2.21	1.88	249	119	216	1.91	2.40	238	2.18	1.94
82 3:	2.30	2.29	2.17	2.41	2.28	1.89	255	120	219	1.92	2.45	242	2.22	1.95
82 4:	2.34	2.32	2.20	2.45	2.34	1.94	259	120	221	2.00	2.51	247	2.25	1.99
83 1:	2.38	2.36	2.24	2.49	2.43	2.06	265	121	224	2.21	2.60	253	2.35	2.14
83 2:	2.40	2.39	2.27	2.53	2.47	2.12	270	122	226	2.26	2.63	257	2.42	2.21
83 3:	2.43	2.42	2.29	2.56	2.52	2.17	274	123	228	2.31	2.61	260	2.49	2.27
83 4:	2.46	2.45	2.32	2.60	2.57	2.23	278	124	229	2.34	2.68	264	2.54	2.33
84 1:	2.51	2.50	2.36	2.65	2.66	2.30	283	125	231	2.39	2.77	271	2.62	2.40
84 2:	2.56	2.55	2.41	2.70	2.71	2.35	289	125	235	2.43	2.82	278	2.68	2.45
84 3:	2.61	2.59	2.45	2.76	2.77	2.41	295	126	239	2.49	2.84	282	2.75	2.53
84 4:	2.65	2.64	2.48	2.81	2.82	2.45	300	126	244	2.54	2.90	285	2.81	2.59

TABLE 2 PRICES AND COSTS

	PGDP:	PC	PIF	PG	PX	PM:	AEM	PRDM	ULCM	PXWM:	PIMI	PIMO	PXGM	PMAN:
	DEFLATOR :- GROSS DOMESTIC PRODUCT	DEFLATOR FOR CONSUMPTION	DEFLATOR - GROSS DOMESTIC FIX.CAP.	DEFLATOR PUBLIC CONSUMPTION	DEFLATOR -EXPORTS GOODS & SERVICES	DEFLATOR -IMPORTS GOODS & SERVICES:	AVERAGE EARNINGS IN MANUFACTUR'G	PRODUCTIVITY IN MANUFACTURING	UNIT LAB COST IN MANUFACTURING	WORLD EXPORT MANUFACT STERLING:	WHL/SALE PR.INDEX MANUFACT INPUT	WHL/SALE PR.INDEX MANUFACT OUTPUT	PRICE OF MANUFACT -URED EXPORTS	PRICE OF MANUFACT -URED IMPORTS
	75=1	75=1	75=1	75=1	75=1	75=1	75=100	75=100	75=100	75=1	75=1	75=100	75=1	75=1
	% CHANGES OVER PREVIOUS YEAR													
1976:	14.1	15.6	14.2	15.4	19.6	21.8	16.6	5.1	10.6	24.5	27.0	17.3	20.0	22.7
1977:	12.3	15.2	11.8	10.4	15.7	14.4	10.2	.7	8.6	11.7	14.7	19.8	18.1	15.5
1978:	11.5	8.8	11.8	10.4	7.5	2.9	14.5	1.3	13.2	4.2	-.7	9.1	10.9	6.7
1979:	13.4	12.8	14.6	14.1	11.4	7.7	15.5	1.6	13.9	2.8	15.9	12.2	8.7	7.1
1980:	18.5	16.1	17.9	24.0	15.4	9.8	17.9	-1.4	22.2	1.4	19.9	16.3	11.7	7.1
1981:	11.1	10.9	8.7	13.5	9.7	5.0	13.2	5.2	9.5	9.2	13.6	10.6	7.5	4.0
1982:	6.9	8.0	3.4	6.4	7.8	6.7	11.0	5.1	4.9	16.1	6.7	8.6	7.6	7.9
1983:	6.2	5.8	5.1	5.9	10.6	13.0	8.1	3.1	4.3	18.8	8.0	7.5	11.1	15.0
1984:	6.8	7.0	6.4	7.1	9.6	10.8	7.2	2.2	4.7	8.1	7.7	8.0	10.8	11.3
1985:	8.2	7.5	7.4	8.6	10.0	10.3	8.3	.8	7.3	8.8	10.1	7.7	10.6	10.6
1986:	8.2	7.8	8.1	8.0	10.8	10.8	8.0	1.1	6.7	8.7	13.0	7.9	10.3	10.1
DATA:	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8204	8204	8203	8203
	% CHANGES OVER SAME PERIOD PREVIOUS YEAR													
81 1:	15.9	11.3	13.7	18.5	7.7	-1.6	15.4	1.7	18.9	-2.4	8.4	10.9	7.0	-3.9
81 2:	12.0	10.9	9.3	16.1	7.1	1.7	11.5	4.0	10.3	3.8	12.2	10.3	6.3	2.3
81 3:	9.8	10.9	7.5	11.0	11.6	8.3	12.6	6.9	6.3	15.2	16.8	10.1	7.2	7.0
81 4:	7.3	10.8	4.8	9.5	12.2	11.7	13.4	8.3	3.7	20.4	16.7	11.2	9.2	11.0
82 1:	7.0	10.0	3.6	9.3	9.8	10.2	12.8	6.9	3.5	24.1	11.4	10.4	10.1	11.7
82 2:	6.8	8.7	3.7	6.6	8.0	9.1	13.0	6.2	5.7	20.7	6.3	8.6	7.9	10.2
82 3:	6.1	7.4	2.3	5.3	6.4	4.3	9.6	4.4	5.4	9.8	3.8	8.0	6.7	6.0
82 4:	7.7	6.0	4.0	4.8	7.1	3.4	8.9	3.3	5.1	11.7	5.7	7.7	5.6	4.2
83 1:	7.7	6.2	4.4	5.3	9.9	10.0	8.8	3.5	4.9	20.1	9.2	8.2	8.0	12.1
83 2:	6.5	5.4	5.1	5.7	12.0	12.6	8.8	2.9	5.0	18.2	9.5	7.8	11.0	13.8
83 3:	5.6	5.4	5.5	6.3	10.6	14.7	7.6	2.6	3.8	20.0	6.5	7.2	12.2	16.6
83 4:	4.9	6.0	5.3	6.1	10.1	14.6	7.2	3.6	3.5	17.0	6.8	6.9	13.0	17.2
84 1:	5.6	6.3	5.4	6.2	9.4	11.5	6.5	2.9	3.4	8.5	6.4	7.0	11.3	12.1
84 2:	6.6	6.8	6.1	6.8	9.7	10.9	6.9	2.7	4.0	7.5	7.5	8.1	10.7	11.2
84 3:	7.4	7.4	6.9	7.6	9.8	10.8	7.3	2.1	5.0	8.0	8.7	8.6	10.5	11.1
84 4:	7.7	7.4	7.1	8.0	9.6	10.2	8.1	1.4	6.5	8.4	8.3	8.1	10.6	11.0

TABLE 3 PERSONAL INCOMES & CONSUMPTION

	YJ: TOTAL PERSONAL INCOMES	YWS: WAGES AND SALARIES	YFP: FORCES PAY	YEC: EMPLOYERS CONTRIBUTIONS	YJG: GRANTS TO PERSONAL SECTOR	YJO: OTHER PERSONAL INCOME	YSE: SELF-EMPLOYMENT INCOMES	TJYP: TAX ON INCOME PERSONAL SECTOR	ENIH: NATIONAL HEALTH & INSUR. CONTRIB.	YD: DISPOSABLE INCOME	YD/: REAL DISPOSABLE INCOME	CND: NON DURABLE CONSUMPTION	CD: DURABLE CONSUMPTION	SJ£/: SAVINGS RATIO
	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M75 A	£M75 A	£M75 A	%
	ANNUAL VALUES													
1976:	110769	66040	1474	10018	12765	20472	10084	17422	8426	84949	73453	59066	5641	11.9
1977:	123957	73101	1506	11191	15108	23051	11292	18149	9462	96300	72282	59293	5224	10.7
1978:	143103	83674	1645	12881	17903	27000	13368	19518	10107	113404	78225	62222	6005	12.7
1979:	170261	98196	2020	14915	20979	34151	16222	21732	11531	136802	83629	64849	6750	14.4
1980:	200851	116004	2436	17610	25493	39308	17581	25812	13944	160820	84740	65446	6104	15.6
1981:	219890	124018	2708	20443	31251	41470	18569	29023	15945	174647	82991	65591	6280	13.4
1982:	234476	130946	2943	21384	35689	43514	19852	31779	18086	184445	81156	65927	6740	10.5
1983:	249796	138141	3105	22599	39434	46517	21767	32499	20073	197068	81966	67161	7177	9.3
1984:	270827	149480	3360	24454	42801	50732	23702	34455	21964	214241	83280	68362	7091	9.4
1985:	297870	165032	3709	26999	46008	56122	26196	37337	24250	236105	85381	69796	7378	9.6
1986:	326346	181400	4077	29676	49580	61613	28611	39448	26655	260051	87264	71204	7642	9.6
DATA:	8203	8202	8202	8203	8203	8203	8202	8203	8203	8203	8203	8203	8203	8203
81 1:	53172	30267	656	4869	7320	10060	4513	6711	3693	42679	21176	16463	1577	14.8
81 2:	54388	30628	654	5137	7686	10283	4558	7284	3987	43044	20628	16331	1595	13.1
81 3:	55554	31315	680	5204	7981	10374	4729	7462	4058	43980	20606	16364	1570	13.0
81 4:	56776	31808	718	5233	8264	10753	4769	7566	4207	44944	20581	16433	1538	12.7
82 1:	57890	32239	728	5267	8603	11053	4837	7960	4243	45637	20579	16386	1541	12.9
82 2:	58033	32538	723	5310	8770	10692	4879	7776	4556	45659	20138	16417	1581	10.6
82 3:	58808	32859	740	5357	9056	10796	5047	7943	4614	46214	20164	16474	1768	9.5
82 4:	59745	33310	752	5450	9260	10973	5089	8100	4673	46935	20274	16650	1850	8.8
83 1:	60985	33735	762	5519	9516	11453	5351	8320	4732	47895	20333	16703	1821	8.9
83 2:	61851	34210	760	5595	9749	11536	5390	7890	5027	48896	20462	16664	1818	9.7
83 3:	62879	34806	784	5694	9956	11639	5463	8049	5114	49676	20557	16860	1799	9.2
83 4:	64081	35390	799	5790	10212	11890	5563	8239	5200	50602	20613	16935	1740	9.4
84 1:	65387	36041	814	5897	10415	12220	5703	8515	5296	51536	20584	16942	1772	9.1
84 2:	66915	36865	819	6029	10622	12579	5895	8365	5417	53091	20793	17038	1769	9.6
84 3:	68443	37807	851	6185	10795	12804	5997	8639	5555	54206	20890	17152	1789	9.3
84 4:	70083	38767	875	6343	10969	13129	6106	8936	5696	55408	21013	17230	1760	9.6

