L. 5. 2 RFD 603

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

January 13, 1967

Martin J. Kohn

22 pages

Recent Economic Developments in the United Kingdom: July-December 1966

January 13, 1967 Martin J. Kohn

Recent Economic Developments in the United Kingdom: July-December 1966

An improvement in sterling's international position and the onset of a domestic business recession have been the dominant economic developments in the United Kingdom in the past three and a half months. Both developments stem from the series of stern restrictive measures taken by the British government during the third quarter to overcome a major speculative attack on the pound and, for the longer-run, to achieve a more stable basis for export expansion and sustained domestic growth. The severity of the program was highlighted by the imposition in July of a wage-price freeze to last until July 1, 1967, and to continue in modified form for at least another six months.[1/]

Most of the elements in the deflationary program, including the wage-price freeze, were announced in July, but the sterling crisis was not relieved until mid-September. The turning point came in mid-September with the announcement that foreign central banks had expanded their financing commitments in support of the pound. The growing conviction that the government was determined to carry out its drastic program, together with international support to finance the transitional strains, calmed fears that the pound was teetering on the brink of devaluation. Confidence strengthened, the pound staged a strong rally;

1/ A detailed discussion of the measures adopted in July and of the crisis which caused their adoption appears in "Recent Economic Developments in the United Kingdom: April-July 1966," dated August 11, 1966.

the spot price of sterling rose above $2.79 where it remained for the balance of 1966 except for brief periods of weakness associated with Rhodesian developments and year-end window dressing activities by foreign holders of sterling.

In mid-September, conditions also improved in the bond market, and gilt-edged yields, which were far above 7 per cent in early September, are now generally well below that level.

The improved conditions in financial markets were closely associated with evidence of improvement in the U.K.'s external position. Official reserves rose steadily from the end of August to the end of November, bringing to an end the previous six-month period of heavy losses. They fell again in December but would have registered a substantial gain but for repayment of central bank assistance and resumption, after a three-year lapse, of payments on U.S. and Canadian loans. The renewal of the loan payments, like the cancellation of the $250 million line of credit with the Export-Import Bank earlier in the fall, was itself a mark of Britain's growing confidence about her balance of payments situation.

The trade accounts also showed improvement. Measured on a balance of payments basis, the trade balance shifted from a June deficit of £ 55 million into a £ 29 million surplus in October, the first monthly surplus since December 1965. A much larger surplus--£ 78 million--was recorded in November. (See Table 1.)

Table 1. United Kingdom: Selected Economic Indicators 1965-1966

	Trade Balance a/				Financial Indicators		Physical Indicators		
	Exports	Imports	Difference	Balance of Trade b/	Yield on 3-1/2% War Loan c/	Changes in Bank Loans d/	Industrial Production e/	Investment in Manufacturing f/	Unemployment g/
Quarterly									
1965 - I	396	458	-62	-14	6.53	-12	132	303	306
II	394	485	-91	-40	6.80	4	131	281	304
III	414	489	-75	-25	6.33	18	131	296	321
IV	426	490	-64	-11	6.61	8	132	296	305
1966 - I	429	505	-76	-24	6.75	23	133	300	284
II	410	496	-86	-35	7.00	23	133	287	282
III	441	514	-73	-23	7.13	-33	133	n.a.	322
IV	458	475	-17	27	6.82	-22	n.a.	n.a.	417
Monthly									
1966 - July	423	528	-105	-50	7.16	45	134	n.a.	305
August	457	524	-67	-17	7.29	-55	135	n.a.	318
Sept.	444	491	-47	- 1	7.13	-90	132	n.a.	344
Oct.	460	480	-20	29	6.87	-35	131	n.a.	377
Nov.	475	437	38	78	6.92	5	n.a.	n.a.	424
Dec.	439	507	-68	-24	6.82	-35	n.a.	n.a.	449

a/ Monthly average. £ millions.
b/ Balance of payments basis.
c/ Last Thursday before end of period.
d/ Monthly average. £ millions. Seasonally adjusted.
e/ 1958 = 100. Seasonally adjusted.
f/ Monthly average. £ millions. 1958 prices. Seasonally adjusted.
g/ Wholly unemployed, excluding school leavers, for Great Britain only--that is, excludes Northern Ireland. Thousands. Seasonally adjusted.

