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# Recent Economic Developments in the United Kingdom: October 1964-January 1965

21 pages

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## Summary

Contrary to expectations at the end of October, the external position of sterling deteriorated rapidly during November and culminated in unprecedented attacks upon the pound.[1/] These attacks continued in the face of a rise in Bank rate from 5 to 7 per cent on November 23 and were held at bay only by means of a $3.0 billion package of emergency credits granted the Bank of England by central banks in Western Europe and in North America. Only on January 18, after the December trade returns showed an appreciable pick-up in exports, did the position of the pound in the foreign exchange market take a distinct turn for the better.

Two factors appear to be mainly responsible for this deterioration: (1) the continuance of unsustainably large trade deficits; and (2) a crisis of confidence. Trade returns released in mid-November and mid-December showed heavy imports and stagnant exports--continuing the trends evident over the first nine months of 1964.

Several factors contributed to the development of the crisis of confidence. Unexpectedly strong protests against Britain's temporary 15 per cent surcharges expressed in various international bodies by her European and North American trading partners made it clear that the surcharges would have to be withdrawn soon. But adverse monthly trade

1/ For a review of earlier developments, see "Recent Economic Developments in the United Kingdom, July-October, 1964" dated November 11, 1964.

returns in mid-November and mid-December, together with the lack of sharp focus of the series of government measures taken during November and December on the payments difficulties, helped to set off the unprecedented selling of sterling.

On balance, these measures did not promise to bring about either a rapid improvement in Britain's exports or a cutback in domestic demand sufficient to encourage British producers to widely seek export markets. The measures are outlined in the "Chronology of British Government Measures, October-December 1964" found in the Appendix on pages 20-21.

One of these measures was a rise in Bank rate from 5 per cent to 7 per cent. However, pressures on the pound did not cease after this step was taken, as they had in September 1957 and in July 1961. This may be attributed, in part, to the fact that the Bank did not change discount rate at its usual weekly meeting on Thursday, November 19, but announced it on Monday (November 23) as an emergency action after heavy pressures on the pound occurred on Thursday and Friday.

A renewed run on the pound after the Bank rate action prompted the principal central banks to make available to the Bank of England on November 25 a $3 billion support package. This was in addition to a $1 billion I.M.F. credit granted under Britain's stand-by agreement with that institution.

These measures brought only temporary relief. The financial press reported further periods of selling pressure on the pound, both spot and forward, on occasion in December and again in January. After January 18, when the December trade figures proved to be more favorable, the tone of the foreign exchange market improved.

Civil Service and in public service industries, have also made the government's task more difficult. Contract awards in these cases (based on special situations) averaged from 9-1/2 to 13 per cent for the coming year. In private industry, the awards have not been so generous, averaging in the neighborhood of 4 to 5 per cent per year over the next three years.

Fourth-quarter improvement in economic activity

The latest domestic economic indicators available at this writing refer to business conditions prior to the emergency measures taken in November and December. The higher Bank rate, the selective credit squeeze, the import surcharges and the export rebates, combined with April tax measures, are bound to have continuing effects on business developments during the early part of 1965 in Britain.

Prior to these measures, the economic indicators becoming available for the third and early months of the fourth quarters indicated a modest advance in the level of economic activity--the first indication of any pick-up (outside the capital goods sector) since early 1964. In October, the seasonally-adjusted index of industrial production moved up two points from 127 to 129--the first rise in 1964--and another two points in November to 131. (See Table 1.) In October and November, the seasonally-adjusted export volume index showed a small, but sustained, advance, reversing the downward trend of the first three quarters. Finally, in October and November, the seasonally-adjusted volume index of retail trade advanced a notch above the level for the first nine months of the year.

Table 1. United Kingdom: Selected Economic Indicators, 1964
(monthly average or monthly)

| | I Qtr. | II Qtr. | III Qtr. | Aug. | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|---|---|---|---|
| Index of industrial production | 127 | 127 | 127 | 127 | 127 | 129 | 131 | n.a. |
| Volume index of retail trade | 106 | 105 | 106 | 106 | 107 | 109 | 108 | n.a. |
| Export volume index | 111 | 109 | 108 | 114 | 107 | 108 | 111 | n.a. |
| Import volume index | 117 | 120 | 120 | 125 | 123 | 117 | 122 | n.a. |
| Business expenditures on fixed capital a/ (£ m.) | 510 | 525 | 534 | -- | -- | -- | -- | -- |
| Inventory investment in manufacturing a/ (£ m.) | 94 | 120 | 47 | -- | -- | -- | -- | -- |
| Unemployment rate (per cent) | 2.1 | 1.5 | 1.5 | 1.6 | 1.5 | 1.5 | 1.5 | 1.5 |

a/ Quarterly data.
Note: All series seasonally adjusted except unemployment rate.