TABLE 3 PERSONAL INCOMES & CONSUMPTION

	YJ: TOTAL PERSONAL INCOMES	YWS: WAGES AND SALARIES	YFP: FORCES PAY	YEC: EMPLOYERS CONTRIBUTIONS	YJG: GRANTS TO PERSONAL SECTOR	YJO: OTHER PERSONAL INCOME	YSE: SELF-EMPLOYMENT INCOMES	TJYP: TAX ON INCOME PERSONAL SECTOR	ENIH: NATIONAL HEALTH & INSUR. CONTRIB.	YD/: DISPOSABLE INCOME	YD/ REAL DISPOSABLE INCOME	CND NON DURABLE CONSUMPTION	CD DURABLE CONSUMPTION	SJ£/: SAVINGS RATIO
	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M75 A	£M75 A	£M75 A	%
	% CHANGES OVER PREVIOUS YEAR													
1976:	15.4	12.1	14.9	25.0	24.1	16.8	18.2	15.8	23.0	14.8	-.8	-.4	5.1	-5.9
1977:	11.9	10.7	2.2	11.7	18.4	12.6	12.0	4.2	12.3	13.4	-1.6	.4	-7.4	-9.9
1978:	15.4	14.5	9.2	15.1	18.5	17.1	18.4	7.5	6.8	17.8	8.2	4.9	15.0	18.8
1979:	19.0	17.4	22.8	15.8	17.2	26.5	21.3	11.3	14.1	20.6	6.9	4.2	12.4	12.9
1980:	18.0	18.1	20.6	18.1	21.5	15.1	8.4	18.8	20.9	17.6	1.3	.9	-9.6	8.3
1981:	9.5	6.9	11.2	16.1	22.6	5.5	5.6	12.4	14.4	8.6	-2.1	.2	2.9	-13.9
1982:	6.6	5.6	8.7	4.6	14.2	4.9	6.9	9.5	13.4	5.6	-2.2	.5	7.3	-22.0
1983:	6.5	5.5	5.5	5.7	10.5	6.9	9.6	2.3	11.0	6.8	1.0	1.9	6.5	-11.0
1984:	8.4	8.2	8.2	8.2	8.5	9.1	8.9	6.0	9.4	8.7	1.6	1.8	-1.2	1.0
1985:	10.0	10.4	10.4	10.4	7.5	10.6	10.5	8.4	10.4	10.2	2.5	2.1	4.1	2.3
1986:	9.6	9.9	9.9	9.9	7.8	9.8	9.2	5.7	9.9	10.1	2.2	2.0	3.6	.3
DATA:	8203	8202	8202	8203	8203	8203	8202	8203	8203	8203	8203	8203	8203	8203
	% CHANGES OVER SAME PERIOD PREVIOUS YEAR													
81 1:	12.1	10.4	11.2	19.0	22.5	7.7	5.6	13.0	14.8	11.8	.4	-.2	-3.2	5.3
81 2:	10.3	6.7	11.4	18.4	23.6	8.8	4.9	12.5	14.4	9.6	-1.1	.6	6.9	-12.9
81 3:	8.0	5.2	10.7	15.4	23.0	3.3	5.7	13.2	13.3	6.8	-3.7	.3	3.8	-22.3
81 4:	7.7	5.7	11.3	12.0	21.3	2.7	6.2	11.1	15.0	6.6	-3.8	.2	4.6	-22.9
82 1:	8.9	6.5	11.0	8.2	17.5	9.9	7.2	18.6	14.9	6.9	-2.8	-.5	-2.3	-13.0
82 2:	6.7	6.2	10.6	3.4	14.1	4.0	7.0	6.8	14.3	6.1	-2.4	.5	-.9	-18.9
82 3:	5.9	4.9	8.8	2.9	13.5	4.1	6.7	6.4	13.7	5.1	-2.1	.7	12.6	-26.5
82 4:	5.2	4.7	4.7	4.1	12.1	2.0	6.7	7.1	11.1	4.4	-1.5	1.3	20.3	-31.0
83 1:	5.3	4.6	4.6	4.8	10.6	3.6	10.6	4.5	11.5	4.9	-1.2	1.9	18.2	-30.9
83 2:	6.6	5.1	5.1	5.4	11.2	7.9	10.5	1.5	10.3	7.1	1.6	1.5	15.0	-9.0
83 3:	6.9	5.9	5.9	6.3	9.9	7.8	8.2	1.3	10.8	7.5	1.9	2.3	1.7	-3.2
83 4:	7.3	6.2	6.2	6.2	10.3	8.3	9.3	1.7	11.3	7.8	1.7	1.7	-6.0	7.4
84 1:	7.2	6.8	6.8	6.8	9.4	6.7	6.6	2.3	11.9	7.6	1.2	1.4	-2.7	2.0
84 2:	8.2	7.8	7.8	7.8	8.9	9.0	9.4	6.0	7.8	8.6	1.6	2.2	-2.7	-1.3
84 3:	8.8	8.6	8.6	8.6	8.4	10.0	9.8	7.3	8.6	9.1	1.6	1.7	-.5	1.1
84 4:	9.4	9.5	9.5	9.5	7.4	10.4	9.7	8.5	9.5	9.5	1.9	1.7	1.2	2.4

TABLE 4 FIXED INVESTMENT & STOCKBUILDING

	IF:	IFP	IFG:	INP	IHP:	IGG:	INGG	IHG:	IPCOR:	INPOX	INSO:	II	KII	KII/
	FIXED INVEST-MENT	PRIVATE FIXED INVEST-MENT	PUBLIC FIXED INVEST-MENT	PRIVATE NON RES-IDENTIAL INVEST	PRIVATE RESID-ENTIAL INVEST.	INVEST-MENT GENERAL GOVT	GENERAL GOVT NONRESID INVEST.	PUBLIC RESID INVEST-MENT	INVEST-MENT BY PUBLIC CORP'NS	PRIVATE NON RES INVEST. EXC. OIL	INVEST-MENT IN NORTH SEA OIL	STOCK-BUILDING	STOCK LEVEL	STOCK OUTPUT RATIO
	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	£M75	£M75 A	£M75 A	£M75 A	£ M 75	%2
	ANNUAL VALUES													
1976:	20640	11759	8881	9579	2180	4836	2752	2084	4045	7827	1752	658	32847	1.37
1977:	20139	12419	7720	10380	2039	4018	2144	1874	3702	8767	1613	1382	34306	1.39
1978:	20845	13815	7030	11488	2327	3557	1823	1734	3473	9988	1500	1146	35458	1.39
1979:	21039	14186	6853	12169	2017	3414	1816	1598	3439	10939	1230	1782	37142	1.43
1980:	20443	13997	6446	12305	1692	2982	1568	1414	3464	11140	1165	-1555	36959	1.46
1981:	18774	13460	5314	12030	1430	2147	1231	916	3167	10742	1288	-1871	34762	1.41
1982:	19236	14103	5113	12520	1583	1814	835	979	3299	11126	1391	-859	33891	1.37
1983:	19866	14611	5255	12839	1772	1805	810	995	3450	11433	1400	-44	33231	1.32
1984:	20668	15307	5361	13452	1854	1841	826	1015	3520	12048	1400	333	33554	1.30
1985:	20968	15491	5477	13679	1812	1877	842	1035	3600	12277	1400	441	33918	1.29
1986:	20990	15397	5593	13582	1815	1913	858	1055	3680	12179	1400	509	34424	1.29
DATA:	8203	8202	8202	8202	8202	8202	8202	8202	8202	8202	8202	8203	8203	8203

TABLE 4 FIXED INVESTMENT & STOCKBUILDING

	IF:	IFP	IFG:	INP	IHP:	IGG:	INGG	IHG:	IPCOR:	INPOX	INSO:	II	KII	KII/
	FIXED INVEST-MENT	PRIVATE FIXED INVEST-MENT	PUBLIC FIXED INVEST-MENT	PRIVATE NON RES-IDENTIAL INVEST	PRIVATE RESID-ENTIAL INVEST.	INVEST-MENT GENERAL GOVT	GENERAL GOVT NONRESID INVEST.	PUBLIC RESID INVEST-MENT	INVEST-MENT BY PUBLIC CORP'NS	PRIVATE NON RES INVEST. EXC. OIL	INVEST-MENT IN NORTH SEA OIL	STOCK-BUILDING	STOCK LEVEL	STOCK OUTPUT RATIO
	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	£M75 A	£M75	£M75 A	£M75 A	£M75 A	£ M 75	%2
	% CHANGES OVER PREVIOUS YEAR													
1976:	1.1	2.2	-.3	2.8	-.1	-3.0	-8.8	5.9	3.2	-2.4	34.2	--	-.7	-2.5
1977:	-2.4	5.6	-13.1	8.4	-6.5	-16.9	-22.1	-10.1	-8.5	12.0	-7.9	--	4.4	1.7
1978:	3.5	11.2	-8.9	10.7	14.1	-11.5	-15.0	-7.5	-6.2	13.9	-7.0	--	3.4	.0
1979:	.9	2.7	-2.5	5.9	-13.3	-4.0	-.4	-7.8	-1.0	9.5	-18.0	--	4.8	2.6
1980:	-2.8	-1.3	-5.9	1.1	-16.1	-12.7	-13.7	-11.5	.7	1.8	-5.3	--	-.5	2.5
1981:	-8.2	-3.8	-17.6	-2.2	-15.5	-28.0	-21.5	-35.2	-8.6	-3.6	10.6	--	-5.9	-3.6
1982:	2.5	4.8	-3.8	4.1	10.7	-15.5	-32.2	6.9	4.2	3.6	8.0	--	-2.5	-3.0
1983:	3.3	3.6	2.8	2.5	12.0	-.5	-3.0	1.6	4.6	2.8	.7	--	-1.9	-3.7
1984:	4.0	4.8	2.0	4.8	4.7	2.0	2.0	2.0	2.0	5.4	.0	--	1.0	-1.0
1985:	1.5	1.2	2.2	1.7	-2.3	2.0	1.9	2.0	2.3	1.9	.0	--	1.1	-.9
1986:	.1	-.6	2.1	-.7	.2	1.9	1.9	1.9	2.2	-.8	.0	--	1.5	-.1
DATA:	8203	8202	8202	8202	8202	8202	8202	8202	8202	8202	8202	8203	8203	8203

