



PRIME MINISTER

MEETING WITH THE CHANCELLOR

As background papers for tonight's meeting, I attach the July trade figure notes (Flag A) which you saw in Cornwall and a minute from CSO (Flag B) showing a revised (and slightly worse) current account deficit for 1987.

On the markets today, the £ closed at \$1.6792 (down 1 cent on the day) and at DM3.2177 (down 1.4pf on the day). Trade weighted index was 76.2 (down 0.3 on the day).



DOMINIC MORRIS

22 August 1988



the department for Enterprise

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To: MINISTER FOR TRADE

From: Peter Stibbard
US/S2
V/260 Ext 4872

19 August 1988

OVERSEAS TRADE FIGURES FOR ^{July} JUNE 1988

THE CURRENT ACCOUNT

In July, the value of exports was £6.8 billion and imports £9.4 billion, so that visible trade, seasonally adjusted on a balance of payments basis, shows a deficit of £2.7 billion compared with the deficit of £1.5 billion in June.

The Central Statistical Office continue to project a surplus on invisibles of £0.5 billion for months in the third quarter of 1988 so that the current account is provisionally estimated to have been in deficit by £2.2 billion, compared with a provisional estimate of £1.0 billion in June.

The very high import figure for July has resulted in the biggest monthly deficit ever recorded (in both cash and real terms). When City analysts make their guesstimates of the July current balance known next week it is doubtful that any of them will approach £2 billion - given that the monthly figures recorded so far this year has been in the range of £0.6 to £1.2 billion and averaged £0.9 billion; and in spite of inferences about the growth in imports that they will have made from other, recently released, economic statistics.

Preliminary analyses indicate that the increase in imports between June and July appears to be reasonably well spread across most product groups, although passenger cars are an exception this time. It is not wise to put much weight on month-to-month changes as the monthly figures are very volatile - in the detail even more than the totals. However, following last weekend's press reports of the Opposition's attack on presentation of the trade figures there will inevitably be strong interest in the latest figures of the capital/consumer etc goods breakdown.

The table below shows the latest percentages and also more reliable longer-term comparisons.

The usual analysis of the figures follows the table.

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IMPORTS

OTS basis: seasonally adjusted values

	July 1988	% Change		
		July on June	Latest 3 months on previous 3 months	Latest 3 months (May-July) on same 3 months in 1987
	£ billion			
Total	9.9	+13	+12	+17
of which: manufactures	7.8	+14	+13	+21
of which: finished manufactures *	4.9	+16	+14	+21
comprised of:				
Passenger motor cars	0.7	+ 6	+28	+39
Other consumer	1.2	+16	+12	+10
Intermediate	1.7	+21	+16	+21
Capital	1.4	+17	+10	+23

* excluding ships, north sea installations and aircraft

In the three months ending July there was a deficit on visible trade of £5.9 billion - a surplus on trade in oil of £0.4 billion, offset by a deficit in non-oil trade of £6.3 billion. Between the last three months and the previous three months, the visible trade deficit increased by £2.1 billion; the surplus on oil fell by £0.4 billion while the deficit on non-oil trade rose by £1.7 billion.

TABLE 1: CURRENT BALANCE, VISIBLE TRADE AND INVISIBLES
(Table 2 of Press Notice)

	Current Account Balance	Visible Trade Balances			Invisibles Balance
		Total	Oil	Non-oil	
1986	- 198	- 8715	+4056	-12772	+8517
1987	-2504	-10162	+4184	-14346	+7658
1988 Q1	-2711	- 3952	+ 879	- 4832	+1241
1988 Q2	-2933A	- 4433	+ 677	- 5111	+1500A
1988 May	-1184A	- 1684	+ 221	- 1905	+ 500A
June	-1041A	- 1541	+ 148	- 1689	+ 500A
July	-2151A	- 2651	+ 65	- 2716	+ 500A

A = Projection or part projection

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EXPORTS

The value of exports in July was £62 million (1 per cent) lower than in June. Exports of oil decreased by £97 million between the two months and exports of the erratic items by £224 million. Excluding oil and the erratic items, exports rose by 4½ per cent between June and July.