Despite these minor changes, the underlying picture remained unchanged--the United Kingdom economy remained close to a full employment ceiling. Through December the unadjusted rate of unemployment continued at 1.5 per cent of the work force--the plateau reached in the second quarter. In addition, through November the seasonally adjusted volume of imports maintained its brisk pace. (See Table 1.) Finally, the F.B.I. four-monthly survey of plant utilization, published in October, showed that 58 per cent of the respondents were operating at full capacity as compared to 56 per cent in the June survey. This is the sixth consecutive increase in this percentage, beginning with February 1963.

Through the third quarter of 1964, seasonally-adjusted business expenditures on plant, equipment and inventories continued to be a major expansionary force. However, the rate of increase in spending slowed down in the third quarter: expenditures on plant and equipment were up £20 million in the first quarter, £15 million in the second and only £9 million in the third. Inventory investment (increase in the value of goods on hand and work in progress) fell to £47 million in the third quarter as opposed to £94 million in the first and £120 million in the second. (See Table 1.)

Labor markets remain tight

Labor shortages were still very much in evidence during the final quarter of 1964. In particular, the rate of unemployment remained static at 1.5 per cent of the work force and there was slightly more than one unemployed for each job vacancy. (See Table 2.) There were minor increases in the level of unemployed and decreases in the level of vacancies, but they were less than the usual seasonal pattern. Hence, they do not suggest any relaxation in the strong demand for labor that has been prevalent since the early part of 1964.

Table 2. United Kingdom: Labor Market Indicators, 1964

| | Monthly average | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | I. Qtr. | II Qtr. | III Qtr. | IV Qtr. | Sept. | Oct. | Nov. | Dec. |
| Total unemployed (thous.) | 465 | 367 | 342 | 348 | 341 | 348 | 350 | 348 |
| Seasonally adjusted change (excludes school leavers) | -19 | -7 | -2 | -7 | -11 | -9 | -13 | -0.3 |
| Employment vacancies (thous.) | 258 | 334 | 360 | 318 | 334 | 324 | 319 | 311 |
| Seasonally adjusted change | +29 | +5 | -4 | +4 | +2 | +7 | +8 | -2 |
| Ratio of unemployed to vacancies | 1.69 | 1.08 | 0.95 | 1.07 | 1.02 | 1.06 | 1.10 | 1.12 |
| Unemployment rate (per cent) | 2.1 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |

Prices and wages continue to rise

The continued advance of basic price indices through November is further evidence of inflationary pressures within the British economy. Average price increases in 1964 at the wholesale and retail level were in the neighborhood of 3 per cent. (See Table 3.) For some indices--weekly wage rates, wholesale prices of industrial goods and retail prices--this is a somewhat larger increase than that recorded in 1963. On the other hand, the advance in export prices slowed down, but the volume of exports dipped slightly during the year.

Table 3. United Kingdom: Basic Price Indices, 1963-1964

| | 1963 | | | 1964 | | | |
|---|---|---|---|---|---|---|---|
| | | Percentage change | | | | Percentage change | |
| | Jan. | Jan.-June | June-Nov. | Jan. | Nov. | Jan.-June | June-Nov. |
| Wage rates | | | | | | | |
| (weekly average) | 132 | +1.4 | +1.2 | 138 | 142 | +1.4 | +1.6 |
| Wholesale prices | | | | | | | |
| mfr. goods | 119 | +0.1 | +1.2 | 122 | 126 | +2.1 | +1.0 |
| basic materials | 102 | -2.8 | +6.6 | 107 | 108 | -1.4 | +2.2 |
| Retail prices | 103 | +1.2 | +0.1 | 105 | 109 | +2.6 | +1.3 |
| Export prices | 102 | +1.9 | +2.9 | 105 | 107 | +0.6 | +0.7 |
| Import prices | 101 | +2.9 | +1.9 | 107 | 107 | -0.7 | +0.7 |

Borrowing by the private sector remained strong in the fourth quarter

The rate of advance of new borrowing by the private sector was maintained during the fourth quarter. Seasonally adjusted bank advances increased at a quarterly rate of £190 million in the three months ending in December, a rate about equal to that for the third quarter and nearly twice that in the first two quarters of the year. (See Table 4.) Instalment credit granted by finance houses and department stores continued to fluctuate around a rising trend. New credit extensions for October and November nearly totaled the entire amount granted in the third quarter.