TABLE 5 PUBLIC SECTOR - FLOW OF FUNDS

	PSBR	FG	FTKG:	SGA:	TYA	TEA	ENIH	YGTP	YGRA:	GE	EDBA	ESAB	EGGA:	IDGE:
	PUB SECT BORROW'G REQUIRE-MENT	NET ACQ. FIN ASST PUBLIC SECTOR	NET CAPITAL TRANSFER: PUB.SECT	CURRENT SURPLUS: PUBLIC SECTOR	INCOME TAX RECEIPTS	EXPEND-ITURE TAX RECEIPTS	NATIONAL HEALTH & INSUR. CONTRIB.	PUBLIC SECTOR PROFITS	INCOME RENT & DIVIDEND: INTEREST	GOVT. EXPEND. G & S	DEBT. INTEREST PUBLIC EXPEND.	SUBSID-IES	CURRENT GRANTS EXPEND-ITURE	PUB.SECT: CAPITAL FORMAT-ION
	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A
	ANNUAL VALUES													
76/7:	8722	-7621	-228	3320	19533	17093	8838	5014	4435	27397	6530	3530	14136	10713
77/8:	5509	-6262	-368	3874	20562	21139	9760	5168	4882	30181	7092	3294	17105	9768
78/9:	9636	-8211	-418	2496	23041	24452	10252	5789	5262	33899	8542	3826	20320	10289
79/0:	10484	-7574	-289	4767	26289	33118	12041	5952	7090	40568	10455	4664	24033	12052
80/1:	13558	-11076	-456	2516	31713	37860	14421	6648	9040	50461	12548	5637	28707	13136
81/2:	8719	-6049	-235	6452	37478	44705	16495	8147	10359	56375	14447	5647	34249	12028
82/3:	7408	-5116	-568	7845	40488	47311	18574	9655	10914	60420	14996	5126	38548	12462
83/4:	9181	-6981	-703	7414	41968	49076	20637	11209	11675	64605	15310	5145	42091	13692
84/5:	8449	-6249	-767	9699	46360	52475	22510	12612	12674	70004	15956	5525	45445	15181
85/6:	7446	-5246	-836	12339	51439	55942	24830	14257	13919	76515	16632	5993	48902	16749
DATA:	8204	8202	8202	8202	8202	8202	8203	8203	8202	8203	8202	8202	8202	8202

TABLE 5 PUBLIC SECTOR - FLOW OF FUNDS

	PSBR	FG	FTKG:	SGA:	TYA	TEA	ENIH	YGTP	YGRA:	GE	EDBA	ESAB	EGGA:	IDGE:
	PUB SECT BORROW'G REQUIRE-MENT	NET ACQ. FIN ASST PUBLIC SECTOR	NET CAPITAL TRANSFER: PUB.SECT	CURRENT SURPLUS: PUBLIC SECTOR	INCOME TAX RECEIPTS	EXPEND-ITURE TAX RECEIPTS	NATIONAL HEALTH & INSUR. CONTRIB.	PUBLIC SECTOR PROFITS	INCOME RENT & DIVIDEND: INTEREST	GOVT. EXPEND. G & S	DEBT. INTEREST PUBLIC EXPEND.	SUBSID-IES	CURRENT GRANTS EXPEND-ITURE	PUB.SECT: CAPITAL FORMAT-ION
	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A
	% CHANGES OVER PREVIOUS YEAR													
76/7:	--	--	--	--	13.0	14.6	23.2	42.3	21.2	14.9	28.9	.7	21.7	3.6
77/8:	--	--	--	--	5.3	23.7	10.4	3.1	10.1	10.2	8.6	-6.7	21.0	-8.8
78/9:	--	--	--	--	12.1	15.7	5.0	12.0	7.8	12.3	20.4	16.2	18.8	5.3
79/0:	--	--	--	--	14.1	35.4	17.5	2.8	34.7	19.7	22.4	21.9	18.3	17.1
80/1:	--	--	--	--	20.6	14.3	19.8	11.7	27.5	24.4	20.0	20.9	19.4	9.0
81/2:	--	--	--	--	18.2	18.1	14.4	22.5	14.6	11.7	15.1	.2	19.3	-8.4
82/3:	--	--	--	--	8.0	5.8	12.6	18.5	5.4	7.2	3.8	-9.2	12.6	3.6
83/4:	--	--	--	--	3.7	3.7	11.1	16.1	7.0	6.9	2.1	.4	9.2	9.9
84/5:	--	--	--	--	10.5	6.9	9.1	12.5	8.6	8.4	4.2	7.4	8.0	10.9
85/6:	--	--	--	--	11.0	6.6	10.3	13.0	9.8	9.3	4.2	8.5	7.6	10.3
DATA:	8204	8202	8202	8202	8202	8202	8203	8203	8202	8203	8202	8202	8202	8202

TABLE 6 BALANCE OF PAYMENTS

	BAL:	BALV	XG	PXG	MG	PMG:	BALI	XS	PXS	MS	PMS	BYPA	BTAB	XGM:
	CURRENT BALANCE OF PAYMENTS:	VISIBLE TRADE BALANCE	EXPORTS OF GOODS	DEFLATOR FOR EXPORTS GOODS	IMPORTS OF GOODS	DEFLATOR FOR IMPORTS GOODS	INVISIBLE TRADE BALANCE	EXPORTS OF SERVICES	DEFLATOR FOR EXPORTS SERVICES	IMPORTS OF SERVICES	DEFLATOR FOR IMPORTS SERVICES	INTEREST PROFITS & DIVS ABROAD	PRIVATE & GOVT. TRANSFER ABROAD	EXPORT VOLUME MANUFACTURES
	£M A	£M A	£M75 A	75=1	£M75 A	75=1	£M A	£M75 A	75=1	£M75 A	75=1	£M A	£M A	75=100
	ANNUAL VALUES													
1976:	-875	-3929	21236	1.18	23980	1.21	3054	8359	1.22	6254	1.25	1365	-760	109
1977:	-22	-2284	22887	1.39	24419	1.39	2262	8621	1.37	6143	1.40	118	-1115	118
1978:	1018	-1573	23486	1.49	25559	1.43	2591	8606	1.47	6195	1.44	615	-1746	119
1979:	-853	-3458	24288	1.67	28474	1.55	2605	8626	1.62	6852	1.53	892	-1745	118
1980:	2865	1185	24733	1.92	26994	1.71	1680	8324	1.89	7149	1.64	-273	-2107	118
1981:	6122	2979	24515	2.08	26991	1.78	3143	7820	2.14	7051	1.79	1011	-1981	112
1982:	4202	1663	24555	2.24	28451	1.88	2539	7734	2.31	6988	1.98	660	-2132	112
1983:	1452	-1085	25097	2.49	30019	2.12	2536	7730	2.53	7060	2.26	832	-1886	112
1984:	-31	-1571	25703	2.73	30724	2.34	1540	7617	2.77	7081	2.56	560	-2018	115
1985:	-96	-583	26517	3.00	31319	2.56	487	7604	3.05	7147	2.89	127	-2169	119
1986:	-257	542	27082	3.33	31764	2.82	-799	7638	3.38	7216	3.28	-593	-2338	121
DATA:	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203
81 1:	2417	1677	5886	2.00	5915	1.71	740	1967	2.05	1757	1.69	207	-535	107
81 2:	2003	1132	6074	2.02	6470	1.72	871	1955	2.13	1781	1.74	381	-565	110
81 3:	205	-320	6186	2.13	7484	1.81	525	1947	2.18	1757	1.86	170	-635	112
81 4:	1497	490	6369	2.18	7122	1.88	1007	1951	2.21	1757	1.88	253	-246	117
82 1:	733	323	6041	2.20	6941	1.87	410	1969	2.25	1746	1.91	-185	-494	112
82 2:	887	125	6316	2.18	7314	1.86	762	1933	2.31	1762	1.96	408	-651	116
82 3:	1005	401	6007	2.28	7088	1.87	604	1918	2.31	1739	1.98	164	-533	108
82 4:	1577	814	6191	2.33	7108	1.92	763	1915	2.36	1741	2.06	273	-454	110
83 1:	844	81	6218	2.42	7339	2.04	763	1957	2.45	1755	2.16	216	-462	111
83 2:	373	-276	6265	2.46	7504	2.09	649	1936	2.50	1766	2.22	207	-469	112
83 3:	101	-485	6275	2.52	7590	2.14	586	1922	2.55	1771	2.29	212	-474	112
83 4:	133	-405	6338	2.56	7585	2.20	538	1916	2.60	1767	2.35	197	-482	113
84 1:	72	-418	6334	2.65	7588	2.27	490	1904	2.68	1761	2.45	186	-491	113
84 2:	-196	-585	6381	2.70	7714	2.31	389	1899	2.74	1774	2.52	156	-501	114
84 3:	11	-340	6460	2.76	7703	2.36	351	1907	2.80	1772	2.59	113	-509	115
84 4:	82	-229	6529	2.81	7719	2.41	311	1907	2.85	1774	2.66	105	-517	117

