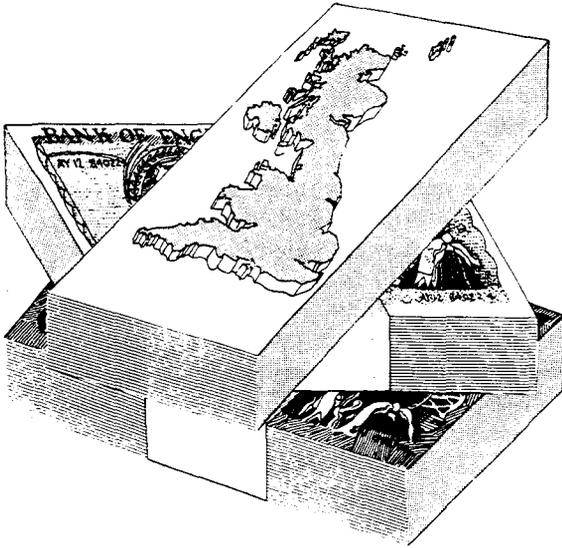


THE BRITISH ECONOMY



OVERVIEW

The principal concern in the coming months is whether the rate of growth achieved in the first two quarters of the year can be sustained in the final two quarters of the year. If this is achieved, the outturn for the year should be in the region of 1.5% for 1993 over 1992. However, there is uncertainty whether the growth of consumer demand and external trade will be maintained.

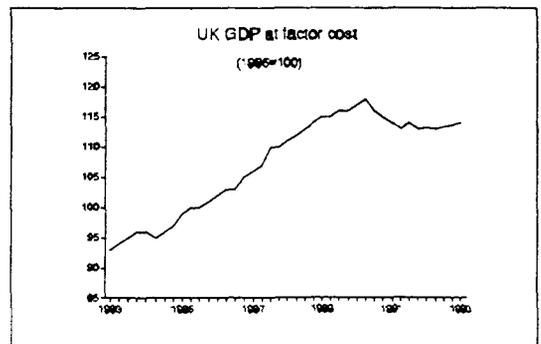
MACROECONOMIC TRENDS

In the first quarter of 1993, the average measure of **GDP at market prices** - 'money' GDP - rose by 1.2%. After allowing for inflation and adjusting for factor costs, **GDP** grew by 0.4% during the quarter, compared with a rise of 0.2% in the fourth quarter 1992, a rise of 0.1% in the third quarter, falls of 0.1% in the second quarter, 0.5% in the first quarter 1991, 0.3% in the fourth quarter 1991, and an increase of 0.2% in the third quarter 1991. Over the year to the first quarter, 'real' GDP is estimated to have risen by 0.9%, and remains 3.1% below the level attained when the recession began after the second quarter 1990.

Preliminary estimates of the **output based measure of GDP** - which is usually taken to be the most reliable indicator of short-term change - in the

second quarter of 1993, suggest that GDP increased by 0.5% compared with the previous quarter. When oil and gas extraction are excluded, GDP is also estimated to have risen by 0.5% in the most recent quarter. Total GDP and GDP excluding oil and gas extraction are estimated to have increased by 1.5% and 1.3%, respectively, over the same period a year ago.

The **output of the production industries** in the second quarter 1993 is provisionally estimated to have risen by 0.8% over the first quarter, with output rising by 2.8% compared with the same period a year ago. Within production, manufacturing experienced an increase in output of 1.4% on the previous three months, output of the other energy and water supply industries fell by 2.4%, and production of oil and gas rose by 0.5%. Manufacturing output in June was 5.2% below the second quarter 1990 peak. The output of the **service sector** is provisionally estimated to have risen by 0.5% in the second quarter.



The CSO's **co-incident cyclical indicator** for June 1993, which attempts to show current turning points around the long-term trend, rose slightly. The index has been steadily rising since May of last year, suggesting an upturn in the spring of 1992. The **shorter leading index**, which attempts to indicate turning points about six months in advance, is maintaining the increase which began last autumn. The **longer leading index**, which purports to indicate turning points about one year in advance, had been rising strongly since January 1991, but began to fall back again in November and December of that year and this fall continued until

January 1992. After January, the series fluctuated, and strong upward movements were evident after October 1992, although the series has flattened in recent months.