The reappearance of a deficit in the December trade figures struck a sobering note, however, with imports up and exports down. The rise in imports was not surprising since the sharp decline in September-November clearly reflected anticipation of the November 30 removal of the 10 per cent surcharge levied on many imports. The drop in exports is less explicable, though it has been suggested that the bulge this fall may have in part consisted of deliveries delayed by the seamen's strike last spring.

Despite the December deficit, there are grounds for cautious optimism about the trade outlook, at least if the present growth in world demand is maintained. Exports should also be stimulated in the short-run by liberalization of export rebate provisions (rebates are to be raised by £ 5.6 million a year from the current yearly total of £ 94 million, according to an announcement December 1) and by the domestic recession itself.

The surge in imports, furthermore, should be a short-run phenomenon. The recession psychology now emerging in Britain is likely to be accompanied by some deferral of purchases and a running down of inventories as private investment demand declines and business activity slows. In fact, over the last three or four months, national income in the U.K. may have actually been falling in real terms, and imports are closely related to swings in aggregate income.

Primarily because of the apparently improved outlook for the trade balance, leading forecasters, both within and outside the government, expect balance of payments surplus next year for Britain.

The deflationary measures taken to rescue the pound have already induced a downturn in economic activity greater, perhaps, than many British officials had expected. Virtually all current indicators point toward a period of recession. Unemployment, on the rise since June, rose very sharply from September through December. The unemployment rate of 2.4 per cent in December was the highest since May 1963. The number of jobless in December reached 564,000 or over 230,000 more than in December 1965.

Industrial production, seasonally adjusted, which had risen in both July and August, fell 3 per cent from August to October.

Retail sales have declined only slightly since July but automobile sales--not considered part of retail trade in U.K. accounts--are off sharply, reflecting the increased stringency of installment buying regulations and also the tendency of consumers to postpone major purchases in present circumstances. Car registrations in September-November were 23 per cent below the total for the same three months in 1965.

On the financial side, both the volume of loans extended by the clearing banks and the amount of installment credit outstanding have declined markedly since July.

The emergence of a recession has led the government to take steps to promote private investment and to encourage use of available credits for export financing.

For example, on November 1 the Bank of England pointed out that bank credit outstanding was below the permissible level and urged that loans be made for capital investment, to aid exports, and to help workers moving to new locations obtain housing.

On December 1, the government took direct action to revive domestic investment by raising the proportion of direct grants for investment projects eligible for grants by five percentage points--from 40 to 45 per cent in the so-called development areas and from 20 to 25 per cent elsewhere. The new rates are expected to raise the current £ 250 million annual rate of grants--put into effect this year--by £ 60 million. The higher scale will remain in effect through 1968.

Even though the government has repeatedly indicated that it does not want its deflationary program to produce a sharp fall in capital investment, recent surveys of investment intentions indicate that this goal may be in jeopardy. According to a Board of Trade Survey conducted in September, investment in manufacturing, due to fall 4 per cent in 1966, will decline another 8 per cent in 1967. Another survey taken at the end of September by the Confederation of British Industry indicates that firms planning to spend less on capital investment in the succeeding than in the preceding 12 months outnumbered those planning to spend more by over two to one. In June, by contrast, the two groups were roughly equal.

The extent of the cutbacks in investment plans, coupled with the apparently unexpected speed of the downturn for the economy as a whole, unquestionably impelled the December 1 action on grants.