TABLE 6 BALANCE OF PAYMENTS

	BAL:	BALV	XG	PXG	MG	PMG:	BALI	XS	PXS	MS	PMS	BYPA	BTAB	XGM:
	CURRENT BALANCE OF PAYMENTS	VISIBLE TRADE BALANCE	EXPORTS OF GOODS	DEFLATOR FOR EXPORTS GOODS	IMPORTS OF GOODS	DEFLATOR FOR IMPORTS GOODS	INVISIBLE TRADE BALANCE	EXPORTS OF SERVICES	DEFLATOR FOR EXPORTS SERVICES	IMPORTS OF SERVICES	DEFLATOR FOR IMPORTS SERVICES	INTEREST PROFITS & DIVS ABROAD	PRIVATE & GOVT. TRANSFER ABROAD	EXPORT VOLUME MANUFACTURES
	£M A	£M A	£M75 A	75=1	£M75 A	75=1	£M A	£M75 A	75=1	£M75 A	75=1	£M A	£M A	75=100
	% CHANGES OVER PREVIOUS YEAR													
1976:	--	--	9.9	18.5	5.8	21.2	--	6.3	22.3	-1.5	24.5	--	--	9.0
1977:	--	--	7.8	17.0	1.8	15.0	--	3.1	12.3	-1.8	12.4	--	--	8.0
1978:	--	--	2.6	7.7	4.7	2.8	--	-.2	7.1	.8	3.2	--	--	1.1
1979:	--	--	3.4	12.0	11.4	8.1	--	.2	9.8	10.6	5.9	--	--	-.8
1980:	--	--	1.8	14.6	-5.2	10.5	--	-3.5	17.2	4.3	7.1	--	--	-.4
1981:	--	--	-.9	8.6	-.0	3.8	--	-6.1	13.1	-1.4	9.5	--	--	-5.1
1982:	--	--	.2	7.9	5.4	5.7	--	-1.1	7.6	-.9	10.4	--	--	.0
1983:	--	--	2.2	11.0	5.5	12.8	--	-.1	9.5	1.0	14.1	--	--	.5
1984:	--	--	2.4	9.6	2.4	10.3	--	-1.5	9.6	.3	13.2	--	--	2.5
1985:	--	--	3.2	10.0	1.9	9.7	--	-.2	10.0	.9	13.0	--	--	3.2
1986:	--	--	2.1	10.8	1.4	10.2	--	.4	10.8	1.0	13.6	--	--	1.8
DATA:	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203
	% CHANGES OVER SAME PERIOD PREVIOUS YEAR													
81 1:	--	--	-7.6	7.0	-15.5	-2.7	--	-8.1	9.9	-2.1	3.2	--	--	-11.6
81 2:	--	--	-2.3	5.1	-9.1	.5	--	-6.9	13.1	-.7	6.6	--	--	-7.6
81 3:	--	--	2.5	9.9	14.1	7.1	--	-6.3	16.8	-2.3	13.2	--	--	-2.6
81 4:	--	--	4.3	12.2	12.8	10.8	--	-2.8	12.5	-.4	15.0	--	--	1.7
82 1:	--	--	2.6	9.9	17.3	9.4	--	.1	9.6	-.6	13.2	--	--	4.7
82 2:	--	--	4.0	7.9	13.0	8.3	--	-1.1	8.5	-1.1	12.6	--	--	5.5
82 3:	--	--	-2.9	6.7	-5.3	3.7	--	-1.5	5.6	-1.0	6.8	--	--	-3.6
82 4:	--	--	-2.8	7.1	-.2	2.0	--	-1.9	7.0	-.9	9.2	--	--	-6.0
83 1:	--	--	2.9	10.1	5.7	9.3	--	-.6	9.3	.6	13.2	--	--	-.6
83 2:	--	--	-.8	13.2	2.6	12.4	--	.1	8.2	.3	13.1	--	--	-3.5
83 3:	--	--	4.5	10.6	7.1	14.6	--	.2	10.6	1.8	15.4	--	--	3.6
83 4:	--	--	2.4	10.1	6.7	14.7	--	.1	10.1	1.5	14.5	--	--	2.9
84 1:	--	--	1.9	9.4	3.4	11.1	--	-2.7	9.4	.3	13.4	--	--	1.6
84 2:	--	--	1.8	9.7	2.8	10.4	--	-1.9	9.7	.4	13.4	--	--	1.9
84 3:	--	--	2.9	9.8	1.5	10.1	--	-.8	9.8	.0	13.3	--	--	3.1
84 4:	--	--	3.0	9.6	1.8	9.6	--	-.4	9.6	.4	12.9	--	--	3.3

TABLE 7 MONEY SUPPLY & RELATED ITEMS

	PSBR	KM3£	PEFD	KM3*	KM3/	RS	RL
	PUB SECT BORROW'G REQUIR-MENT	MONEY STOCK, STERLING M3	DEFLATOR - FINAL EXPEND -ITURE	REAL MONEY STOCK	MONEY STOCK/ OUTPUT	TREASURY BILL RATE	INTEREST RATE UNDATED CONSOLS
	£M A	£ M A	75=1	£ M75A	%2	%	%
	ANNUAL VALUES						
1976:	9175	39360	1.15	34126	1.41	11.3	14.2
1977:	5993	42498	1.31	32435	1.34	8.0	12.2
1978:	8358	48980	1.44	34107	1.34	8.5	12.0
1979:	12608	55170	1.63	33867	1.31	13.4	11.3
1980:	12215	64330	1.93	33383	1.32	15.6	11.9
1981:	10580	74623	2.13	34939	1.41	13.9	13.0
1982:	5455	82647	2.26	36553	1.47	12.0	11.9
1983:	9508	91325	2.39	38228	1.50	9.0	10.6
1984:	8678	99987	2.55	39147	1.50	9.9	10.6
1985:	7763	110042	2.75	39994	1.50	11.0	10.8
1986:	6631	120613	2.97	40630	1.50	11.2	10.7
DATA:	8204	8203	8203	8203	8203	8203	8203
	% CHANGES OVER PREVIOUS YEAR						
1976:	--	8.3	15.4	-6.3	-8.5	--	--
1977:	--	8.0	13.5	-5.0	-5.2	--	--
1978:	--	15.3	9.6	5.2	.2	--	--
1979:	--	12.6	13.5	-.7	-1.9	--	--
1980:	--	16.6	18.1	-1.4	.5	--	--
1981:	--	16.0	10.9	4.7	6.8	--	--
1982:	--	10.8	5.9	4.6	3.8	--	--
1983:	--	10.5	5.6	4.6	2.2	--	--
1984:	--	9.5	6.9	2.4	.5	--	--
1985:	--	10.1	7.7	2.2	-.3	--	--
1986:	--	9.6	7.9	1.6	-.3	--	--
DATA:	8204	8203	8203	8203	8203	8203	8203
	% CHANGES OVER SAME PERIOD PREVIOUS YEAR						
81 1:	--	17.9	13.0	4.4	4.0	--	--
81 2:	--	16.6	11.6	4.5	6.9	--	--
81 3:	--	16.4	10.4	5.5	9.5	--	--
81 4:	--	13.4	8.8	4.2	6.5	--	--
82 1:	--	13.6	7.1	6.1	8.3	--	--
82 2:	--	11.5	6.3	4.8	4.6	--	--
82 3:	--	8.4	5.5	2.8	.6	--	--
82 4:	--	9.8	4.8	4.8	2.1	--	--
83 1:	--	11.2	6.4	4.5	2.5	--	--
83 2:	--	10.5	5.3	5.0	2.0	--	--
83 3:	--	10.8	5.0	5.5	2.6	--	--
83 4:	--	9.6	5.9	3.4	1.8	--	--
84 1:	--	8.7	6.1	2.4	.7	--	--
84 2:	--	9.5	6.7	2.7	.5	--	--
84 3:	--	9.7	7.4	2.2	.3	--	--
84 4:	--	10.0	7.5	2.3	.3	--	--

TABLE 7 MONEY SUPPLY & RELATED ITEMS

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TABLE 8 FACTOR INCOMES IN GDP & EXPENDITURE ON GDP (CURRENT PRICES)

	GDP£E:	YEM	YCTP	YGTP	YRSE	YSA	RESEY:	C£	IF£	II£	G£	X£	M£	FCA£:
	GDP CURR PRICES EXPEND. MEASURE	TOTAL INCOME FROM EMPLOYMENT	GROSS TRADING PROFITS	PUBLIC SECTOR PROFITS	RENT & SELF EMPLOYMENT INCOME	STOCK APPRECIATION	RESIDUAL ERROR	CONSUMER EXPENDITURE	FIXED INVESTMENT	INVESTMENT IN STOCKS	PUBLIC CONSUMPTION	EXPORTS	IMPORTS	FACTOR COST ADJUSTMENT
	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A
	ANNUAL VALUES													
1976:	111566	77532	15218	4654	18577	6472	2057	74850	23556	881	26739	35436	36916	13071
1977:	127050	85798	20521	5283	20986	4908	-630	85948	25727	1881	29244	43582	42607	16968
1978:	146079	98200	23257	5596	24378	4247	-1105	98867	29743	1601	32984	47726	45546	19597
1979:	167937	115131	28983	5780	29213	9190	-1980	117071	34469	2995	38324	54625	54616	26018
1980:	194538	136050	27708	6464	33082	6456	-2310	135738	39411	-2706	48424	63158	57913	31574
1981:	211411	147169	27553	7793	36200	5692	-1931	151286	39377	-4160	54942	67822	60730	37126
1982:	228280	155273	28421	9083	38722	3031	-176	165198	41713	-1855	59468	72949	67275	41929
1983:	246773	163845	35444	10948	41854	5860	500	178733	45276	-83	63537	82053	79547	43197
1984:	268899	177294	39410	12367	45548	6431	699	194099	50111	828	68514	91309	89882	46071
1985:	296856	195740	43731	13849	50258	7668	954	213408	54607	1197	74901	102840	100894	49188
1986:	326251	215153	47880	15236	54997	8261	1230	234962	59092	1496	81439	116008	113334	53403
DATA:	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203

