

PRIME MINISTER

## THE ECONOMY

The key figures to come out next week are the trade figures which come out on Wednesday. They are awful. At £2.1 billion the July deficit on current account is the second worst ever (the worst being this time last year). The Treasury is at something of a loss for why the figures should be so bad this month. They run counter to most of the other indicators we have been getting on the economy; of a gradual slow-down and of things coming right again. As the attached full assessment says, the dock strike effect is likely to have been small.

The Chancellor may well want to come in for a brief word on Monday morning on his way through town to discuss with you the likely market reaction to these figures. I will come back to you on this early on Monday morning.

The other figures to come out are:

Monday

GDP (output) for the second quarter which show a half per cent drop on the first quarter of 1989. The main part of the fall is accounted for by the energy sector (accidents in the North Sea, etc.).

Tuesday

The building society monthly figures come out. We do not yet have details for these, but they are likely to show commitment to loans slightly below what the market is expecting. Another indicator of a gently slowing economy.

Wednesday

The CSO pink book for the UK balance of payments comes out. The annual revisions are small. Also on Wednesday we have the construction new orders figures for June which we have not yet seen.

Thursday

The cyclical indicators for the UK economy in July also not yet out.



DM

18 AUGUST, 1989.

# Central Statistical Office

Great George Street London SW1P 3AQ

Telephone 01-270 6040

Fax 01-270 5866

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT  
11.30 AM ON 23 AUGUST AND THEREAFTER UNCLASSIFIED

17 August 1989

TO: PS/CHANCELLOR OF THE EXCHEQUER

FROM: J E KIDGELL

## OVERSEAS TRADE FIGURES FOR JULY 1989

### THE CURRENT ACCOUNT

In July, the value of exports was £7.7 billion and imports £10.2 billion, so that visible trade, seasonally adjusted on a balance of payments basis, shows a deficit of £2.5 billion compared with the deficit of £1.9 billion in June.

The surplus on invisibles is projected to be £0.4 billion for months in the current quarter so that the current account in July is provisionally estimated to have been in deficit by £2.1 billion, compared with a provisional estimate of £1.5 billion in June.

[Invisibles and hence the current account for months and quarters of 1988 and 1989 will be subject to minor revisions before publication. Final figures will be included in the press notice sent to the Chancellor for approval tomorrow.]

TABLE 1: CURRENT BALANCE, VISIBLE TRADE AND INVISIBLES  
(TABLE 2 OF PRESS NOTICE)

	Current Account	Visible Trade Balances			Invisibles Balance
		Seasonally adjusted Balance of Payments Basis £ million			
		Total	Oil	Non-oil	
1987	- 3672	-10929	+4183	-15112	+7257
1988	-14618	-20826	+2787	-23612	+6208
1989 Q1	- 4838*	- 5980	+ 241	- 6220	+1142*
1989 Q2	- 4632a*	- 5832	+ 333	- 6164	+1200a*
1989 May	- 1340a*	- 1740	+ 43	- 1783	+ 400a*
1989 June	- 1517a*	- 1917	+ 156	- 2073	+ 400a*
1989 July	-2062a*	- 2462	+ 84	- 2545	+ 400a*

a - Projection or part projection

\* Figures for the current account and invisibles balance are subject to revision

**SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT  
11.30 AM ON 23 AUGUST AND THEREAFTER UNCLASSIFIED**

In the three months ended July there was a deficit on visible trade £6.1 billion - a surplus on trade in oil of £0.3 billion, offset by a deficit in non-oil trade of £6.4 billion. Between the three months ended April and the latest three months, the visible trade deficit was little changed (up by only £10 million); a small increase in the surplus on oil was offset by a small increase in the deficit on non-oil trade.

**EXPORTS**

The value of exports in July was £145 million (2 per cent) lower than in June. Exports of oil fell by £68 million and exports of the erratic items fell by £79 million between the two months. Excluding oil and the erratic items, exports hardly changed between June and July.

In the three months ended July, total export volume was 5 1/2 per cent higher than in the previous three months and 2 1/2 per cent higher than in the same period a year earlier. Excluding oil and the erratic items, export volume was 4 per cent higher than in the previous three months and 9 per cent up on the same period a year earlier. It appears that the underlying trend of non-oil export volume is continuing to rise.

**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
1987	79421	64999	109.1	109.4
1988	80602	69140	110.7	113.9
1989 Q1	21656	18789	112.8	122.1
1989 Q2	22680	19344	115.1	122.6
1989 May	7623	6474	115.2	123.4
1989 June	7873	6674	118.7	125.3
1989 July	7728	6676	117.1	126.4

**SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT  
11.30 AM ON 23 AUGUST AND THEREAFTER UNCLASSIFIED**

By value, exports of manufactures during the three months ended July were 8 1/2 per cent higher than in the previous three months.