On the other hand, fears of short-term capital outflows prompted the Bank of England to require the discount houses to borrow at the penalty Bank Rate during most of November in order to resist market pressures for lower short-term rates. In the final week of November, however, the Bank resumed lending at market rates, the bill rate having risen from 6.44 per cent on October 28 to 6.69 per cent on November 25. Furthermore, during the remainder of the year the bill rate fell steadily, returning on December 30 to the same 6.44 per cent rate recorded on October 28. The fact that interest rates in the United States were moving downward during most of the period between mid-November and the end of the year helps explain the Bank's permissive reaction to the drop in the U.K. Treasury bill rate during the last five weeks of 1966. The rate on three-month U.S. Treasury bills fell almost 50 basis points between November 25 and December 30.

Unemployment rises sharply

The current squeeze has been marked by a sharp rise in unemployment. The number of people out of work rose above 500,000 in November for the first time since May 1963. The jobless total increased again in December, reaching 564,000. (See Table 2 and Chart 1.)

Seventeen per cent of total unemployment in the fourth quarter was accounted for by those in the "temporarily stopped" category, compared to less than 3 per cent in the final three months of 1965. Strikes have been a major factor in the great increase in the temporarily unemployed, the automobile industry having been particularly hard hit by work stoppages. However, the rash of