In the first quarter of 1993, **real consumers' expenditure** rose by 0.5% after rising by 0.3% in the fourth quarter of 1992, rising by 0.4% in the third quarter, by 0.5% in the second quarter, falling by 0.7% in the first quarter, and by 0.1% in both the fourth and third quarters of 1991. Spending during the first quarter 1993 rose by 2.3% on the same period a year earlier. In the first quarter, spending on durables rose by 1%, expenditure on non-durable goods increased by 0.4%, while expenditure on services rose by 0.6%. Latest figures for the second quarter suggest that real consumers' expenditure rose by 0.5% compared with the first quarter and rose by 1.9% over the same period a year ago.



The provisional official **retail sales** volume figures - seasonally adjusted - for July, 1993, fell by 0.2% below the June level. Over the year to July, the volume of sales rose by 4.4%. Taking the three months to July, the volume of retail sales rose by 0.7% to a level 3.6% up on the same period a year ago. The **CBI Distributive Trades** survey for July shows retailers continuing to experience sales growth. Sales volumes increased for the seventh consecutive month, although increases in spending had not spread to all sectors of the high street being mainly concentrated on the multiples. This survey suggests that retail sales growth is steady rather than rapid.

The underlying determinants of consumers' spending appear to be strengthening. The **consumer credit** figures for May show that net lending by finance houses and other specialist credit grantors (excluding bank loans) rose by £118m, following increases of £194m, £196m, £54m and £150m, in

April, March, February, and January, respectively. Consumer credit therefore rose by £400m in the first quarter compared with an increase of £226m in the fourth quarter 1992 and *fall* of £11m in the third quarter. In addition, the total amount of outstanding consumer credit began to rise in March after falling since August 1991. In the first quarter of 1993, the balance of outstanding credit rose by £179m, after falling since the fourth quarter of 1991.

The **saving ratio** fell again in the first quarter of 1993. In the first quarter the ratio was 10.3%, a decrease of 1 percentage point on the 11.3% recorded in the fourth quarter of 1992. The savings ratio averaged 11.5% in 1992 compared to 9.5% in 1991, 8.3% in 1990, 6.6% in 1989 and 5.6% in 1988. The underlying increase in **average weekly earnings** in the year to May 1993 is provisionally estimated to have been 3.75%. This compares with a 4% increase in the year to April. **Real personal disposable income** fell by 0.6% in the first quarter 1993 to a level 1.1% higher than in the same period in 1992.

Other factors tending to depress the growth in consumers' spending include: higher **real interest rates**, due to lower price inflation, which raises the costs of servicing debts, and a relatively weak **housing market**. On the other hand, the latest **consumer confidence** survey, published by Gallup on 24th August, suggests that consumer confidence is rising again. Optimists who believe that the general economic situation will improve over the next 12 months outweighed pessimists by 6 percentage points, a balance which was 11 points higher than the response in July.

General government final consumption fell by 1% in the first quarter of 1993, after falling by 0.4% in the fourth quarter of 1992, falling by 2.4% in the third quarter of 1992, rising by 1.2% in the second quarter, and rising by 0.6% in the first quarter. Government consumption in the first quarter 1993 was 2.6% lower than in the corresponding quarter of 1992.

Real gross fixed investment rose in the first quarter 1993. Gross domestic fixed capital formation rose by 0.8% after rising, on revised figures, by 0.8% in the fourth quarter 1992, rising by 0.4% in the third quarter, falling by 1% in the second quarter 1992 and rising by 0.7% in the first quarter. Investment in vehicles, ships and aircraft rose by 20.3% in the first quarter 1993, and investment in dwellings rose by 2.5%, which were

more than sufficient to offset falls in investment in plant and machinery of 0.7%, and in other new buildings and works of 2.1%. Over the year to the first quarter, vehicles etc. investment rose by 13.5%, plant and machinery rose by 1.7%, dwellings rose by 0.2%, and other new buildings etc fell by 1.1%. Overall, real investment was 1.4% higher in the first quarter than in the same period in 1992. Latest figures for real investment in the second quarter suggest that this aggregate fell by 0.7% compared with the first quarter but rose by 1.6% over the same period a year ago.

Turning to the **balance of payments**, the deficit on **current account** for the first quarter 1993 was, after seasonal adjustment, £4.01bn, compared with £3.88bn in the fourth quarter 1992. For 1992, the current account deficit has now been revised down considerably from £11.5bn to £8.6bn, compared with £7.7bn in 1991, £18.3bn in 1990 and £22.5bn in 1989. On **visible trade**, the first quarter deficit rose to £4.50bn from £4.35bn in the fourth quarter 1992. The surplus on the oil account fell from £387m in the fourth quarter to £300m in the first quarter of this year. Following the completion of the Single European Market at the end of 1992, customs declarations - the former source of trade statistics - are no longer required. A new system (INTRASTAT) has been developed, to be used in all EC countries, to provide intra-EC statistics. Because this is a new system, the first quarter intra-EC visible trade data are not very robust and are likely to be subject to greater revision than previously until the system beds down.