TABLE 8 FACTOR INCOMES IN GDP & EXPENDITURE ON GDP (CURRENT PRICES)

	GDP£E:	YEM	YCTP	YGTP	YRSE	YSA	RESEY:	C£	IF£	II£	G£	X£	M£	FCA£:
	GDP CURR PRICES EXPEND. MEASURE	TOTAL INCOME FROM EMPLOYMENT	GROSS TRADING PROFITS	PUBLIC SECTOR PROFITS	RENT & SELF EMPLOYMENT INCOME	STOCK APPRECIATION	RESIDUAL ERROR	CONSUMER EXPENDITURE	FIXED INVESTMENT	INVESTMENT IN STOCKS	PUBLIC CONSUMPTION	EXPORTS	IMPORTS	FACTOR COST ADJUSTMENT
	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A	£M A
	% CHANGES OVER PREVIOUS YEAR													
1976:	18.3	13.7	25.4	42.9	17.9	20.3	434.3	15.8	15.4	-161.4	16.5	30.3	27.2	25.3
1977:	13.9	10.7	34.8	13.5	13.0	-24.2	-130.6	14.8	9.2	113.5	9.4	23.0	15.4	29.8
1978:	15.0	14.5	13.3	5.9	16.2	-13.5	75.4	15.0	15.6	-14.9	12.8	9.5	6.9	15.5
1979:	15.0	17.2	24.6	3.3	19.8	116.4	79.2	18.4	15.9	87.1	16.2	14.5	19.9	32.8
1980:	15.8	18.2	-4.4	11.8	13.2	-29.7	-16.7	15.9	14.3	-190.4	26.4	15.6	6.0	21.4
1981:	8.7	8.2	-.6	20.6	9.4	-11.8	-16.4	11.5	-.1	53.7	13.5	7.4	4.9	17.6
1982:	8.0	5.5	3.1	16.5	7.0	-46.8	-90.9	9.2	5.9	-55.4	8.2	7.6	10.8	12.9
1983:	8.1	5.5	24.7	20.5	8.1	93.4	-384.2	8.2	8.5	-95.6	6.8	12.5	18.2	3.0
1984:	9.0	8.2	11.2	13.0	8.8	9.7	39.7	8.6	10.7	-1103.3	7.8	11.3	13.0	6.7
1985:	10.4	10.4	11.0	12.0	10.3	19.2	36.6	9.9	9.0	44.6	9.3	12.6	12.3	6.8
1986:	9.9	9.9	9.5	10.0	9.4	7.7	28.8	10.1	8.2	25.0	8.7	12.8	12.3	8.6
DATA:	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203	8203

TABLE 9 COMPANY SECTOR - FLOW OF FUNDS

	YCTP: GROSS TRADING PROFITS £M A	YCT- PROFITS NET OF STOCK APPREC'N £M A	YSAC: COMPANY STOCK APPRECIATION £M A	YCNT NON-TRADING PROFITS £M A	ECDV DIVIDEND ORDINARY SHARES £M A	ECOI EXPENDITURE ON INTEREST ETC £M A	ECTP: COMPANY PAYMENTS: TAXES ON: INCOME £M A	SC SAVINGS £M A	SC- SAVINGS NET OF STOCK APPREC'N £M A	IFC£ COMPANY FIXED INVESTMENT £M A	IIC£: COMPANY VALUE OF STK&WRK IN PROG £M A	FC FINANC'L DEFICIT :COMPANY SECTOR £M A	FCOX FC EXC. OIL COMPANIES £M A	YC-N: COMPANY PROFITS (-NSO) £M A
	ANNUAL VALUES													
:1976:	15218	9864	5354	9116	1840	5218	2189	15087	9733	10006	353	-561	1114	9342
:1977:	20521	16619	3902	8956	2211	5655	3092	18519	14617	12079	1588	1058	1935	14700
:1978:	23257	19904	3353	9809	2682	5893	3904	20587	17234	15335	1339	859	2261	17580
:1979:	28983	21421	7562	13554	4273	8928	4828	24508	16946	18024	2660	-3624	-3131	16808
:1980:	27708	22630	5078	16475	4302	13796	6427	19658	14580	20737	-2486	-3522	-2965	15047
:1981:	27553	23281	4272	20126	4658	13836	8283	20450	16178	20700	-3418	-1030	-423	13115
:1982:	28421	25880	2541	24200	5967	15324	10340	20989	18448	20796	-2144	-309	-1609	14407
:1983:	35444	31029	4488	26674	7409	14896	11475	28338	23850	22682	-268	1819	278	18869
:1984:	39410	34539	4925	28707	8771	16193	13841	29312	24387	24371	187	250	-844	21559
:1985:	43731	37915	5871	30914	9940	18367	16062	30275	24403	25708	493	-1333	-1944	23515
:1986:	47880	41629	6325	32399	11028	20483	18395	30373	24048	27395	742	-3615	-4396	24654
:DATA:	8203	8203	8203	8202	8202	8202	8202	8202	8202	8202	8202	8202	8104	8104

TABLE 9 COMPANY SECTOR - FLOW OF FUNDS

	YCTP: GROSS TRADING PROFITS £M A	YCT- PROFITS NET OF STOCK APPREC'N £M A	YSAC: COMPANY STOCK APPRECIATION £M A	YCNT NON-TRADING PROFITS £M A	ECDV DIVIDEND ORDINARY SHARES £M A	ECOI EXPENDITURE ON INTEREST ETC £M A	ECTP: COMPANY PAYMENTS: TAXES ON: INCOME £M A	SC SAVINGS £M A	SC- SAVINGS NET OF STOCK APPREC'N £M A	IFC£ COMPANY FIXED INVESTMENT £M A	IIC£: COMPANY VALUE OF STK&WRK IN PROG £M A	FC FINANC'L DEFICIT :COMPANY SECTOR £M A	FCOX FC EXC. OIL COMPANIES £M A	YC-N: COMPANY PROFITS (-NSO) £M A
	% CHANGES OVER PREVIOUS YEAR													
:1976:	25.4	26.2	--	25.9	19.1	10.4	-3.8	39.4	49.6	18.8	--	--	--	19.9
:1977:	34.8	68.5	--	-1.8	20.2	8.4	41.3	22.7	50.2	20.7	--	--	--	57.4
:1978:	13.3	19.8	--	9.5	21.3	4.2	26.3	11.2	17.9	27.0	--	--	--	19.6
:1979:	24.6	7.6	--	38.2	59.3	51.5	23.7	19.0	-1.7	17.5	--	--	--	-4.4
:1980:	-4.4	5.6	--	21.6	.7	54.5	33.1	-19.8	-14.0	15.1	--	--	--	-10.5
:1981:	-.6	2.9	--	22.2	8.3	.3	28.9	4.0	11.0	-.2	--	--	--	-12.8
:1982:	3.1	11.2	--	20.2	28.1	10.8	24.8	2.6	14.0	.5	--	--	--	9.8
:1983:	24.7	19.9	--	10.2	24.2	-2.8	11.0	35.0	29.3	9.1	--	--	--	31.0
:1984:	11.2	11.3	--	7.6	18.4	8.7	20.6	3.4	2.3	7.4	--	--	--	14.3
:1985:	11.0	9.8	--	7.7	13.3	13.4	16.0	3.3	.1	5.5	--	--	--	9.1
:1986:	9.5	9.8	--	4.8	10.9	11.5	14.5	.3	-1.5	6.6	--	--	--	4.8
:DATA:	8203	8203	8203	8202	8202	8202	8202	8202	8202	8202	8202	8202	8104	8104

TABLE 10 OUTPUT,EMPLOYMENT AND UNEMPLOYMENT

	GDP	GDPOX	PROD	PRODMF:	POPWA*	WPOP:	EEMF	EEGG	EEBAR:	ET	LUKA:	AEM	PSWI	OSWI:
	GROSS DOMESTIC PRODUCT (OUTPUT)	GDP EXCL NORTH SEA OIL	INDUSTRIAL PRODUCTION	MANUFACTURING PRODUCTION	POPULATION OF WORKING AGE	WORKING POPULATION	MANUF'G EMPLYEES IN EMPLOYMENT	GEN.GOVT EMPLYEES IN EMPLOYMENT	OTHER EMPLOYMENT	TOTAL EMPLOYMENT	UK UNEMPLOYMENT (SA)	AVERAGE EARNINGS IN MANUFACTUR'G	PUBLIC SECTOR WAGES & SALARIES	OTHER WAGES & SALARIES:
	£M 75	£M75 A			'000S	'000	'000 A	'000 A	'000 A	'000 A	'000 A	75=100	75=100	75=100
	ANNUAL VALUES													
1976:	96084	95601	102.1	101.5	33572	26046	7284	4997	10237	24774	1272	117	111	112
1977:	98655	97102	106.1	102.9	33765	26201	7307	4981	10354	24824	1377	129	117	125
1978:	101933	99735	109.9	103.9	33996	26381	7272	5008	10550	25005	1376	147	130	142
1979:	104103	100922	112.6	104.4	34217	26550	7174	5052	10849	25248	1302	170	145	167
1980:	101061	97711	105.3	95.4	34366	26474	6750	5039	10854	24826	1648	200	189	199
1981:	98561	94840	100.4	89.4	34544	26326	6092	5028	10507	23816	2509	227	216	219
1982:	99065	94783	100.9	88.4	34728	25976	5767	5012	10203	23183	2793	252	230	239
1983:	100888	96310	102.9	88.8	34924	25986	5567	4999	10060	22851	3135	272	245	256
1984:	102912	98160	105.5	90.7	35107	26146	5632	4997	10117	22980	3166	292	261	277
1985:	104996	100073	107.8	92.7	35227	26300	5703	4997	10223	23169	3131	316	284	305
1986:	106650	101563	109.4	94.1	35347	26400	5720	4999	10282	23257	3143	341	307	339
DATA:	8203	8203	8203	8203	8202	8202	8202	8202	8202	8202	8204	8203	8202	8202