However, new issues by British corporations, which had been dropping steadily throughout the year, fell off in the fourth quarter by £55 million to a rate of £71 million. Some of this decrease might be due to uncertainty arising from considerations of how long the 7 per cent Bank rate would remain in effect and about the impact of the new capital gains and corporate income taxes.

Table 4. New Borrowing by the Private Sector, 1964
(millions of pounds)

| | I Qtr. | II Qtr. | III Qtr. | IV Qtr. | Total outstanding December 31, 1964 |
|---|---|---|---|---|---|
| Bank advances (seasonally adjusted) | 80 | 95 | 195 | 190 | 4,565 |
| Instalment credit (finance houses and department stores) | 31 | 57 | 41 | a/37 | b/1,107 |
| New issues of U.K. corporations | 175 | 137 | 126 | 71 | -- |

a/ October and November.
b/ End November 1964.

To bring the credit expansion under control, the Bank of England, on December 8, instructed the clearing banks to pursue a collective credit squeeze. Loans for personal consumption and property development were to be restricted, while those for exports and industrial development were to be encouraged.

## Conditions in the money market tighten

During November, as the run on sterling accelerated, the withdrawal of funds from London brought about tight conditions in the money market and rates were generally pushed above mid-October levels. The increase in Bank rate from 5 per cent to 7 per cent on November 23, pushed rates up another two percentage points. Stringencies persisted through December as more funds were withdrawn--some for year-end window dressing--and rates for the most part rose even further. Although there was some differential easing of rates in early January, there was no relaxation of the tighter conditions imposed by the sterling crisis. (See Table 5.)

Table 5. United Kingdom: Selected Money Market Rates
October 1964-January 1965
(per cent)

| | 1964 | | | | | | 1965 |
|---|---|---|---|---|---|---|---|
| | Oct. | November | | December | | | Jan. |
| | 16 | 20 | 27 | 11 | 24 | 31 | 8 |
| Call money a/ | 4.50 | 4.50 | 6.25 | 6.38 | 5.38 | 5.38 | 6.38 |
| Local authority deposit rates | | | | | | | |
| 2-day a/ | 4.88 | 5.00 | 7.62 | 7.38 | 7.50 | b/7.44 | 7.00 |
| 90-day a/ | 5.21 | 5.37 | 7.31 | 7.50 | 7.68 | b/7.56 | 7.18 |
| Treasury bill | | | | | | | |
| 90-day (market yield) | 4.65 | 4.68 | 6.49 | 6.49 | 6.49 | 6.49 | 6.53 |
| Euro-dollar deposits | | | | | | | |
| Call | 3.75 | 3.81 | n.q. | 3.75 | 3.88 | 3.75 | 3.88 |
| 90-day | 4.50 | 4.50 | 5.00 | 4.68 | 4.75 | 4.56 | 4.50 |

a/ Median of a range of rates published in the Financial Times.
b/ January 1, 1965.
n.q. No quotation.

Rate movements are but one indication of the impact of the sterling crisis on British financial markets. Throughout December, the Bank of England was almost constantly coming to the aid of the discount houses with large amounts of assistance, and by doing so effectively pegged the Treasury bill rate. However, there was no borrowing at Bank rate until December 29, when it occurred for the first time since June 30.

In addition, local authorities were hard hit and several suspended, for the time being, the granting of any new home loans. Not until January 7 did at least one of them withdraw this suspension.

These tight conditions forced local authorities to borrow at an increasing rate, from the Public Works Loan Board. These borrowings which had been running at a monthly rate of £18 million between April and November jumped to about £63 million in December. During the first two weeks of January new borrowing equaled about £22 million, bringing the total since the April budget to £203 million--£3 million more than was anticipated for the entire 1964/65 fiscal year, which ends March 31.

Effects of the 7 per cent Bank rate spread to various credit markets. In December, hire-purchase companies raised their rates on automobile and industrial loans by about one percentage point. In early January, one building society raised its home mortgage rates from 6 per cent to 6-1/2 per cent, and more recently the Council of Building Societies recommended to its members an increase to 6-3/4 per cent.

