

PRIME MINISTER

BA

THE MARKETS AND THE LATEST ECONOMIC FIGURES

(10 (a-c))

You may like to have a brief resumé of developments in the markets this week, the reaction to the week's economic figures and the figures coming out next week.

The Markets

Things have turned out rather better than we might have feared in the light of the trade figures published on Wednesday. On Tuesday, in advance of publication, sterling was weak and dropped about one per cent on the effective rate. But it was pretty steady, slipping only marginally, on Wednesday and Thursday. And today, Friday, sterling has strengthened a little - see the market report at Flag A.

Intervention has been light - a little under \$100 million on both Tuesday and Wednesday, but virtually nothing in the last two days.

Relative quietness in the exchange markets has owed a good deal to the fact that the G7 meeting is coming up this weekend; although there have been sustained bouts of dollar strength the markets have generally been adopting a wait and see attitude. It may be that, with the markets focussing on prospects for the dollar, judgement has been reserved on sterling. That said, there has been evidence of increased nervousness about the prospects for sterling; and the latest trade figures got a very critical reception in the press on Thursday. Once the G7 is out of the way, we could be in for a more lively time in the markets.

The other main feature of the week has been the strengthening oil price. As you will see from Flag A Spot Brent topped \$20 today. I have included separately in the box a note by the Policy Unit on the impact of the Alaska oil spillage.

Latest Economic Figures

The main news has of course been the trade figures. But we have also had figures for personal disposable income and industrial and commercial companies - summarised in the weekly DTI note at Flag B.

The main press attention on the personal disposable income figures centred on the 1988 savings ratio being the lowest for 33 years. But what most of the press ignored was that the latest savings figures have been substantially revised upwards from the earlier estimates. Whereas the earlier estimate for 1988 Q3 was 1.3 per cent that has now risen to 3.1 per cent, with 4.1 per cent in Q4. That is of course still a lot lower than we want to see; but the revisions underline the fragility of the figures we are dealing with.

I also attach at Flag C the latest weekly MO figures. These are continuing to edge down slowly, with the latest 12 month rate at 6.2 per cent.

Next Week's Figures

Next week is fairly quiet, but we do have on Monday the final February figures for retail sales (Flag D) and February credit business (Flag E):

- the retail sales have been revised upwards, so February is now slightly above the previous peak in October. The DTI note argues that the underlying trend is still broadly flat over the last six months or so, and that may well be right. But the figures remain very difficult to interpret, and the markets may well be disappointed by the upward revision;
- credit business shows only a modest increase.

The only other significant figure next week will be the March

reserves on Tuesday. These will reveal the significant scale of intervention over the month as a whole - see the figure in the market report at Flag A.

R.C.G.

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