CHART 1

UNITED KINGDOM: MAIN ECONOMIC INDICATORS

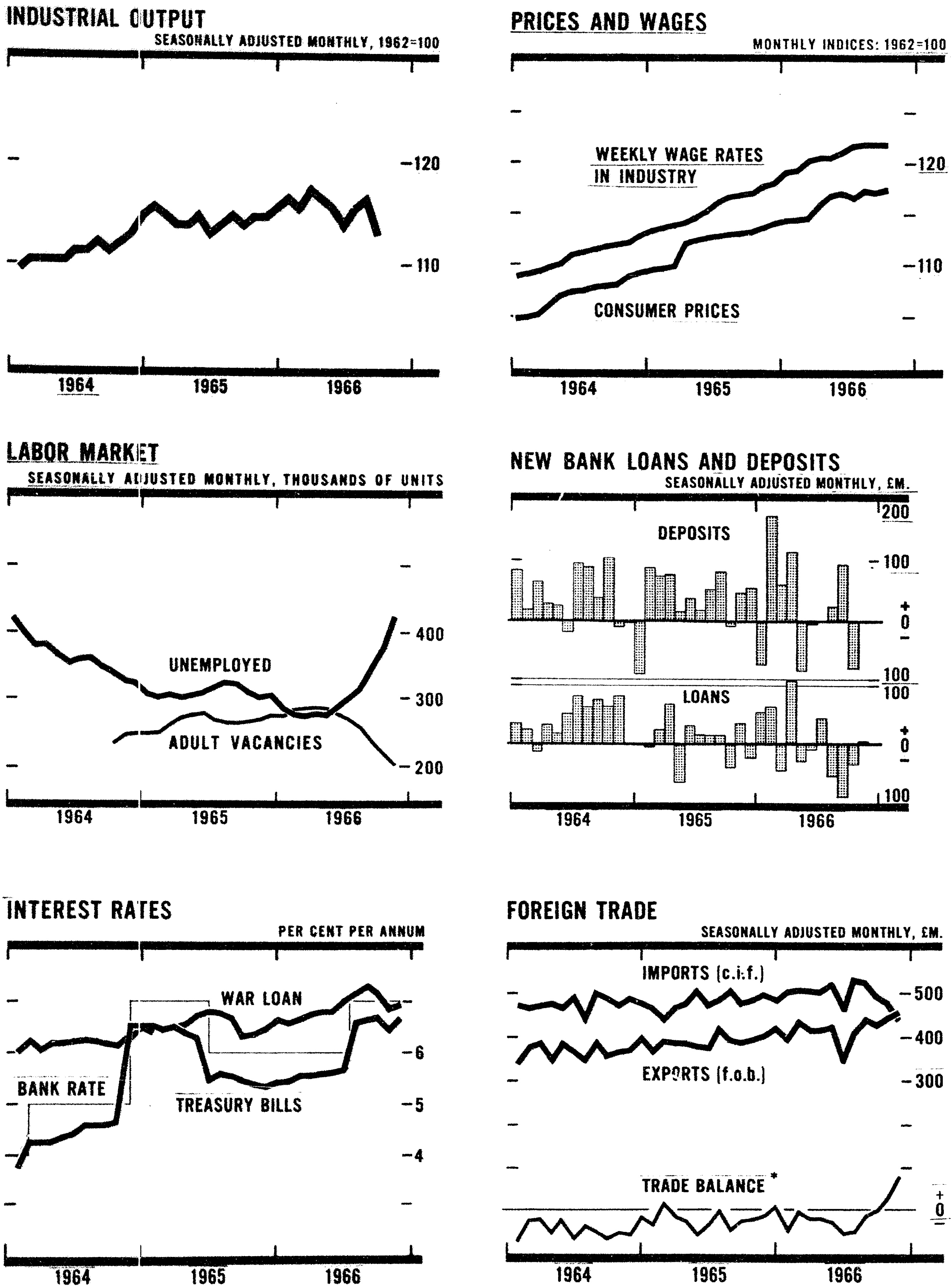

Table 2. United Kingdom: Labor Market Indicators 1965-1966
(monthly or monthly averages)a/

	Total Un-employed b/	Wholly Un-employed	Partly Un-employed	Unemploy-ment as % of Labor Force
Annual 1965	329	317	12	1.4
Quarterly				
1966 - I	334	324	10	1.4
II	283	275	8	1.2
III	307	297	10	1.3
IV	514	427	87	2.2
Monthly				
1966 - July	264	258	6	1.1
August	317	310	7	1.4
Sept.	340	324	16	1.5
Oct.	436	375	61	1.9
Nov.	543	439	104	2.3
Dec.	564	467	97	2.4

a/ Unemployed data in thousands. Covers Great Britain only--that is, the United Kingdom exclusive of Northern Ireland. Not seasonally adjusted.
b/ Includes "school leavers" and "temporarily stopped" categories.

strikes itself reflects the squeeze: management has been less concerned about preventing walkouts than it has been in earlier periods of buoyancy and, in some cases, has accepted the strikes as a part of the longer-run process of eliminating unwanted workers.

Though less startling than the percentage increases in the temporarily stopped category, the jump in the number of those classified as wholly unemployed also provides evidence of the impact of the restrictive program on the labor market. The wholly unemployed numbered about 40 per cent more in the fourth quarter 1966 than in the fourth quarter 1965.

The rise in the number of persons out of work has prompted some union officials to urge shorter workweeks to spread the work rather than outright dismissals. The government is resisting such pressure, however, since work-spreading schemes would frustrate the government's goal of using the squeeze to improve productivity and to redeploy labor into export industries.

Industrial production falls

The reduced demand for labor has accompanied a marked fall in industrial production. Factory output flattened out in 1966 up to August and then dropped sharply. (See Table 1 and Chart 1.) For the fourth quarter, direct reports from various sectors of industry and the continuing rise in unemployment suggest that the index declined further. For example, steel production has steadily fallen since the squeeze was initiated; on a year-to-year basis, output this autumn has been far below the year-earlier level.

Wage and price freeze is being strictly enforced

There was a general stabilization of British domestic prices during the latter part of 1966, an indication that the wage-price freeze was off to an effective start. On the wage side, wage rates in October were at about the July level and earnings in September below July. (See Table 3.) On the price side, the rapid rise in retail prices during the first half of 1966 slowed down rapidly after August and the index of manufacturing prices actually flattened out. (See Table 3.)