In the three months ending July, total export volume was 1 per cent higher than in the previous three months and 3½ per cent higher than in the same period last year. Excluding oil and the erratic items, export volume was 4½ per cent higher than in the previous three months and 5½ per cent up on the same period a year ago. The underlying level of exports appears to have exceeded the high level reached at the end of last year.

TABLE 2: EXPORTS BY VALUE AND VOLUME (Tables 1, 4 and 7 of Press Notice)

Bop Basis, Seasonally Adjusted

	VALUE (£m)		VOLUME (1985 = 100)	
	Total	Total Less Oil and Erratics	Total	Total Less Oil and Erratics
1986	72678	59098	103.6	102.3
1987	79422	65000	109.0	109.2
1988 Q1	19019	16154	106.5	107.7
1988 Q2	20238	17050	111.1	112.7
1988 May	6543	5571	108.0	111.3
June	6837	5706	111.8	112.7
July	6775	5965	108.1	117.3

By value, exports of manufactures during the latest three months were 5 per cent up on the previous three months; within manufactures, exports of capital goods rose by 12 per cent and exports of semi-manufactures other than chemicals rose by 9½ per cent.

Also by value, total exports rose by 3½ per cent in the latest three months, compared with the previous three months. The rise in exports to the developed countries was 6½ per cent - within which exports to the rest of the European Community rose by 13 per cent while exports to North America fell by 9½ per cent.

IMPORTS

The value of imports in July was £1048 million (13 per cent) higher than in June. Imports of oil fell by £13 million while imports of the erratic items decreased by £23 million between the two months. Excluding oil and the erratic items, imports rose by 14 per cent between June and July.

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In the latest three months, total import volume was 13 per cent higher than in the previous three months and 18 per cent higher than in the same period last year. Excluding oil and the erratic items import volume rose by 11 per cent in the latest three months to stand 16 per cent up on a year ago. The underlying level of non-oil import volume has been rising in recent months quite strongly.

TABLE 3: IMPORTS BY VALUE AND VOLUME (Tables 1, 4 and 7 of Press Notice)

Bop Basis, Seasonally Adjusted

	VALUE (£m)		VOLUME (1985 = 100)	
	Total	Total Less Oil and Erratics	Total	Total Less Oil and Erratics
1986	81394	73598	107.0	106.0
1987	89584	81462	114.4	115.0
1988 Q1	22972	21182	117.8	119.8
1988 Q2	24671	22496	127.4	127.9
1988 May	8227	7440	127.2	127.4
June	8378	7567	131.0	129.1
July	9427	8651	145.1	146.7

By value, imports rose by 12 per cent between the three months ended April and the latest three months. Imports of passenger motor cars rose by 28 per cent in this period; imports of other consumer good by 12 per cent; and intermediate manufactures by 16 per cent.

Again in value terms, imports from the developed countries rose by 11 per cent over the latest three months, with arrivals from the European Community countries up by 12 per cent, from North America by 10 per cent and from the other developed countries by 9½ per cent. Imports from the developing countries increased by 17 per cent in this period.

TRADE IN MANUFACTURES

Figures showing trade in manufactures on a balance of payments basis will be published in the July edition of the Monthly Review of External Trade Statistics following the release of the press notice. On present estimates they show a deficit in the latest three months of 1988 of £4.4 billion compared with a deficit of £2.6 billion in the previous three months.

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TABLE 4: TRADE IN MANUFACTURES (SITC 5-8) (Table 16 of Press Notice, quarterly data only)

	Exports	Imports	Balance
1986	54454	60165	-5710
1987	60656	68146	-7490
1988 Q1	14985	17844	-2859
1988 Q2	16233	19510	-3277
1988 May	5250	6548	-1297
June	5503	6568	-1065
July	5455	7461	-2006

£ million
Seasonally Adjusted
Balance of Payments Basis

REVISION TO FIGURES

Figures for the current account, visible trade and invisibles for 1986 and 1987 have been revised in line with the annual estimates to be published by the Central Statistical Office in the "Pink" Book on 24 August. This has resulted in the current account for 1986 being revised downwards from a surplus of £116 million to a deficit of £198 million, almost entirely due to a worsening of the visible trade deficit.* For 1987, the current account is now in deficit by £2.5 billion compared with a previous deficit of £1.6 billion. This is due to an increase in the visible trade deficit of £0.5 billion* and a decrease in the invisible surplus of £0.4 billion.