## Government bonds receive official support

During the first two weeks of December, government bond yields began to move up in response to the higher Bank rate, with the increase for short-dated bonds greater than for long-dated ones. On December 17, after the market had come under a heavy wave of selling, the Government Broker publicly announced official support of all listed government securities close to prevailing market prices. Since then, market yields have moved very little. The stock market suffered from a similar wave of selling in early December, but prices there have also been stable, in thin trading, since the December 17 announcement. (See Table 6.)

Table 6. United Kingdom: Selected Capital Market Yields
October 1964 - January 1965

| | 1964 | | | | | | 1965 |
|---|---|---|---|---|---|---|---|
| | Oct. 15 | Nov. 19 | Nov. 26 | Dec. 10 | Dec. 24 | Dec. 31 | Jan. 7 |
| Government bonds | | | | | | | |
| 5% - 1967 | 5.50 | 5.42 | 6.02 | 6.22 | 6.55 | 6.52 | 6.55 |
| 5% - 1971 | 5.64 | 5.72 | 6.02 | 6.18 | 6.47 | 6.48 | 6.44 |
| 5-1/2% - 1982-84 | 6.00 | 6.03 | 6.17 | 6.21 | 6.32 | 6.34 | 6.33 |
| 5-1/2% - 2008-12 | 6.15 | 6.12 | 6.27 | 6.35 | 6.40 | 6.40 | 6.40 |
| 2-1/2% consols | 6.07 | 6.03 | 6.21 | 6.24 | 6.32 | 6.33 | 6.25 |
| Stock market price index a/ | 364.9 | 341.4 | 348.1 | 335.0 | 328.3 | 335.0 | 335.9 |

a/ *Financial Times* 30 industrial stock index (1935=100)

It is difficult to sort out the myriad of factors that contributed to the wave of selling in December, but two factors appear to stand out: (1) Chancellor Callaghan's statement on the proposed capital gains tax on December 8 (which implied--but did not clearly state that gilt-edged securities would be subject to the tax); and (2) the adverse trade returns for November announced on December 16.

Balance of payments shows growing current and capital account deficit

During the third quarter, the current and long-term capital account was in deficit by £283 million--an increase of nearly £100 million over the second quarter and £140 million over the first. All of the increase was attributable to the growth in the current account deficit: the long-term capital outflow (net) remained around £100 million for each of the first three quarters of 1964. (See Table 7.)

The growth of the current account deficit was caused by a growing trade deficit and a decrease in the invisible balance surplus (from £70 million in the first quarter to only £4 million in the third).

Through the third quarter, these strains on Britain's reserve position were offset in large measure by a combination of positive balancing items and short-term capital inflows. Even so, the overall deficit (the current account plus long- and short-term capital flows net) was £144 million in the third quarter compared with £7 million in the second quarter and £85 million in the first. Special British official borrowings and increases in liabilities to the sterling area financed these deficits.

The fact that Britain's current and long-term capital account deficits were "financed" in large measure by short-term capital inflows

Table 7. United Kingdom: Balance of Payments, 1963 - 1964
(millions of pounds)

| | 1963 | | 1964 | | |
|---|---|---|---|---|---|
| | III Qtr. | IV Qtr. | I Qtr. | II Qtr. | III Qtr. |
| A. Current Account | | | | | |
| Imports | 1,077 | 1,150 | 1,244 | 1,255 | 1,217 |
| Exports and re-exports | 1,017 | 1,125 | 1,125 | 1,152 | 1,030 |
| Visible balance | -60 | -25 | -119 | -103 | -187 |
| Invisible balance | +18 | +18 | +70 | +36 | +4 |
| Current balance | -42 | -7 | -49 | -67 | -183 |
| B. Long-term capital | -31 | -51 | -93 | -120 | -100 |
| C. Current and long-term capital account | -73 | -58 | -142 | -187 | -283 |
| D. Short-term capital a/ | +39 | -37 | +57 | +180 | +139 |
| E. Overall balance | -34 | -95 | -85 | -7 | -144 |
| F. Net reserves | -10 | +85 | +34 | -65 | +136 |
| G. Sterling liabilities to sterling area | +44 | +10 | +51 | +72 | +8 |

a/ Includes balancing item.
Source: Board of Trade.

helps to explain why the November crisis was so intense and developed so rapidly. A breakdown of the short-term capital flows reveals that throughout the first three quarters of 1964 significant portions were invested in highly liquid money-market instruments--sterling liabilities to the Euro-dollar market and sterling assets. (See Table 8.)

Even with the private capital inflows, special central bank assistance was required in the third quarter. During that quarter some £59 million was received under "Basle aid" and £7 million under the swap arrangement with the Federal Reserve System. (See Table 9.)