Table 3. United Kingdom: Wage and Price Indices
1963-1966

	Labor Mkt. Indicators		Price Indices			
	Weekly Wage Rates Jan. 31, 1956 = 100	Weekly Earnings 1963 = 100	Retail Prices January 1962 = 100	All Manu-facturing 1954 = 100	Export Price 1961 = 100	Import Price 1961 = 100
End of period:						
1963	137.6	102.6	104.2	121.0	108*	107*
1964	142.9	105.9	109.2	126.5	107	107
1965 - I	144.4	112.8	109.9	127.9	108	107
II	146.3	114.9	112.7	129.9	108	107
III	148.0	114.8	113.0	130.5	109	107
IV	149.6	114.1	114.1	130.9	110	107
1966 - I	152.6	118.5	114.6	132.3	112	109
II	153.6	121.5	117.1	133.0	113	110
III	154.6	120.9	117.1	134.0	113	109
Monthly						
1966 - July	154.5	121.9	116.6	133.8	113	109
August	154.6	119.6	117.3	134.1	113	109
Sept.	154.6	120.9	117.1	134.0	113	109
October	154.6	n. a.	117.4	134.0	113	108
Nov.	n. a.	n. a.	118.1	134.0	n. a.	n. a.

* Average for year.

Since July, retail prices have moved up and down erratically. In November the retail price index was 3.3 per cent higher than in January and 1.3 per cent higher than in July, when the freeze began. However, the rise since July should not be interpreted as a break in the price freeze because British firms have been allowed to pass on to their customers the excise taxes imposed in July and the selective employment tax which went into operation in September.

The freeze has in fact been successfully enforced thus far. In early October, the government took steps to activate in law the stand-by enforcement powers, granted in August, and immediately used them to compel obedience to both the wage and price parts of the freeze.

The freeze is scheduled to expire January 1, but a government white paper of November 22 makes clear that it will be continued in modified form after that date. Wage rises, affecting over 3 million workers, will be permitted, as will wage increases due to rises in the cost of living or productivity. Wage boosts for the lowest paid workers in the U.K. will also receive favorable consideration. Price increases will be allowed when they appear justified by unavoidable rises in costs.

Private sector borrowing declines

Lagging activity associated with the government's program has produced a marked cutback in credit demands. Loans extended by the clearing banks have been declining since August. On November 1, the Bank of England took the unusual step of noting that bank credit outstanding was some £ 200 million below the permissible ceiling[1/] and urged that more loans be extended to aid investment, exports, and redeployment of labor. The fact that business firms have not been borrowing as heavily as anticipated to finance payments on the selective employment tax until repayments commence in early 1967 has been a surprising development in the credit situation.

1/ On May 5, 1965, the British authorities established a credit ceiling for bank lending of 5 per cent above the amount outstanding in March 1965. The ceiling was extended for an indefinite period on February 1, 1966; and on July 12, it was announced that the ceiling would remain in effect at least until March 1967.

The July measures had an immediate effect on installment credit: total credit outstanding fell by 7 per cent from end-July to end-October. (See Table 4.) From mid-1965 to mid-1966, installment credit outstanding had remained nearly constant.

Table 4. United Kingdom: Money and Credit 1965-1966
(£ million)

	Banking Statistics Changes in: a/					
	Net Deposits b/ (seas. adj.)	Advances b/ (seas. adj.)	Special Deposits with Bank of Eng.	Changes a/ in Cons. Cr. Outstanding	Advances c/ by Bldg. Societies (seas. adj.)	Net c/ issue of U.K. Corps.
Dec. 1964 (actual figure)	d/ 8,110	d/ 4,545	0	1,115	---	--
1965 - I	+ 73	- 35	0	+24	89	29
II	+133	+ 12	91.8	+54	71	23
III	+151	+ 53	1.9	+10	67	48
IV	+ 94	+ 25	1.9	- 7	94	48
1966 - I	+161	+ 70	1.0	-11	111	86
II	+ 24	+ 70	1.3	+ 7	113	47
III	+116	-100	99.7	-50	107	49
IV	n.a.	- 65	n.a.	n.a.	n.a.	45
Oct.	- 80	- 35	1.0	-28	83	45
Nov.	- 14	+ 5	-0.2	n.a.	n.a.	63
Dec.	n.a.	- 35	n.a.	n.a.	n.a.	27

a/ Changes are for end of given period from end of preceding period.
b/ London clearing banks only.
c/ Monthly or monthly average.
d/ Not seasonally adjusted.