PUBLICATION

The press notice containing the July figures is scheduled for release on Thursday 25 August 1988.

*The differences are accounted for by —

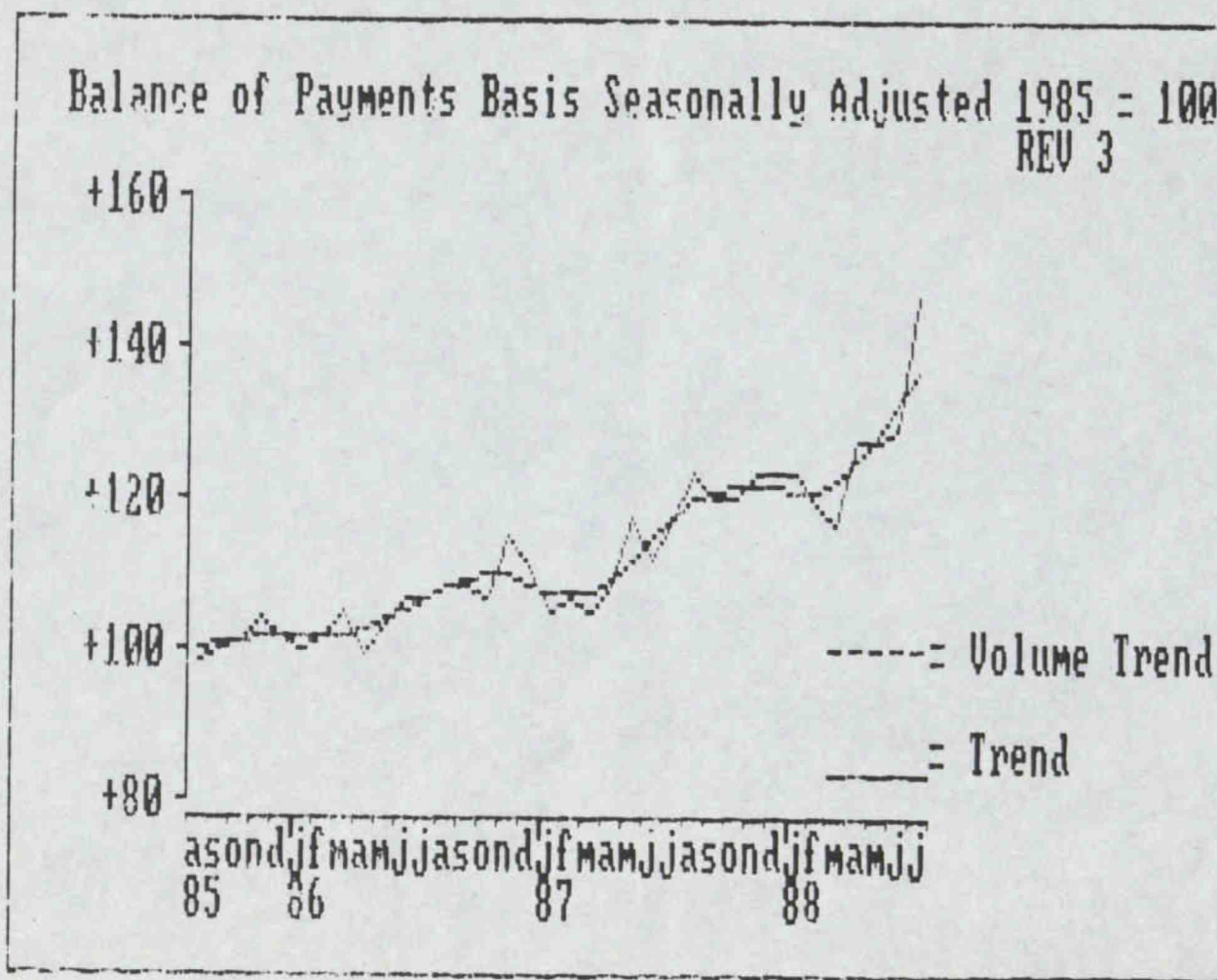

P J STIBBARD

(a) changes in the Department of Transport's methods of calculating the air freight adjustment to imports, the effect of which is to increase imports by about £300m for the