THE LABOUR MARKET

Employment and Unemployment

After falling for five months, the level of UK seasonally adjusted claimant unemployment increased slightly in July to a figure of 2,912,200. This is 27,700 lower than in April, 80,100 lower than the unemployment peak in January but still 153,900 higher than the figure for 12 months ago. The present level of unemployment represents an overall rate of 10.4%, with the separate male and female rates of 14.0% and 5.6% respectively. The fall in unemployment at the beginning of the year was unexpected, and in the past quarter the recovery in the labour market appears very fragile. However, the level of unfilled vacancies continues to increase. The July seasonally adjusted figure is 127,600, which is 4,100 (3.3%) higher than in April and 8,600 (7.2%) higher than in July 1992.

Data for employment lag behind those for unemployment, and the most up to date employment figures are for March 1993, when the seasonally adjusted UK workforce in employment totalled 24,882,000. Whilst by this time unemployment was falling, the employment figure had not yet begun to increase. Employment in March was 61,000 (0.2%) lower than in December 1992, 744,000 (2.9) below the March 1992 figure and 2,055,000 (7.6%) below the employment peak in June 1990. Whilst there had been some indication of an employment recovery in services in the quarter to December 1992, this was not maintained in the first quarter of 1993 where service employment showed a slight fall. On the other hand, UK manufacturing employment, which had shown large declines in the previous two quarters, recorded a slight increase of 11,000 (0.3%) in the quarter to March. This increase is continued in the British manufacturing employment figures where there is an increase of 10,000 (0.2%) in the quarter to June.

Earnings and Productivity

In June 1993, the annual rate of increase in British average weekly earnings continued the downward trend which has run virtually uninterrupted since July 1990. The seasonally adjusted actual increase for the whole economy stood at 3.4%, with an underlying increase of 3.5%. The underlying increase at March 1993 was 4% and at June 1992, 6.25%. The decline in wage inflation continues to be more marked in services than manufacturing. For services, the June underlying annual wage inflation level was 2.75%, down a whole percentage point from the figure for March 1993. However, for manufacturing, the underlying increase in earnings for both the year to March and the year to June 1993 was 5%.

Seasonally adjusted whole economy productivity levels increased by 0.8% in the first quarter of 1993, and were 4.0% higher than in the first quarter of 1992. Manufacturing productivity has shown an even stronger and more persistent rise, with an increase in output per employee of 2.8% in the quarter to May 1993, and an increase over the year of 10.5%. When the productivity results are combined with the wage inflation figures they show whole economy unit labour costs falling in the second and third quarters of 1992. Figures for the fourth quarter 1992 and the first quarter 1993 show very small increases of 0.4% and 0.3% respectively. Unit labour costs in the first quarter 1993 were 1.0% lower than in the first quarter of 1992. In

manufacturing, the improvement is even more marked. Apart from March 1993, unit labour costs have fallen in each month since October 1992, and the May 1993 figure is 3.6% lower than February 1993 and 5.3% lower than May 1992.

PROGNOSIS

The principal concern in the coming months is whether the rate of growth achieved in the first two quarters of the year can be sustained in the final two quarters of the year. With a recorded growth rate of 0.4% and 0.5% in the first two quarters respectively, the outturn for the year should be in the region of 1.5% for 1993 over 1992 if the performance in the first half of the year is sustained. Whether this performance will be sustained depends principally on the behaviour of consumer demand and external trade.

Retail sales, which account for 40% of consumption, fell back slightly in July after the increase in June. However, given June's better performance, the rate of growth in the latest three months on the previous three months was 0.7% compared with the 0.5% recorded between the first and second quarters. During August, anecdotal evidence suggests that car sales were doing better than anticipated and the latest survey of consumer confidence suggests a marked improvement over July. On the trade front, the boost to exports provided by devaluation following 'black' Wednesday and the decline in unit labour costs should continue to provide an external stimulus to the economy. However, the fall in sterling has been partially reversed in recent months and continuing concern about the short-term prospects of the Japanese, US and European economies, particularly Germany, suggests that manufacturing exports and growth may fail to match their performance in the first half of the year. Nevertheless, on current indications we would be surprised if the growth rate in 1993 fell much below 1.5% and there is a good chance that it could be somewhat higher.