Advances by the building societies, though running ahead of 1965 figures through the first three quarters of 1966, declined from the second to the third quarter last year on a seasonally adjusted basis. A sharp drop was recorded in October, moreover.

Though the recession may be dampening demand for private home-building, a recent action by the building societies implies an assumption that a shortage of loanable funds is hampering residential construction in the private sector. In December the building societies, in order to stimulate an inflow of funds, raised the rate paid on their shares from 4 to 4-1/2 per cent. At the same time, it was announced that there would be no reduction in the current rate of 7-1/8 per cent which the building societies charge on their loans. The decision to raise the rate paid to investors while leaving the loan rate unchanged resolved a controversy between the building societies and the Prices and Incomes Board, which had urged a reduction in the loan rate to 6-3/4 per cent.

New issues by U.K. corporations did not change appreciably, quarter to quarter, over the last nine months of 1966. (See Table 4.) However, the planned cutbacks in investment revealed by a recent survey (see summary) indicate that new issues are not likely to remain on a plateau much longer.

Bond yields have dropped substantially

The series of government stabilization measures taken in July and August and the international credits to support the pound announced on September 13 finally produced a major turn in British interest rates. Prices of government bonds rallied in mid-September, ending the steady rise in gilt-edged yields dating from the fourth quarter of 1965. The rally lasted through October, being followed by mixed price movements in November. There was a general but brief price decline in early December as a result of the failure to resolve the Rhodesian crisis. However, with the realization that the breakdown of negotiations would not after all have catastrophic repercussions on Britain's external position--and with the consequent revival of expectations that Bank Rate would be cut--yields again moved downward. (See Table 5.)

Stock prices staged a modest recovery in the latter half of September, reversing a downswing which had started in July. The rally faded, however, as the domestic business outlook grew bleaker, and stock prices fell during October and early November. But during the last seven and a half weeks of the year stock prices again moved up with the exception of a brief dip caused by the Rhodesian crisis. The recovery in stock prices, based mainly on expectations of some reflationary action by the government, was modest and year-end prices were still far below the peaks reached in mid-year. The Financial Times 500 industrial stock index at the end of December was 17 per cent below the 1966 high of 119.75 recorded on July 4.

Table 5. United Kingdom: Selected Capital and Money Market Yields, July-November 1966
(per cent per annum)

	July 28	Change from preceding date: Sept. 8	Oct. 27	Nov. 24	Dec. 29	Dec. 29
Money market: a/						
Call money	6.50	+.13	0	0	0	6.63
Treasury bill b/	6.70	+.07	-.25	+.27	-.26	6.53
Deposit rates c/						
Local authority	7.57	-.07	-.19	-.06	+.03	7.28
Euro-dollar	6.37	+.38	0	+.13	-.44	6.44
Government bonds:						
3% 1959-69	7.05	+.30	-.55	+.12	+.03	6.95
5% 1971	7.22	+.09	-.32	+.01	-.13	6.87
3-1/2% 1979-81	7.17	+.23	-.60	-.10	-.18	6.52
5-1/2% 2008-12	7.17	+.15	-.42	+.02	-.12	6.80
3-1/2% War loan	7.16	+.15	-.44	+.05	-.10	6.82
Equities: d/						
Price index	106.26	-8.42	-1.59	+.37	+3.01	99.63
Dividend yield	5.73	+.49	+.04	-.01	-.23	6.02

a/ For day following date in heading.
b/ Maximum tender.
c/ 90-days.
d/ *Financial Times* 500 industrials.

Money market rates remain high for the most part

Money market yields moved up when Bank Rate was raised to 7 per cent in July, and the Bank of England, concerned about the balance of payments, for the most part sought to ensure that they remained high.

The Treasury bill rate did ease about 25 basis points in October, but by the end of November had returned to its September highs. When the maximum tender for Treasury bills by the discount houses fell to

6.52 per cent on October 28, as a result of strong demand for the bills by the houses, the Bank of England compelled the houses to borrow from the Bank at Bank Rate for several weeks thereafter. The Bank did not resume temporary lending at market rate until the end of November when the yield on Treasury bills had risen about 25 basis points. (See Table 5.)