year 1987 and increase the deficit on visible trade by the same amount.

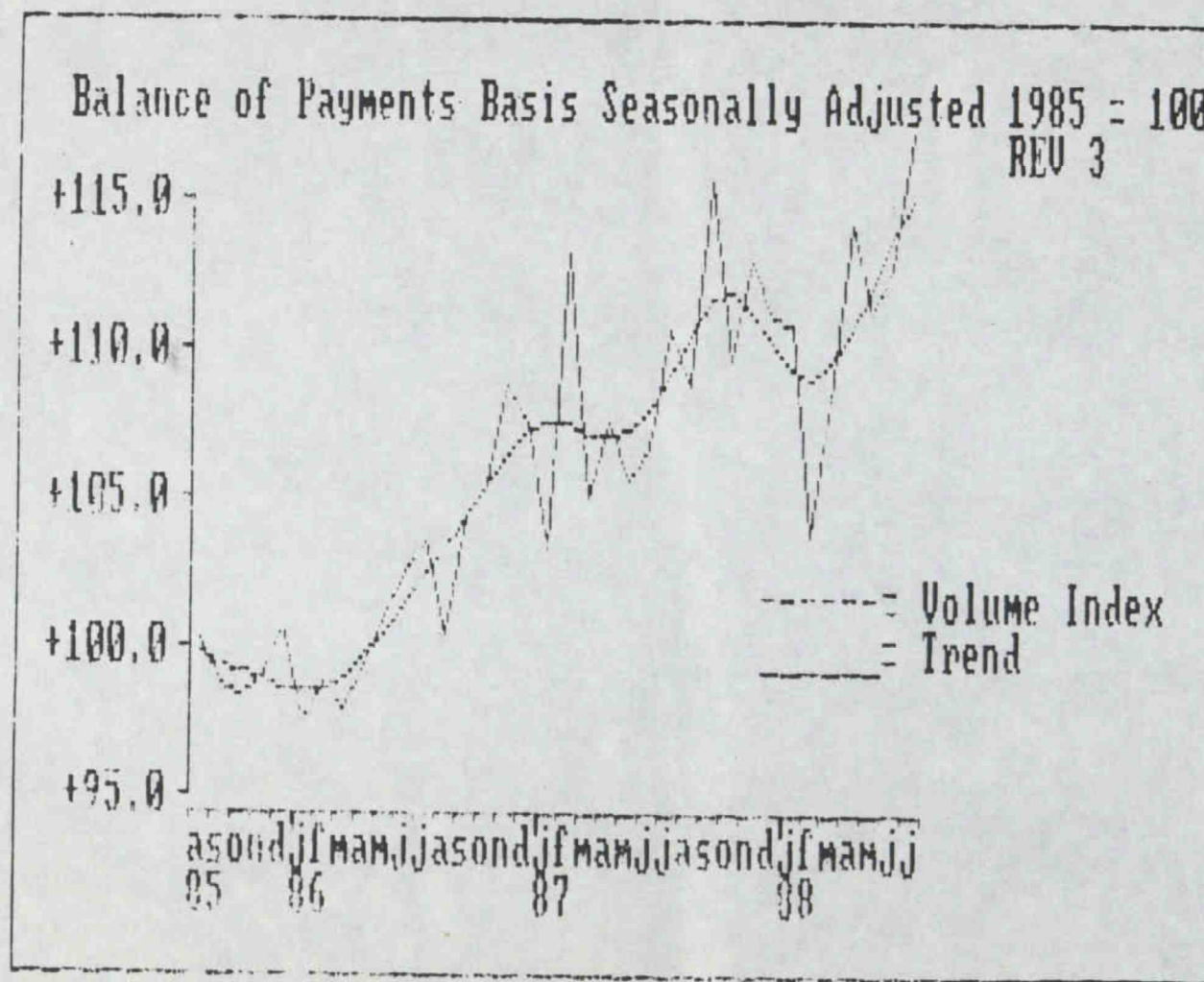
(b) On downward adjustment to December 1987 to correct for the over-statement of exports in connection with Customs administrative changes introduced at the turn of the year. The adjustment involves the transfer of £200m of exports from December 1987 to January 1988.