TABLE 10 OUTPUT,EMPLOYMENT AND UNEMPLOYMENT

	GDP	GDPOX	PROD	PRODMF:	POPWA*	WPOP:	EEMF	EEGG	EEBAR:	ET	LUKA:	AEM	PSWI	OSWI:
	GROSS DOMESTIC PRODUCT (OUTPUT)	GDP EXCL NORTH SEA OIL	INDUSTRIAL PRODUCTION	MANUFACTURING PRODUCTION	POPULATION OF WORKING AGE	WORKING POPULATION	MANUF'G EMPLYEES IN EMPLOYMENT	GEN.GOVT EMPLYEES IN EMPLOYMENT	OTHER EMPLOYMENT	TOTAL EMPLOYMENT	UK UNEMPLOYMENT (SA)	AVERAGE EARNINGS IN MANUFACTUR'G	PUBLIC SECTOR WAGES & SALARIES	OTHER WAGES & SALARIES:
	£M 75	£M75 A			'000S	'000	'000 A	'000 A	'000 A	'000 A	'000 A	75=100	75=100	75=100
	% CHANGES OVER PREVIOUS YEAR													
1976:	1.9	1.4	2.1	1.5	.5	.8	-3.2	1.4	-.0	-.6	--	16.6	10.6	11.6
1977:	2.7	1.6	3.9	1.5	.6	.6	.3	-.3	1.1	.2	--	10.2	5.7	11.7
1978:	3.3	2.7	3.5	.9	.7	.7	-.5	.6	1.9	.7	--	14.5	10.9	13.8
1979:	2.1	1.2	2.5	.5	.6	.6	-1.3	.9	2.8	1.0	--	15.5	11.8	18.0
1980:	-2.9	-3.2	-6.5	-8.7	.4	-.3	-5.9	-.3	.0	-1.7	--	17.9	30.3	18.7
1981:	-2.5	-2.9	-4.6	-6.2	.5	-.6	-9.8	-.2	-3.2	-4.1	--	13.2	14.3	10.5
1982:	.5	-.1	.5	-1.2	.5	-1.3	-5.3	-.3	-2.9	-2.7	--	11.0	6.6	8.7
1983:	1.8	1.6	1.9	.5	.6	.0	-3.5	-.3	-1.4	-1.4	--	8.1	6.4	7.3
1984:	2.0	1.9	2.6	2.2	.5	.6	1.2	-.0	.6	.6	--	7.2	6.4	8.2
1985:	2.0	1.9	2.2	2.2	.3	.6	1.3	.0	1.0	.8	--	8.3	9.1	10.2
1986:	1.6	1.5	1.5	1.5	.3	.4	.3	.0	.6	.4	--	8.0	8.0	10.9
DATA:	8203	8203	8203	8203	8202	8202	8202	8202	8202	8202	8204	8203	8202	8202

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TABLE 11 NORTH SEA OIL

	NSO	YTPN	TPRT	TROY	YNSV	ENSA	INS£	PFL	MG2	XXO	MXO	CPET
	NORTH SEA OIL PRODUCTION	PROFITS FROM NORTH SEA OIL	TAX FROM PETROL REVENUE	NORTH SEA OIL ROYALTIES	DIRECT EFFECT ON VIS. ACCOUNT	EXPENDITURE ON INVIS. ACCOUNT	FIXED CAPITAL FORMAT'N N.S.OIL	UNIT VAL INDEX IMPORTS OF FUEL	IMPORTS OF FUELS	EXPORTS OF OIL	OIL IMPORT SAVINGS	PETROL CONSUMPTION
	£M TON	£M A	£M A	£M	£M	£M A	£M A	75=1	£M75 A	£M75	£M	£M75 A
	ANNUAL VALUES											
1976:	12	526	0	44	651	188	2004	1.31	4328	142	341	77
1977:	37	1950	0	193	2302	550	2062	1.47	3780	609	945	80
1978:	53	2356	183	284	2898	744	2135	1.38	3472	895	1303	82
1979:	76	4838	826	473	5720	1368	2015	1.75	3309	1332	1849	82
1980:	80	8036	2399	977	9037	2215	2247	2.48	2787	1676	1673	71
1981:	89	10990	4009	1299	12308	2351	2702	3.17	2279	2340	1380	65
1982:	102	12403	4867	1680	14919	2448	3016	3.58	2161	2504	1750	68
1983:	110	13147	5419	1820	16176	2519	3190	3.89	2141	2747	1831	70
1984:	114	14032	6624	1956	17388	2676	3394	4.07	2206	2847	1898	72
1985:	118	15568	8557	2151	19119	2967	3646	4.42	2231	2947	1965	74
1986:	122	18352	10936	2504	22256	3498	3942	5.05	2204	3047	2031	74
DATA:	8203	8203	8202	8201	8202	8203	8202	8203	8203	8203	8203	8203

TABLE 11 NORTH SEA OIL

	NSO	YTPN	TPRT	TROY	YNSV	ENSA	INS£	PFL	MG2	XXO	MXO	CPET
	NORTH SEA OIL PRODUCTION	PROFITS FROM NORTH SEA OIL	TAX FROM PETROL REVENUE	NORTH SEA OIL ROYALTIES	DIRECT EFFECT ON VIS. ACCOUNT	EXPENDITURE ON INVIS. ACCOUNT	FIXED CAPITAL FORMAT'N N.S.OIL	UNIT VAL INDEX IMPORTS OF FUEL	IMPORTS OF FUELS	EXPORTS OF OIL	OIL IMPORT SAVINGS	PETROL CONSUMPTION
	£M TON	£M A	£M A	£M	£M	£M A	£M A	75=1	£M75 A	£M75	£M	£M75 A
	% CHANGES OVER PREVIOUS YEAR											
1976:	936.2	2007.5	.0	388.8	1153.1	94.2	52.9	31.0	.4	--	--	-4.1
1977:	221.6	271.1	675.0	338.6	253.7	192.6	2.9	12.6	-12.7	--	--	4.1
1978:	41.5	20.8	£££££££	47.2	25.9	35.3	3.6	-6.1	-8.2	--	--	2.2
1979:	44.7	105.4	351.3	66.5	97.4	83.9	-5.6	26.0	-4.7	--	--	-.4
1980:	5.3	66.1	190.4	106.6	58.0	61.9	11.5	42.3	-15.8	--	--	-12.6
1981:	11.1	36.8	67.1	33.0	36.2	6.1	20.2	27.8	-18.2	--	--	-8.7
1982:	14.3	12.9	21.4	29.3	21.2	4.1	11.6	12.8	-5.2	--	--	3.7
1983:	7.6	6.0	11.3	8.3	8.4	2.9	5.8	8.7	-.9	--	--	3.8
1984:	3.6	6.7	22.2	7.5	7.5	6.2	6.4	4.7	3.0	--	--	2.6
1985:	3.5	11.0	29.2	10.0	10.0	10.9	7.4	8.6	1.1	--	--	2.1
1986:	3.4	17.9	27.8	16.4	16.4	17.9	8.1	14.3	-1.2	--	--	.8
DATA:	8203	8203	8202	8201	8202	8203	8202	8203	8203	8203	8203	8203

TABLE 12 SECTOR FLOWS-NET AQ FIN ASSETS

	FG	FP	FC	FJ	FO	RES2	FG/	FC/	FJ/	BAL/	RES2/
	FINANC'L ASSETS PUBLIC SECTOR	NET ACQ. FIN ASST PRIVATE SECTOR	NET ACQ. FIN ASST COMPANY SECTOR	NET ACQ. FIN ASST PERSONAL SECTOR	NET ACQ. FIN ASST OVERSEAS SECTOR	RESIDUAL ERROR	FG AS SHARE OF GDP	FC AS SHARE OF GDP	FJ AS SHARE OF GDP	BAL AS SHARE OF GDP	RES2 AS SHARE OF GDP
	£M A	£M A	£M A	£M A	£M A	£M A	% SA	% SA	% SA	% SA	%
	ANNUAL VALUES										
1976:	-8312	5380	-561	5941	857	2057	-6.7	-.4	4.8	-.7	1.7
1977:	-5948	6556	1058	5498	17	-630	-4.1	.7	3.8	-.1	-.5
1978:	-7950	10073	859	9214	-1018	-1105	-4.8	.5	5.5	.6	-.6
1979:	-8280	9407	-3624	13031	853	-1980	-4.3	-1.9	6.7	-.5	-1.0
1980:	-9936	15111	-3522	18633	-2865	-2310	-4.4	-1.6	8.2	1.2	-1.0
1981:	-7322	15375	-1030	16405	-6122	-1931	-3.0	-.4	6.6	2.5	-.8
1982:	-5210	10753	-309	11062	-4202	-1341	-1.9	-.1	4.1	1.5	-.5
1983:	-6958	9726	1819	7908	-1452	-1317	-2.4	.6	2.7	.5	-.5
1984:	-6478	7697	250	7447	31	-1250	-2.1	.1	2.4	-.0	-.4
1985:	-5563	6663	-1333	7997	96	-1196	-1.6	-.4	2.3	-.0	-.3
1986:	-4431	5452	-3615	9066	257	-1278	-1.2	-1.0	2.4	-.1	-.3
DATA:	8202	8202	8202	8202	8202	8203	8202	8202	8202	8203	8203