During December the Bank continued to pursue an easier policy, only intermittently charging Bank Rate on loans to the discount houses; and once again the houses bid up the prices of Treasury bills, with yields falling about 25 basis points. At the end of the year, the bill yield was the same as it had been at the end of October.

The easing of short-term rates in the United States was doubtless the major factor in the Bank's willingness to let the U.K. bill rate fall.

Balance of payments shows deficit for first three quarters

During the first three quarters of 1966 the British balance of payments--the sum of the current and long-term capital accounts--showed a deficit of £ 282 million. The deficit in the third quarter was seasonally larger than those in the preceding three quarters but was below the deficit for the third quarter of 1965. (See Table 6.)

Statistics beyond the third quarter are not available, but improvement in the balance of payments has clearly taken place in the fourth quarter. The trade balance improved, with a surplus for the quarter as a whole despite the December deficit; and the restoration of confidence in sterling in September has doubtless worked to assist the capital account.

Table 6. United Kingdom: Balance of Payments, Quarterly, 1965-1966
(£ millions)

	1965				1966		
	I	II	III	IV	I	II	III
Imports (f.o.b.)	1,232	1,273	1,254	1,300	1,369	1,311	1,321
Exports (f.o.b.) a/	1,140	1,212	1,150	1,277	1,289	1,217	1,209
Visible balance	- 92	- 61	- 104	- 23	- 80	- 94	- 112
Invisible balance	66	50	- 6	66	59	12	- 19
Current balance	- 26	- 11	- 110	43	- 21	- 82	- 131
Balance on L-T capital	- 77	- 16	- 94	- 28	- 54	28	- 22
Balance of current and L-T capital	- 103	- 27	- 204	15	- 75	- 54	- 153
Balancing item	- 1	49	1	38	32	- 38	44
Balance of monetary movements	104	- 22	203	- 53	43	92	109

a/ Including re-exports.
Source: Financial Statistics.

Much of the third quarter deficit was seasonal in nature. The current account deficit, in fact, narrowed on a seasonally adjusted basis from £ 107 million in the second quarter to £ 58 million in the third. The decrease was due mainly to termination of the seamen's strike at the end of the second quarter.

During the third quarter, British reserves fell by £ 41 million compared to a fall of £ 106 million in the second. (See Table 7.) However, the announced reserve figures are not adjusted for the utilization of foreign central bank credits which were drawn upon to bolster Britain's official reserves.

Table 7. United Kingdom: Balance of Monetary Movements
(£ millions)

	1965 Year	1965 I	1965 II	1965 III	1965 IV	1966 I	1966 II	1966 III
Miscellaneous capital	41	-15	- 10	42	24	-12	-52	-42
Change in liabilities in non-sterling currencies	-137	140	-196	-54	-27	-53	-66	25
Change in external sterling liabilities								
Int'l organizations	- 6	- 8	- 1	- 4	7	4	- 1	- 3
Sterling area countries	9	-56	- 25	26	64	91	174	-169
Non-sterling countries	72	54	-128	176	-30	-103	-62	253
Total	75	-10	-154	198	41	- 8	111	81
Change in account with IMF	499	- 6	503	4	- 2	3	- 7	4
Transfers from dollar portfolio to reserves	---	---	----	---	---	316	---	---
Change in gold and convertible currency reserves	-246	- 5	-165	13	-89	-203	106	41
Total	232	104	- 22	203	-53	43	92	109

Source: Financial Statistics.

The drain on British reserves ended in September, as noted in the summary. From the end of August to the end of November, officially reported reserves increased from £ 1,126 million to £ 1,172 million. The reserves fell by £ 65 million in December but (as noted in the summary) would have increased except for the large repayment by the U.K. on her foreign debts.

Exports and imports both rose in 1966

Developments in British trade during the last five months are discussed in the summary.