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT 11.30 A.M, 25TH AUGUST 1988

IMPORTS LESS ERRATICS AND OIL



EXPORTS LESS ERRATICS AND OIL



CIRCULATION LIST

- Copv No 1 Minister for Trade
- 2 Prime Minister
- 3 Chancellor of the Exchequer
- 4 Secretary of State for Trade and Industry
- 5 Chancellor of the Duchy of Lancaster
- 6 Sir Robin Butler (Cabinet Office)
- 7 Sir Brian Hayes (Dept of Trade and Industry)
- 8 Sir Peter Middleton (H M Treasury)
- 9 Governor of the Bank of England
- 10 Chairman of the Board of H M Customs & Excise
- 11 Mr J Hibbert (CSO)
- 12 Mr M J Pratt (H M Customs & Excise)
- 13 Mr B Buckingham (CSO)
- 14 Mr Davies (H M Treasury)
- 15 Mr P Sedgwick (H M Treasury)
- 16 Mr A McIntyre (CSO)
- 17 Mr D Wilson (Dept of Energy)
- 18 Mr J Hibberd (H M Treasury)
- 19 Mr H H Liesner)
- 20 Mr P J Stibbard)
- 21 Mr W E Boyd)
- 22 Mr E J Wright)
- 23 Mrs A Brueton) Dept of Trade and Industry
- 24 Miss H Chapman)
- 25 Mr Cottis)
- 26 Mr C Martin)
- 27 Mr Wright, Bank of England
- 28 File

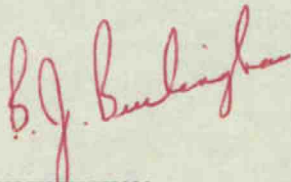
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MR GRAY (PRIME MINISTER'S OFFICE)

cc Mr Kidgell o/r

BALANCE OF PAYMENTS STATISTICS

1. You may wish to be aware that the CSO annual publication (The Pink Book) on the UK balance of payments to be published next Wednesday, 24 August, will contain revised figures for the current account deficit in 1987 (with smaller revisions for earlier years).
2. The current account deficit for 1987 is now put at £2.5 billion, about £0.9 billion above the figure published in June. The visible trade deficit has been increased by £0.5 billion and the invisibles surplus reduced by £0.4 billion.
3. The higher visible trade deficit reflects two special factors. £0.2 billion of exports have been shifted from December 1987 to January 1988 to reflect the estimated alteration in the interval between shipment of goods and receipt of documents caused by the new administrative procedures made from 1 January 1988. Imports are now £0.3 billion higher, as a smaller deduction for freight costs has been made in the light of fuller information. The downward revision to invisibles results from later and fuller information.
4. Interest in these figures will soon be superceded by the monthly current account press notice (containing visible trade estimates up to July) to be published on 25 August. This press notice will incorporate the revised Pink Book figures for 1987 and earlier years, together with a revised figure for invisibles for 1988, first quarter. The figures for invisibles for April to July 1988 will remain as projections at the previously published level of £500m a month. The first estimates for invisibles in the April to June quarter will not be published until 15 September with the next full quarterly balance of payments accounts are published.
5. You may like to have a copy of the press office briefing to accompany the publication of the Pink Book.



