

DEPARTMENT OF STATE

RELEASED IN FULL

BRIEFING PAPER

UNITED KINGDOM - ECONOMY AT A GLANCE

- The UK economy has become a leader among the larger European economies following a 5-year trend of sustained, modest growth. Real growth of 2.4% in 1986 grew to 3.5% in the third quarter, but growth is expected to drop back to 2.5% in 1988. Consumer spending has remained robust, at least before the financial market's drop in October.
- Unemployment has dropped below the sensitive 3 million mark and now stands at 9.8%, the first time below 10% since 1982. However, concentrations of unemployment in the inner cities and the traditional industries, such as coal, steel, and shipbuilding in the North of England and Scotland continue to prompt charges that Mrs. Thatcher is presiding over a divided Britain. Further declines in the unemployment rate are projected to be modest.
- Inflation is at its lowest rate in 19 years. The Retail Price Index increased by only 3.4% in 1986. The price outlook is reasonably good, but inflation is expected to grow by 4.5% by the end of 1988. A combination of high average earnings growth (7.5% per year) and small productivity gains are expected to provide a continuing inflationary push.
- The stock market crash hurt British financial firms and interest in the UK has focussed on how the U.S. plans to deal with the budget and trade deficits.
- Buoyant corporate tax and VAT revenues have allowed HMG to accommodate higher spending, cut income taxes, and still reduce government spending.
- Monetary policy has eased as interest rates, though still high by OECD standards, have been allowed to decline. With HM Treasury officially abandoning its broad money targets, exchange rates are now the principal guide for monetary policy.
- Britain is running a \$4-5 billion trade surplus with the U.S., but the declining dollar and firmer sterling could transfer this into a surplus for the U.S. in the near future.
- Britain and the U.S. remain the largest investors in each other's economies.

REVIEW AUTHORITY: Robert Homme, Senior Reviewer

lot # 88D246, Box # 3
The Secretary's Trip to Europe
& London December 15-16, 1987

UNITED KINGDOM: KEY ECONOMIC INDICATORS*
(Unless otherwise stated, billions of pounds sterling)

	1984	1985	1986	85-86 Percent Change
<u>INCOME, PRODUCTION, EMPLOYMENT</u>				
GDP, Current Prices (a)	320.2	351.6	371.8	5.7
GDP, 1980 Prices (a)	243.6	252.7	258.3	2.3
Per Capita GDP, Current Prices (a)	4,657	4,750	4,869	2.5
Investment, Current Prices				
Total (a)	55.6	60.1	62.2	3.5
Plant & Machinery (a)	20.5	23.3	23.5	0.9
Real Personal Dispos. Income (a)	166.3	171.0	175.6	2.7
Indices (1980 = 100)				
Industrial Production	103.2	108.2	109.7	1.4
Average Earnings	158.3	171.7	184.8	7.6
Working Population (Millions)	27.1	27.6	27.8	0.7
Unemployment Rate (%)	11.6	11.8	11.3	N/A
<u>MONEY AND PRICES</u>				
Gold & Foreign Ex. Reserves (b)				
(billions of dollars)	15.7	15.5	21.9	N/A
Sterling M3 (Broad Money				
percent change) Dec/Dec (c)	10.0	13.4	N/A	N/A
Interest Rate (%) yr avg (d)	9.7	12.3	10.8	N/A
Wholesale Prices (1980=100)	132.1	139.4	145.7	4.5
Consumer Prices (1980=100)	133.4	141.5	385.9	3.4
Volume Retail Sales (1980=100)	110.7	115.3	121.4	5.3
<u>BALANCE OF PAYMENTS (\$ millions)</u>				
Exports	93,630	100,155	101,750	+6.6
Imports	99,413	102,864	118,500	+15.2
Invisible Balance	7,923	7,332	11,500	
Current Balance	2,080	4,623	-1,750	
Foreign direct investment (new)	3.36	3.14	N/A	
Foreign exchange reserves				
(\$ millions of pounds)	15,700	15,500	21,920	
Average Exchange Rate for year				
(1 pound = U.S. \$)	1.34	1.30	1.47	
<u>U.S.-U.K. Trade (\$ millions)</u>				
U.S. exports to U.K. (F.A.S.)	12,209	11,272	11,418	+1.3
U.S. imports from U.K. (C.I.F.)	15,044	15,573	16,032	+3.3
Trade balance	-2,835	-4,301	-4,614	N/A
U.S. share of U.K. exports (%)	14.4	14.7	14.1	N/A
U.S. share of U.K. imports (%)	11.9	11.6	11.3	N/A
Principal U.S. exports (1986): office machines & ADP equipment; electrical machinery, apparatus, appliances & components; professional, scientific & control instruments; power generating machinery; aircraft & parts				
Principal U.S. imports (1986): petroleum & petroleum products; automobiles & auto parts/accessories; jet engines; aircraft & parts; specialized industrial machinery				

FOOTNOTES: (a) for 1986 based on three quarters of actual data, and estimate for 86:IV; (b) end of period; (c) new, end of month definition; (d) London clearing bank base rate

*This information is current as of February 1987.