Also by value, total exports rose by 8 1/2 per cent in the latest three months compared with the previous three months. The rise in exports to the developed countries was 10 per cent - within which exports to the rest of the European Community rose by 15 per cent while exports to North America rose by 4 1/2 per cent. Exports to the developed countries decreased by 2 1/2 per cent while exports to developing countries were little changed between the two three-month periods.

**IMPORTS**

The value of imports in July was £400 million (4 per cent) higher than in June. Imports of oil and imports of the erratic items were little changed between the two months. Excluding oil and the erratic items, imports rose by 4 1/2 per cent between June and July.

In the three months ended July, total import volume was 3 per cent higher than in the previous three months and 7 per cent higher than in the same period a year earlier. Excluding oil and the erratic items import volume was 3 per cent up on the previous three months and 8 per cent up on the same period a year earlier. It appears that the underlying level of non-oil import volume is continuing to rise.

**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
1987	90350	82214	114.6	115.9
1988	101428	93809	129.5	132.2
1989 Q1	27636	25517	140.5	143.0
1989 Q2	28511	26096	140.2	143.2
1989 May	9363	8501	138.4	140.7
1989 June	9790	8960	142.1	145.0
1989 July	10190	9366	148.2	151.4

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT  
11.30 AM ON 23 AUGUST AND THEREAFTER UNCLASSIFIED

By value, imports rose by 6 1/2 per cent in the latest three months compared with the previous three months. Imports of manufactures during the latest three months were 5 1/2 per cent up on the previous three months.

Again in value terms, imports from the developed countries rose by 6 1/2 per cent over the latest three months, with arrivals from the European Community countries up by 6 per cent, from North America up by 10 per cent and from the other developed countries up by 5 per cent. Imports from the developing countries increased by 10 per cent between the two three-month periods.

#### TRADE IN MANUFACTURES

Figures showing trade in manufactures on a balance of payments basis will be published in the September 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 three months ended July of £4.2 billion compared with a deficit of £4.4 billion in the previous three months.

TABLE 4: TRADE IN MANUFACTURES, (SITC 5-8) (TABLE 16 OF  
PRESS NOTICE, QUARTERLY DATA ONLY)

			£ million Seasonally Adjusted Balance of Payments Basis
	Exports	Imports	Balance
1987	60651	68480	- 7828
1988	64731	79627	- 14897
1989 Q1	17724	22017	- 4293
1989 Q2	18333	22370	- 4037
1989 May	6228	7307	- 1079
1989 June	6370	7720	- 1351
1989 July	6276	8052	- 1775

#### INDUSTRIAL ACTION AT NDLS PORTS

It is likely that trade recorded in the July month of account has to some extent been distorted by the recovery from unofficial action at National Dock Labour Scheme ports during 8-19 June, and the official action which started on 11 July. The effect of these two periods of action will to some extent have been offsetting, and their net effect is probably small, though at this stage impossible to quantify.

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT  
11.30 AM ON 23 AUGUST 1989 AND THEREAFTER UNCLASSIFIED

#### REVISIONS TO PUBLISHED FIGURES

Figures for the current account, visible trade and invisibles for 1987 and 1988 have been revised in line with the annual estimates to be published in the "Pink Book" on 23 August. The current account deficit for 1987 has been revised upwards from £2.9 billion to £3.7 billion. For 1988 the current account deficit is now in deficit by £14.7 billion compared with the previous estimate of £14.9 billion. The visible trade deficit has increased by £0.3, offset by an increase in the surplus on invisibles of £0.6 billion.

The change to the visible trade deficit in 1988 results from an upward revision to oil exports of £0.4 billion, and an upward revision to imports of £0.7 billion in respect of a revised method of estimating freight on imports. The latter revision gives rise to offsetting changes to the invisibles balance.