B J BUCKINGHAM

Branch 6
Central Statistical Office
19 August 1988

File ref: B60/2

MR LANG

cc Mr Gray - Prime Minister's Office ✓
Mr Stibbard - DTI
Mr Buckingham - CSO
Mrs Dolling - CSO
Mr D Owen - HM Treasury
Mr Hayes - CSO
Mr Darnbrough - CSO
Mrs Prosser - CSO

PRESS OFFICE BRIEFING FOR THE PINK BOOK PRESS NOTICE

1. The Pink Book press notice which is to be issued on 23 August, under embargo until the Pink Book is published at 00.30 on 24 August, follows the structure of previous years. It contains a summary commentary and selection of detailed points for tables in the various sections into which the book is divided.
2. The presentation of the figures in this year's Pink Book is broadly unchanged from last year's edition. As usual the Pink Book contains detailed balance of payments figures for the last eleven years i.e. calendar 1977 to 1987 and summary figures for earlier years. The estimates incorporate the latest available information and consequently update the figures published in June with the preliminary balance of payments estimate for the first quarter of 1988.
3. The attached tables summarise the difference between the figures published in Economic Trends in June and those now appearing in the Pink Book. Responses to possible questions about revisions to earlier figures and other feature of the 1987 Pink Book are given in the attached note.
4. Revised visible and invisible balances for the first quarter of 1988, consistent with the Pink Book figures will be included in the DTI/CSO current account press notice to be issued at 11.30 on Thursday 25 August. The figure for the invisible balance in the second quarter in that press notice will, however, still be only a "projected" value. Preliminary "actual" figures for the invisible balance in the second quarter of 1988 (and detailed revised figures for the first quarter) will be published in the CSO Balance of Payments press notice at 11.30 on Thursday 15 September.

5. Contacts in Branch 6 for further information:

Visible trade, services and transfers
(sections 2, 3, 4 and 7)

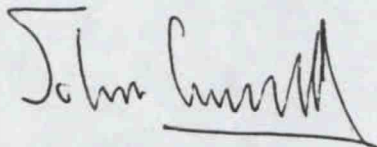
Bruce Buckingham
(Ext 6090)

IPD, transactions in, and levels of, assets
and liabilities (sections 5, 8 and 9)

Margaret Dolling
(Ext 6094)

Summary account and general enquiries
(sections 1, 6, 10 and 11)

Myself
(Ext 6070)

A handwritten signature in cursive script, appearing to read "John Cresswell". The signature is written in dark ink and is positioned above the typed name.

J C CRESSWELL

Branch 6
Central Statistical Office
22 August 1988

1988 BALANCE OF PAYMENTS PINK BOOK

1. Why have the figures for visible trade been revised?

The reduction of £200 million to exports in 1987 is to allow for the temporary reduction in the interval between shipment and receipt of documents which occurred in anticipation of new customs recording procedures in January 1988. A corresponding increase will be made to exports in January 1988 (see notes to editors).

The increase in imports from 1982 results from a revised and improved method for estimating air freight on imports. Corresponding offsetting reductions have been made to payments for services in the civil aviation account, so there is no effect on the current account in total.

Changes to imports and exports before 1980 reflect the revised treatment for trade in gold which was implemented for 1980 and later years in the accounts published in March.

2. What are the reasons for changes to invisibles?

A major change concerned sea transport in 1986 and 1987 where the figures now incorporate final results of the detailed quadrennial (1986) inquiry and the annual 1987 inquiry by the General Council of British Shipping. Changes to civil aviation are mainly due to the revised method for estimating freight on imports (see item 1 above). Revisions to Financial and Other services have been made in respect of insurance, other brokerage, royalties and miscellaneous services mainly as a result of later and/or more comprehensive information. (Under insurance, the underwriting figures now include receipts in respect of management services provided to overseas members of Lloyd's syndicates, and the portfolio investment income figures are now net of earnings distributed to overseas members.)