For 1966 as a whole exports were 7.1 per cent, imports 3.7 per cent, higher than in 1965. On a commodity basis, imports of finished manufactures grew at the most rapid rate for the first ten months of 1966 as compared with the corresponding period in 1965. On the export side, the rate of increase was greatest in machinery and transportation equipment. (See Table 8.)

Table 8. United Kingdom: Foreign Trade by Commodity Class and by Geographic Area

(£ millions; monthly or monthly averages; seasonally adjusted)

	1965				1966			
	I	II	III	IV	I	II	III	Oct.
1. By commodity class:								
Imports (c.i.f.)								
Food, beverages and tobacco	132	144	149	148	145	143	148	145
Industrial materials	200	211	210	208	216	213	224	204
Finished manufactures	65	73	77	78	84	82	84	74
Other	61	57	53	58	62	58	58	59
Total	458	485	489	492	507	496	514	482
Exports (f.o.b.)								
Manufactures, machinery and transportation equipment	159	157	169	177	177	169	186	190
Chemicals	36	36	37	37	37	37	39	41
Textiles	23	23	23	23	21	21	22	24
Other manufactures	104	106	107	111	113	106	116	127
Other	60	59	63	62	66	62	62	62
Total	382	381	399	410	414	395	425	444
2. By geographic area:								
Imports (c.i.f.)								
Sterling Area	147	153	152	152	149	149	156	158
Western Europe	154	157	160	160	178	176	175	156
North America	85	103	97	91	105	95	99	85
Rest of World	87	75	77	83	79	79	81	78
Exports (f.o.b.)								
Sterling Area	136	133	138	140	130	121	137	139
Western Europe	143	143	145	148	162	152	155	158
North America	52	53	61	66	70	65	70	78
Rest of World	54	51	55	56	55	57	61	67

Trade figures broken down according to area show that U.K. exports in 1966 through October rose everywhere except to the sterling area. The rise in imports is attributable mainly to increased purchases from Western Europe. (See Table 8.)

On November 10 the Prime Minister announced the U.K.'s intention to again seek membership in the Common Market.

Spot and forward pound both stronger

As described in the summary, the price of spot sterling strengthened considerably in mid-September. Forward sterling also showed marked improvement. The forward discount reached a peak of 1.83 on August 8 but narrowed sharply thereafter. By September 8, it was down to 1.01 and since that date has been below 1.00. During the last quarter it fluctuated between .50 and .80.

Because of the rise in the price of forward sterling, the covered differential between yields on U.S. and U.K. Treasury bills was more heavily in London's favor at the end of December than at the end of July. (See Table 9.) The narrowing of the discount also explains why the covered differential between local anthority and Euro-dollar rates was in favor of the former at the end of 1966. On July 29 it had been 38 basis points in favor of Euro-dollars. (See Table 9.)

Table 9. United Kingdom: Exchange Rates and Arbitrage Calculations, July-November 1966

	July 29	Sept. 9	Oct. 28	Nov. 25	Dec. 30
Exchange rates					
Spot (U.S. cents)	279.07	278.71	279.12	279.06	279.02
Forward (p.c.p.a.)	-1.58	-0.90	-0.58	-0.54	-0.74
3-month yields and yield-spreads					
Treasury bills					
U.K. (covered)	4.95	5.65	5.70	6.06	5.61
U.S.	4.66	5.16	5.21	5.25	4.79
Difference	0.29	0.49	0.49	0.81	0.82
Deposit rates					
U.K. local authority (covered)	5.99	6.55	6.66	6.71	6.54
Euro-dollar	6.37	6.75	6.75	6.88	6.44
Difference	-.38	-.20	-.09	-.17	0.10
Euro-dollar a/	6.31	6.75	6.75	6.75	6.63
N.Y. C.D.'s a/ b/	5.58	5.85	5.83	5.80	5.59
Difference	0.73	0.90	0.92	0.90	1.04

a/ Preceding Wednesday.
b/ Negotiable New York time certificates of deposit.