TABLE 13 WORLD

	WGNP	IPW	XWM	WM3	WWPI	WCPI	POIL$	PCOMM	POIL*RI	WM3/
	WORLD GROSS NATIONAL PRODUCT	WORLD INDUSTRIAL PROD'N	WORLD EXPORTS OF MANUFACTURES	WORLD MONEY STOCK	WORLD WHOLESALE PRICES	WORLD CONSUMER PRICES	$ PRICE OF BARREL OF OIL	NON-OIL COMMODITY PRICES	INDEX OF REAL OIL PRICE	WORLD REAL MONEY SUPPLY
	75=100	75=100	75=1	75=100	75=100	75=100	$/B	75=1	75=1	75=100
	ANNUAL VALUES									
1976:	105	108	1.12	108	107	109	11	1.11	1.05	101
1977:	109	113	1.18	122	115	118	13	1.23	1.07	107
1978:	114	117	1.23	138	121	128	13	1.16	.93	114
1979:	118	123	1.30	155	134	140	18	1.30	1.19	116
1980:	119	123	1.37	172	154	158	32	1.48	1.86	112
1981:	121	124	1.39	193	169	175	35	1.55	2.17	114
1982:	120	118	1.33	214	181	189	34	1.56	2.03	118
1983:	121	119	1.33	234	191	202	30	1.52	1.61	122
1984:	124	123	1.40	255	204	215	32	1.55	1.49	125
1985:	126	127	1.46	279	220	230	34	1.61	1.44	127
1986:	129	131	1.52	304	238	247	38	1.71	1.48	128
DATA:	8202	8203	8202	8202	8202	8203	8203	8203	8203	8202

TABLE 13 WORLD

	WGNP	IPW	XWM	WM3	WWPI	WCPI	POIL$	PCOMM	POIL*RI	WM3/
	WORLD GROSS NATIONAL PRODUCT	WORLD INDUSTRIAL PROD'N	WORLD EXPORTS OF MANUFACTURES	WORLD MONEY STOCK	WORLD WHOLESALE PRICES	WORLD CONSUMER PRICES	$ PRICE OF BARREL OF OIL	NON-OIL COMMODITY PRICES	INDEX OF REAL OIL PRICE	WORLD REAL MONEY SUPPLY
	75=100	75=100	75=1	75=100	75=100	75=100	$/B	75=1	75=1	75=100
	% CHANGES OVER PREVIOUS YEAR									
1976:	5.0	8.5	12.1	13.3	6.8	8.7	5.2	11.5	4.4	6.1
1977:	4.0	3.8	4.8	12.8	7.3	8.9	10.7	10.9	1.7	5.1
1978:	4.3	4.1	4.9	13.1	5.8	7.9	.2	-6.0	-12.4	6.9
1979:	3.5	5.0	5.1	12.4	10.6	9.8	45.1	12.5	26.9	1.7
1980:	1.2	-.1	5.4	10.7	14.6	12.9	74.0	13.9	57.3	-3.5
1981:	1.3	.9	2.2	12.2	10.3	10.6	10.0	4.2	16.5	1.7
1982:	-.7	-4.5	-4.9	10.9	7.0	8.1	-4.2	.9	-6.7	3.6
1983:	.8	.1	.1	9.5	5.3	6.7	-11.3	-2.5	-20.4	4.0
1984:	2.2	3.9	5.2	9.2	6.8	6.6	6.7	2.0	-7.6	2.2
1985:	1.9	3.2	4.5	9.1	7.7	7.1	7.3	4.0	-3.3	1.3
1986:	1.9	3.0	4.5	9.2	8.2	7.3	11.5	6.3	3.0	.9
DATA:	8202	8203	8202	8202	8202	8203	8203	8203	8203	8202

TABLE 14 SUMMARY TABLE OF CONSTANT ADJUSTMENTS

	AEM	CND	EEBAR	EEMF	EER	II	INPOX	KM3£	M	PC	PIMO	PMAN	PXGM	XGM
	75=100	£M75 A	'000 S	'000 S	75=1	£M75 A	£M75 A	£M	£M75 A	75=1	75=100	75=1	75=1	75=100
80 1:	-1.40	-186	102	10	.0657	-300	-4	1044	-90	-.0185	1.81	.0931	.0189	-2.83
80 2:	1.06	-107	110	-26	-.0047	114	-139	1374	71	-.0121	-.72	-.0578	.0054	-1.64
80 3:	1.07	-209	40	-59	.0443	-404	-85	748	-526	-.0262	.22	.0087	.0000	.10
80 4:	-2.57	-226	31	-56	.0739	-596	28	1279	-606	-.0176	-1.36	.0288	-.0026	1.40
81 1:	1.74	-24	23	-6	.1033	-591	-251	-83	-894	-.0269	.49	.0115	.0057	-2.88
81 2:	.50	-146	-38	-16	-.0191	-846	-65	157	10	-.0112	-.81	-.0214	.0054	-2.95
81 3:	4.68	-13	0	24	.0059	-491	13	2252	689	-.0149	.03	-.0533	-.0262	-.11
81 4:	-.21	-109	-100	-14	.0222	-522	100	788	-17	-.0157	.52	.0181	-.0068	1.57
82 1:	.51	-119	21	-31	.0533	-357	34	-353	-363	-.0230	.66	-.0347	-.0226	.09
82 2:	.74	-71	-105	-28	.0210	-295	-201	-46	-25	-.0056	2.05	-.0486	-.0670	3.10
82 3:	.81	-5	-50	-30	.0464	-656	-35	-1137	-321	-.0214	.61	-.0358	-.0349	-2.49
82 4:	-1.11	-10	-50	-30	-.0186	-650	-100	29	-100	-.0278	1.08	-.0474	-.0489	2.60
83 1:	.00	0	-50	-20	-.0376	-425	-100	2210	0	-.0100	2.75	-.0200	-.0400	.00
83 2:	.00	-150	-50	-10	.0049	-425	-100	0	0	-.0100	1.00	-.0200	-.0400	.00
83 3:	.00	-50	-50	0	.0235	-350	-100	0	0	-.0100	1.00	-.0200	-.0400	2.00
83 4:	.00	-50	-50	0	.0170	-350	-100	0	0	-.0100	1.00	-.0200	-.0400	4.00
84 1:	.00	-50	-50	0	.0100	-350	-100	0	0	-.0100	1.00	-.0200	-.0400	4.00
84 2:	-1.00	-50	-50	0	.0100	-350	-150	0	0	-.0100	1.00	-.0200	-.0400	2.00
84 3:	-1.00	-50	-50	0	.0100	-350	-150	0	0	-.0100	1.00	-.0200	-.0400	.00
84 4:	-1.00	-50	-50	0	.0100	-350	-150	0	0	-.0100	1.00	-.0200	-.0400	.00
85 1:	-1.00	-50	-50	0	.0100	-350	-150	0	0	-.0100	1.00	-.0200	-.0400	.00
85 2:	-3.00	-50	-50	0	.0100	-350	-200	-500	0	-.0100	1.00	-.0200	-.0400	.00
85 3:	-3.00	-50	-50	0	.0100	-350	-200	-500	0	-.0100	1.00	-.0200	-.0400	.00
85 4:	-3.00	-50	-50	0	.0100	-350	-200	-500	0	-.0100	1.00	-.0200	-.0400	-2.00
86 1:	-3.00	-50	-50	0	.0100	-350	-200	-500	0	-.0100	1.00	-.0200	-.0400	-4.00
86 2:	-3.00	-50	-50	0	.0100	-350	-250	-1000	0	-.0100	1.00	-.0200	-.0400	-4.00
86 3:	-3.00	-50	-50	0	.0100	-350	-250	-1000	0	-.0100	1.00	-.0200	-.0400	-4.00
86 4:	-3.00	-50	-50	0	.0100	-350	-250	-1000	0	-.0100	1.00	-.0200	-.0400	-4.00
87 1:	-3.00	-50	-50	0	.0100	-350	-250	-1000	0	-.0100	1.00	-.0200	-.0400	-4.00

TABLE 15 CONSTANT ADJUSTMENTS IN ALPHABETICAL ORDER

	BYPA	CD	ECDV	ECOI	ECTP	EDBA	EEGG	ENIH	ENSA	FCA	IHP	IPW	MG2	OSWI
	£M	£M75 A	£M	£M	£M	£M	'000 S	£M	£M	£M75 A	£M75 A	75=1	£M75 A	75=100
80 1:	1	-3	-123	532	22	321	-46	-7	42	86	-76	2.3083	117	-5.05
80 2:	107	-107	-178	541	99	44	18	-4	85	-179	-36	-2.1918	47	-1.96
80 3:	201	-162	25	588	52	-67	-32	-37	-102	104	-10	-.7485	-8	-6.75
80 4:	342	-207	-376	935	1	281	-56	-1	-108	81	-35	3.8381	-33	-5.75
81 1:	419	-125	-25	539	90	-171	60	13	-123	-18	9	2.2887	-68	-11.00
81 2:	483	-65	121	642	38	-53	36	-9	-192	38	-44	.6810	-70	-8.78
81 3:	296	-103	-125	644	56	130	-54	-28	-119	-118	13	-.5519	32	-10.51
81 4:	764	-97	-498	727	70	114	28	57	197	-56	-10	-2.0912	5	-9.98
82 1:	270	-109	-7	599	-139	133	-41	37	60	24	34	-1.4048	57	-12.80
82 2:	836	-22	53	780	-78	28	-5	21	-63	-38	-13	-3.2843	56	-13.18
82 3:	661	-34	0	800	0	-100	-70	34	-143	46	7	-4.8570	-65	-15.91
82 4:	800	148	134	800	0	-100	-20	30	-100	0	0	-2.9633	0	-18.10
83 1:	800	0	0	800	0	-100	-20	30	0	0	0	-1.2517	0	-19.00
83 2:	800	0	0	800	-200	-100	-20	0	0	50	0	-1.3978	0	-19.00
83 3:	800	0	0	800	-200	0	-20	0	0	0	0	-.4312	0	-19.00
83 4:	800	0	0	800	-200	0	-20	0	0	0	0	-.0941	0	-19.00
84 1:	800	0	0	800	-200	0	-20	0	0	0	0	-1.0000	0	-19.00
84 2:	800	0	0	800	-300	0	-20	0	0	0	0	-1.0000	0	-19.00
84 3:	800	0	0	800	-300	0	-20	0	0	0	0	-1.0000	0	-19.00
84 4:	800	0	0	800	-300	0	-20	0	0	0	0	.0000	0	-19.00
85 1:	800	0	0	800	-300	0	-20	0	0	0	0	.0000	0	-19.00
85 2:	800	0	0	800	-400	0	-20	0	0	0	0	.0000	0	-19.00
85 3:	800	0	0	800	-400	0	-20	0	0	0	0	.0000	0	-19.00
85 4:	800	0	0	800	-400	0	-20	0	0	0	0	.0000	0	-19.00
86 1:	800	0	0	800	-400	0	-20	0	0	0	0	.0000	0	-19.00
86 2:	800	0	0	800	-500	0	-20	0	0	0	0	.0000	0	-19.00
86 3:	800	0	0	800	-500	0	-20	0	0	0	0	.0000	0	-19.00
86 4:	800	0	0	800	-500	0	-20	0	0	0	0	.0000	0	-19.00
87 1:	800	0	0	800	-500	0	-20	0	0	0	0	.0000	0	-19.00