Changes to interest profit and dividends relate mainly to information from 1987 annual inquiries. However, changes have also been included for earlier years resulting from the full implementation of the revised method for estimating overseas interest receipts and payment on UK non-bank transactions with banks abroad which was introduced for more recent periods in March.

Revisions to transfers reflect a revised method for estimating private payments and receipts.

3. What are the reasons for changes to transactions in UK external assets and liabilities?

For recent years the major change is the increase to UK portfolio investment overseas by UK financial institutions (other than banks), following a reassessment of commission charges and other associated costs included in the reported gross transactions values. Changes to earlier years are mainly the incorporation of the revised methodology for estimating UK non-bank transactions with banks abroad which was introduced for more recent periods in March.

4. Are the figures for 1987 now final?

No. Although many parts of the account now incorporate reasonably comprehensive annual information for 1987, other parts are still based on sample estimates or projections from earlier years and will be revised gradually over the coming quarters. The estimates of the invisibles balance and hence the current balance for the latest year will tend to fluctuate for a considerable period.

5. Are these figures consistent with those given in the press notice on Overseas earnings of the City published on 2nd August?

Yes (although the figure shown in Table 6.1 incorporated a small revision - see notes to editors). The earnings of the City are of course part of the totality of invisibles.

6. Does the downward revisions to the current balance in 1987 imply similar changes to 1988 estimates?

Not necessarily. In the case of exports the position is the reverse, the reduction of £200 million in 1987 will result in an offsetting increase in 1988. The change to imports is broadly offset within services. Much of the information used for the estimates for invisibles in the first half of 1988 would not be influenced by revisions to 1987. However, where 1988 estimates are linked to 1987 figures in advance of comprehensive reported data, there may be some effect.

The latest estimate of the current balance in the first quarter of 1988, consistent with the Pink Book figures, is of a deficit about £100 million *higher* than the existing published figure (a deficit of £ 2889 million compared with the earlier estimate of £2776 million). The revised figure for 1988 Q1 will be published in tomorrow's monthly press notice on the current account, but can be released on request now.

7. Why have the net external assets of the United Kingdom fallen from £113 billion at end-1986 to £89 billion at end-1987?

As explained in the press notice, the main factors were:

- (a) the world-wide fall in share prices last October;
- (b) the strengthening of the sterling exchange rate during the year (which reduced the sterling value of UK assets overseas denominated in foreign currencies);
- (c) some disinvestment in UK portfolio investment overseas.

8. Given the size of the balancing item in the accounts in recent years can one rely on the present estimates of the current balance?

The balancing items imply that there were unidentified net inflows especially in 1986. In general the information underlying the current account is more securely based than that underlying the capital account. Most of the factors which pose problems in measuring transactions in recent years have particular relevance to the capital account e.g. the effect of fluctuating exchange rates, new financial instruments, discrepancies in timing of flow of goods and services and the associated payments, etc. The Pink Book notes (p.5) refer to the factors likely to influence the balancing item. The situation in 1986 is likely to have been particularly difficult with the exceptionally high levels of flows associated with the deregulation of London financial markets (Big

Bang).

9. If the figures in the capital account are so uncertain, is publication still justified?

Yes. Clearly great caution needs to be exercised in interpreting the figures. However, the estimates of direct investment (both outward and inward), of the main financial institutions' portfolio investment abroad, of UK banks' borrowing and lending, and of changes in the reserves and in overseas investment in public sector securities, are subject to fewer doubts than other items and are of interest in their own right.

10. Does not the IMF study, which found unidentified current account inflows at a global level, indicate that the UK balance may be similarly understated?

Not necessarily. The factors identified by the IMF as accounting for most of the global current account imbalance are in general ones which are already covered in the UK balance of payments (e.g. retained profits of direct investments, use of banking transactions data produced by the Bank of International Settlements). The existence of a net positive discrepancy at a global level is not inconsistent with negative or no discrepancies for particular countries. Some of the points in the IMF study (e.g. on the shipping account and on international bond investment) may have implications for the UK, although it is premature to say whether the effect on the current balance will be positive or negative until further work has been done.