December trade outturn shows substantial improvement

After six months of trade deficits in the neighborhood of £100 million, the trade figures for December (announced on January 18) showed a deficit of only £61 million. The improvement was divided almost equally between reduced imports and larger exports. It seems reasonable to believe that the impact of the import surcharge was modest, for imports in December were about equal to the 1964 monthly average. (See Table 10.)

Foreign exchange losses continued through December

Gold and foreign exchange losses totaled $226 million in the fourth quarter of 1964, bringing total official losses for the entire year to $607 million. (See Table 11.) However, the Treasury in making public the reserve losses for November and December revealed that they did not reflect the true reserve losses incurred during these two months.

Table 8. United Kingdom: Short-term Capital Flows, 1963-1964
(millions of pounds)

| | 1963 | | 1964 | | |
|---|---|---|---|---|---|
| | III Qtr. | IV Qtr. | I Qtr. | II Qtr. | III Qtr. |
| Miscellaneous capital | +2 | -13 | +11 | +38 | +6 |
| Net liabilities in foreign currencies | -11 | -2 | +35 | +55 | +36 |
| (U.S. dollars) | (-15) | (-19) | (+53) | (+72) | (+68) |
| (Other) | (+4) | (+17) | (-18) | (-17) | (-32) |
| Sterling liabilities to: | | | | | |
| (i) international organizations (excl. I.M.F.) | -4 | +18 | -2 | -3 | -3 |
| (ii) non-sterling countries (other than official) | +53 | +24 | -34 | +63 | +65 |
| Balancing item | -1 | -64 | +47 | +27 | +35 |
| Total short-term capital | +39 | -37 | +57 | +180 | +139 |

Source: Board of Trade.

Table 9. United Kingdom: Net Reserves, 1963 - 1964
(millions of pounds)

| | 1963 | | 1964 | | |
|---|---|---|---|---|---|
| | III Qtr. | IV Qtr. | I Qtr. | II Qtr. | III Qtr. |
| Gold and convertible currencies | - 8 | +28 | - 1 | -16 | +59 |
| I.M.F. position | + 2 | -- | -- | - 1 | + 1 |
| Liabilities to non-sterling area "official" | - 4 | +57 | +35 | -48 | a/+76 |
| Net reserves | -10 | +85 | +34 | -65 | +136 |

a/ Includes £59 million "Basle assistance" and £7 million under swap arrangement with the Federal Reserve.

Note: assets: increase (-) decrease (+)
liabilities: increase (+) decrease (-)

Source: Board of Trade.

Table 10. United Kingdom: Foreign Trade,* July-December 1964
(millions of pounds)

| | July | August | September | October | November | December |
|---|---|---|---|---|---|---|
| Imports (c.i.f.) | 430 | 479 | 471 | 455 | 474 | 455 |
| Exports (f.o.b.) | 331 | 370 | 346 | 351 | 357 | 381 |
| Re-exports (f.o.b.) | 13 | 14 | 14 | 12 | 14 | 13 |
| Balance | -86 | -95 | -111 | -92 | -103 | -61 |
| Trade balance a/ | -40 | -49 | -62 | -54 | -54 | n.a. |

a/ Estimated balance of payments trade position.
*Seasonally adjusted.
Source: Board of Trade.

Table 11. United Kingdom: Foreign Exchange and I.M.F. Position, October-December 1964
(millions of dollars)

| | October | November | December | Outstanding Dec. 31, 1964 | Change: Jan.-Dec. 1964 |
|---|---|---|---|---|---|
| Gold and foreign exchange | -87 | -109 | -28 | 2,315 | -358 |
| I.M.F. position | -- | -- | n.a. | a/2,439 | a/ 0 |

a/ November 30, 1964.

Source: Bank of England.

Sterling remains weak in foreign exchange markets

After the increase in Bank rate and the $3 billion support package of late November, spot sterling rose from its support level of 278.25 U.S. cents to a little more than 279.00 U.S. cents. For the most part it remained at this higher level through mid-January, although subject to continuous and at times quite heavy selling pressure. Over the same period, 3-month forward sterling remained at a sizeable discount--fluctuating between 2.61 and 2.72 per cent per annum. (See Table 12.)