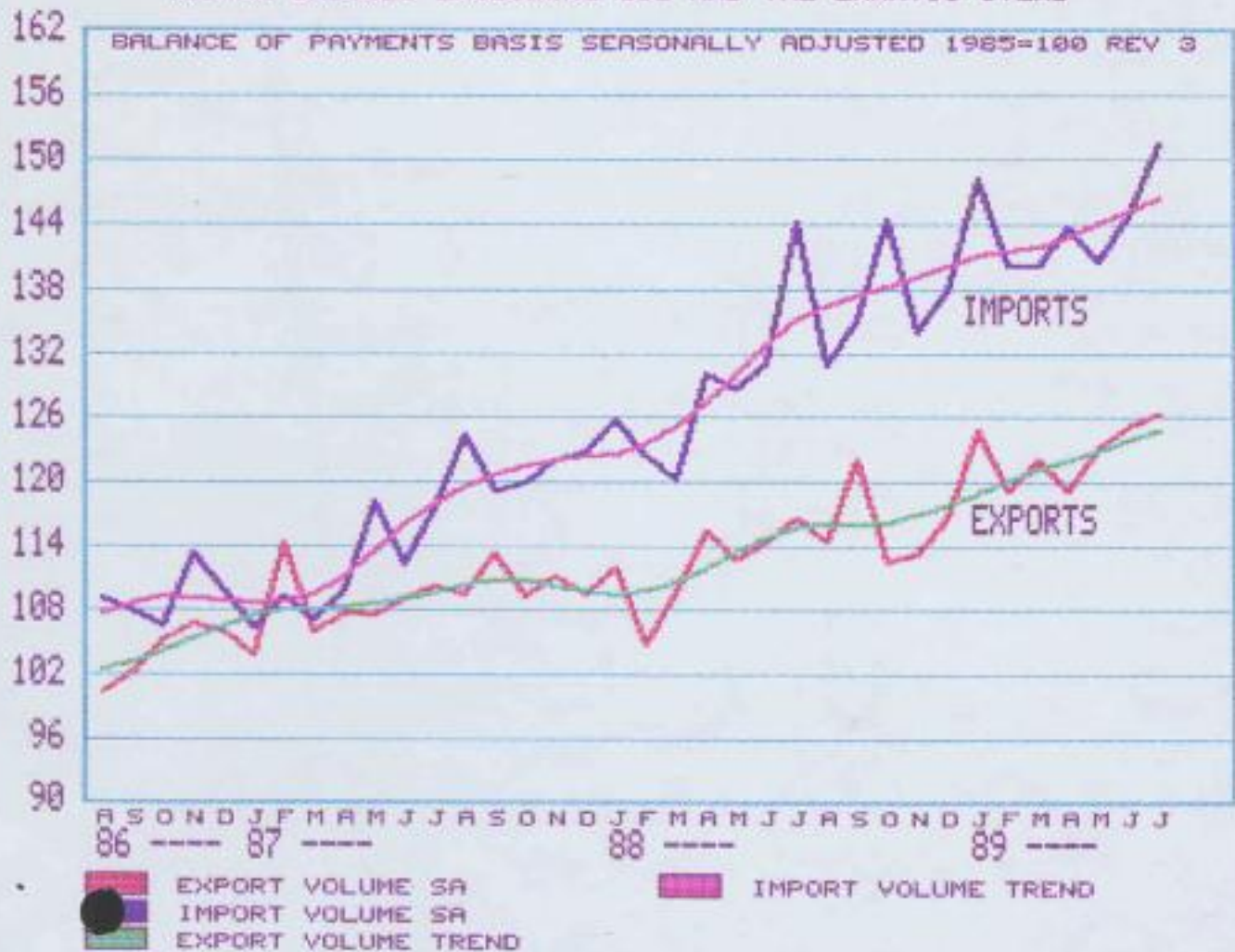
#### PUBLICATION

The press notice containing the July figures is scheduled for release on Wednesday 23 August 1989.

*J. E. Kidgell.*

J E KIDGELL  
Head Directorate D

### VOLUME INDICES EXCLUDING OIL AND THE ERRATIC ITEMS





## CIRCULATION LIST

Copy No:	1	Financial Secretary
	2	Prime Minister
	3	Chancellor of the Exchequer
	4	Minister for Trade
	5	Sir Robin Butler (Cabinet Office)
	6	Sir Peter Middleton (H M Treasury)
	7	Sir Terence Burns (H M Treasury)
	8	Sir Peter Gregson (DTI)
	9	Governor/Bank of England
	10	Chairman/HM Customs
	11	Mr J Hibbert (CSO)
	12	Mr M Pratt (HM Customs)
	13	Mr Lind (H M Treasury)
	14	Mr P Sedgwick (H M Treasury)
	15	Mr B Morgan (Dept Energy)
	16	Mr O'Donnell (H M Treasury)
	17	Mr J Kidgell (CSO)
	18	Mr G Jenkinson (CSO)
	19	Mr A McIntyre (CSO)
	20	Mrs A Brueton (CSO)
	21	Mr J Cottis (CSO)
	22	Mr C Martin (CSO)
	23	Mr A Murfin (Bank of England)
	24	Ms C Turk (H M Treasury)
	25	Dr D Higham (DTI)
	26	File