TABLE 16 CONSTANT ADJUSTMENTS IN ALPHABETICAL ORDER (CONT)

	PCOMM	PFL	PIF	PIMI	PMG	PMS	PROD	PRODMF	PSWI	PXS	RL	RS	TEA	TJYP
	75=1	75=1	75=1	75=1	75=1	75=1	75=100	75=100	75=100	75=1	%	%	£M	£M
80 1:	-.0484	-.1057	.0091	.0340	.0334	-.1047	.01	-2.65	-.86	-.0404	-.1	.6	171	454
80 2:	.0182	-.0641	-.0059	-.0116	-.0278	-.0948	.20	-1.08	-2.80	-.0327	.1	-1.5	-935	690
80 3:	.0576	-.0737	.0007	-.0031	-.0182	-.0700	-.07	-1.19	8.85	-.0330	-.4	1.5	-759	-275
80 4:	.0359	.0110	-.0047	-.0090	.0078	-.1723	.01	-1.73	1.05	.0928	.3	-1.9	-384	31
81 1:	-.0764	.0059	.0027	.0090	.0081	-.1361	.69	.22	2.84	.0272	.8	-.6	-720	-31
81 2:	.0044	.0128	-.0570	-.0064	-.0455	-.1309	.55	.39	.85	.0602	1.2	-2.4	-64	442
81 3:	.0178	-.0681	-.0150	-.0881	-.0030	-.0624	.32	-.00	4.52	-.0657	1.1	4.1	320	16
81 4:	.0028	.0868	-.0574	-.0822	.0067	-.1113	.62	-1.10	-7.67	-.0202	-.7	-.7	250	-120
82 1:	.0525	.0035	-.0257	-.0490	-.0081	-.1248	.60	.53	-4.45	.0154	-.3	-1.5	197	184
82 2:	.0726	-.1868	-.0415	.0065	-.0190	-.1236	.47	-.43	-3.26	.0858	.3	-.8	-15	266
82 3:	.0979	-.0031	-.0345	.0137	-.0103	-.1036	.28	.17	1.76	-.1078	-.7	-.9	0	97
82 4:	.0300	.1801	-.0262	-.0774	.0000	-.1000	.12	-1.25	-1.93	.0000	.0	-1.8	0	0
83 1:	.0300	.1515	-.0200	-.0941	.0000	-.1000	.50	.00	-3.00	.0000	.0	2.6	0	0
83 2:	.0300	.0000	-.0200	.0000	.0000	-.1000	.50	.00	-3.00	.0000	.0	-1.6	0	0
83 3:	.0300	.0000	-.0200	.0000	.0000	-.1000	.50	.00	-3.00	.0000	.0	-.1	0	0
83 4:	.0300	.0000	-.0200	.0000	.0000	-.1000	.50	.00	-3.00	.0000	.0	-.1	0	0
84 1:	.0300	.0000	-.0200	.0000	.0000	-.1000	.50	.00	-3.00	.0000	.0	.0	0	0
84 2:	.0300	.0000	-.0200	.0000	.0000	-.1000	.50	.00	-3.00	.0000	.0	.0	0	0
84 3:	.0300	.0000	-.0200	.0000	.0000	-.1000	.50	.00	-3.00	.0000	.0	.0	0	0
84 4:	.0300	.0000	-.0200	.0000	.0000	-.1000	.50	.00	-3.00	.0000	.0	.0	0	0
85 1:	.0300	.0000	-.0200	.0000	.0000	-.1000	.50	.00	-3.00	.0000	.0	.0	0	0
85 2:	.0300	.0000	-.0200	.0000	.0000	-.1000	.50	.00	-3.00	.0000	.0	.0	0	0
85 3:	.0300	.0000	-.0200	.0000	.0000	-.1000	.50	.00	-3.00	.0000	.0	.0	0	0
85 4:	.0300	.0000	-.0200	.0000	.0000	-.1000	.50	.00	-3.00	.0000	.0	.0	0	0
86 1:	.0300	.0000	-.0200	.0000	.0000	-.1000	.50	.00	-3.00	.0000	.0	.0	0	0
86 2:	.0300	.0000	-.0200	.0000	.0000	-.1000	.50	.00	-3.00	.0000	.0	.0	0	0
86 3:	.0300	.0000	-.0200	.0000	.0000	-.1000	.50	.00	-3.00	.0000	.0	.0	0	0
86 4:	.0300	.0000	-.0200	.0000	.0000	-.1000	.50	.00	-3.00	.0000	.0	.0	0	0
87 1:	.0300	.0000	-.0200	.0000	.0000	-.1000	.50	.00	-3.00	.0000	.0	.0	0	0

TABLE 17 CONSTANT ADJUSTMENTS IN ALPHABETICAL ORDER (CONT)

	TROY	WCPI	WGNP	WM3	WPOP	WWPI	XG2	XWM	XS	YEC	YFP	YGTP	YSA	YSE
	£M	75=1	75=1	75=100	'000 S	75=1	75=100	75=1	£M75	£M	£M	£M	£M	£M
80 1:	13	2.3251	2.6482	.65	26	1.9390	8.84	.0483	17	-388	52	-1135	-25	-87
80 2:	-33	3.0739	1.6301	-.34	53	-.4648	-3.36	.0230	-91	-350	-16	-995	-8	-97
80 3:	9	1.9594	2.7975	1.05	-37	-.2197	-11.36	.0067	-76	-353	-2	-530	-3	108
80 4:	-27	2.6474	2.3458	.17	4	.7310	-50.36	.0286	-54	-249	16	-297	2	-82
81 1:	-17	2.5584	2.9697	.68	40	1.6386	11.30	.0159	-62	-79	5	-416	1	-29
81 2:	-28	2.8725	1.9977	2.21	-69	.3285	8.95	.0356	-110	132	28	-447	0	-62
81 3:	-23	3.5183	2.3572	2.40	3	-.4037	-9.71	.0238	-136	85	34	-422	-5	85
81 4:	-17	3.0504	1.9148	2.72	-254	1.0051	-29.69	.0440	-75	29	37	-290	-3	-34
82 1:	1	2.2460	1.8576	1.31	-24	.7913	1.55	.0318	-26	-8	29	-37	-1	52
82 2:	0	3.0611	2.3056	.72	-136	.5165	15.06	-.0342	-82	-12	28	36	-2	-67
82 3:	0	3.2768	1.9172	-.56	-36	.2873	-10.59	.0000	-44	-19	26	-276	0	87
82 4:	0	3.0000	1.5000	-.63	-74	.5000	30.09	.0000	-40	0	0	-300	0	0
83 1:	0	3.0000	1.5000	-.50	0	.5000	.00	.0000	-40	0	0	-300	0	0
83 2:	0	3.0000	1.5000	-.50	0	.5000	.00	.0000	-40	0	0	-250	0	0
83 3:	0	3.0000	1.5000	-.50	0	.5000	.00	.0000	-40	0	0	-250	0	0
83 4:	0	3.0000	1.5000	-.50	0	.0000	.00	.0000	-40	0	0	-250	0	0
84 1:	0	3.0000	1.5000	-.50	0	.0000	.00	.0000	-40	0	0	-250	0	0
84 2:	0	3.0000	1.5000	-.50	0	.0000	.00	.0000	-40	0	0	-250	0	0
84 3:	0	3.0000	1.5000	-.50	0	.0000	.00	.0000	-40	0	0	-250	0	0
84 4:	0	3.0000	1.5000	-.50	0	.0000	.00	.0000	-40	0	0	-250	0	0
85 1:	0	3.0000	1.5000	-.50	0	.0000	.00	.0000	-40	0	0	-250	0	0
85 2:	0	3.0000	1.5000	-.50	0	.0000	.00	.0000	-40	0	0	-250	0	0
85 3:	0	3.0000	1.5000	-.50	0	.0000	.00	.0000	-40	0	0	-250	0	0
85 4:	0	3.0000	1.5000	-.50	0	.0000	.00	.0000	-40	0	0	-250	0	0
86 1:	0	3.0000	1.5000	-.50	0	.0000	.00	.0000	-40	0	0	-250	0	0
86 2:	0	3.0000	1.5000	-.50	0	.0000	.00	.0000	-40	0	0	-250	0	0
86 3:	0	3.0000	1.5000	-.50	0	.0000	.00	.0000	-40	0	0	-250	0	0
86 4:	0	3.0000	1.5000	-.50	0	.0000	.00	.0000	-40	0	0	-250	0	0
87 1:	0	3.0000	1.5000	-.50	0	.0000	.00	.0000	-40	0	0	-250	0	0

Discussion Papers

Centre for Economic Forecasting Discussion Papers are available from Bunty King, CEF, London Business School, Regent's Park, London NW1 4SA. They cost £5.00 including post and packing. The following is a list of the most recent papers:

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	91	Monetary policy and exchange rate policy in the Netherlands	Budd Warburton

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	101	Short term models and long term problems	Budd Holly
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