The very wide forward discount has seriously impinged upon the movement of covered funds to London. For example, the covered differential of Treasury bills remained almost continually in favor of New York, sometimes by as much as 12 basis points. Although the covered differential between local authority and Euro-dollar deposits did swing in favor of London in late November, the maximum differential never exceeded 28 basis points. However, Euro-dollar deposits remained more attractive than New York time certificates of deposit, albeit by a steadily decreasing margin. (See Table 12.)

Table 12. United Kingdom: Exchange Rates and Arbitrage Calculations, October 1964 - January 1965

| | 1964 Oct. 16 | 1964 Nov. 20 | 1964 Nov. 27 | 1964 Dec. 11 | 1964 Dec. 24 | 1964 Dec. 31 | 1965 Jan. 8 |
|---|---|---|---|---|---|---|---|
| **Exchange rates** | | | | | | | |
| Spot (U.S. cents) | 278.29 | 278.27 | 279.13 | 279.04 | 279.04 | 279.01 | 278.97 |
| 3-mo. fwd. (per cent per annum) | -0.96 | -1.00 | -2.65 | -2.68 | -2.69 | -2.72 | -2.61 |
| **3-month yield and yield spreads (per cent per annum)** | | | | | | | |
| Treasury bills | | | | | | | |
| U.K. (covered) a/ | 3.63 | 3.62 | 3.76 | 3.73 | 3.72 | 3.69 | 3.83 |
| U.S. | 3.56 | 3.59 | 3.79 | 3.80 | 3.84 | 3.80 | 3.77 |
| Differential | +0.07 | +0.03 | -0.03 | -0.07 | -0.12 | -0.11 | +0.06 |
| **Euro-$ - local authority** | | | | | | | |
| Local authority (covered) | 4.25 | 4.37 | 4.28 | 4.82 | 4.99 | 4.84 | 4.57 |
| Euro-$ | 4.50 | 4.50 | 5.00 | 4.68 | 4.75 | 4.56 | 4.50 |
| Differential | -0.25 | -0.13 | -0.72 | +0.14 | +0.24 | +0.28 | +0.07 |
| **Euro-$ -- N.Y. C/D b/** | | | | | | | |
| N.Y. C/D c/ | 3.94 | 3.95 | 4.12 | 4.12 | 4.14 | 4.14 | 4.14 |
| Euro-$ | 4.50 | 4.50 | 4.88 | 4.75 | 4.62 | 4.56 | 4.50 |
| Differential | 0.56 | 0.55 | 0.76 | 0.63 | 0.48 | 0.42 | 0.36 |

a/ Adjusted to a U.S. basis.
b/ Previous Wednesday.
c/ Secondary offering rates for negotiable certificates of time deposit in New York.

## APPENDIX

### Chronology of U.K. Government Measures, October 1964-January 1965

October 27

(1) Import surcharges, 15 per cent, wide range of manufactures. Effects, full fiscal year: Revenue, £170-200 million. Cut in imports, £300 million.

(2) Tax rebates on value of export sales, about 1-1/2 per cent. Cost, full fiscal year, £80 million.

November 11 (special autumn budget)

Effective November 12, 1964:

Domestic duty on oil and gasoline up 7 cents a gallon. Cost, full fiscal year: £93 million.

Effective April 1965:

(1) Personal income tax up 6d. on the pound.

(2) Corporate income tax--new tax to replace present income and profits taxes. Change in rate to depend on situation in 1965.

(3) Capital gains tax--rate and coverage not known.

(4) Increase in social welfare payments totaling some £500 million, financed in large measure by national insurance tax increases.

November 18

Trade figures for October show deficit of £92 million (exports, £363 million; imports, £455 million).

November 23

Bank of England discount rate up from 5 to 7 per cent.

November 25

Three billion dollars of financial assistance from 11 central banks, the B.I.S. and the Export-Import Bank.

December 2

One billion dollars drawing from the I.M.F.

December 8

(1) Bank of England announced selective credit squeeze.

(2) Chancellor gave explanatory statements on new corporation and capital gains taxes:

(a) corporation tax; single tax on corporate income to replace current income and profits taxes.

(b) capital gains tax: to cover gains on all assets (with minor exceptions) both tangible and intangible.

December 16

(1) Representatives of government labor, and management sign the "Declaration of Intent."

(2) Trade figures for November show deficit of £103 million (exports £371 million, imports £474 million).

December 17

Government Broker announces support prices for government bonds quoted on London Stock Exchange.

December 18

Government announces postponement of its year-end payments on North American loans ($175 million).

January 18

Trade figures for December show deficit of £61 million (exports £394 million, imports £455 million).

January 19

Government announces details of export subsidy plan.