

L.5.2

RFD 498

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

July 28, 1964

Recent Economic Developments in the United Kingdom:  
April-June 1964

17 pages

Thomas M. Klein

This article was prepared primarily for internal circulation, and should not be cited or quoted. The views expressed do not necessarily represent the views of the Board of Governors of the Federal Reserve System.

July 28, 1964

Thomas M. Klein

Recent Economic Developments in the United Kingdom: April-June 1964

Summary

The growth of output in the United Kingdom slowed down in the first four months of 1964. <sup>1/</sup> More recently, the pace of economic expansion has revived, judging from more than seasonal tightening of labor markets and rising capital expenditure. At the same time, Britain's external position remains discouraging. The average monthly trade deficit from March through May has been about one-third larger than in the fourth quarter of 1963. The growth in exports slackened during the period under review, while imports remained stable at a high level. In June, sterling came under speculative pressure, and reserves fell by \$56 million.

Industrial production remained unchanged from January through April, mainly owing to slower growth of personal consumption expenditures and exports and to a fall in inventory investment. However, continued declines in unemployment and larger numbers of unfilled vacancies since April suggest that business has been endeavoring to expand activity further. Moreover, private fixed capital formation increased in the first quarter of 1964. Available new order figures and a survey of industrial investment plans indicate that business investment will continue to expand in coming months, while prospective increases in Government capital outlays should provide an additional impetus to growth.

Wages and prices have advanced in recent months but not as rapidly as over the end of 1963. Basic materials prices actually fell between January and May, after rising sharply in 1963. The cost of living index rose more rapidly between March and May than earlier this year, but this can be attributed largely to higher tobacco and alcoholic beverage taxes.

---

<sup>1/</sup> For a review of the British economy in the preceding period, see "Recent Economic Developments in the United Kingdom: January-March 1964," April 27, 1964.

Bank lending has continued to expand so far this year, although at a slower pace than in 1963. In line with the earlier trend of lessened business dependence on bank financing, new corporate security issues were substantially larger in the first half of 1964 than in January-June 1963. Instalment credit, mainly to finance automobile purchases, increased steadily through April and, as before, accounted for the major share of the further credit expansion.

The upward movement in interest rates which followed the budget presentation in mid-April has continued. Long-term government bond yields rose by about 15 points in the last half of April, remained steady in May, rose by a further 10 points through mid-June and edged off to a range of 6.05-6.18 per cent on July 2. In the money markets, the Treasury bill rate inched up from 4.16 per cent to 4.34 per cent from mid-May through the first week of July, after remaining unchanged since the February 27 Bank rate increase.

In the foreign exchange market, the pound was under speculative pressures through June as Continental commercial banks withdrew funds in order to meet domestic liquidity needs. The spot rate fell from 279.85 to 279.08 cents per pound between May 28 and June 26, and the 3-months forward discount narrowed from 0.76 to 0.49 per cent per annum, so that the covered differential favoring the U.K. over the U.S. Treasury bill rose from 0.06 to 0.41 per cent per annum. The pound continued weak through mid-July.

The main weakness in the balance of payments, however, is the large trade deficit. Imports have levelled off in the first five months of 1964, but export performance has been disappointing. In April exports fell 10 per cent below the March level but hardly recovered in May. The export outlook is not encouraging; in January-March new orders for engineering goods exports fell sharply from the fourth quarter of 1963.

#### Expansion in output slows down

Economic activity increased at a somewhat slower rate in the early months of 1964 than during the latter part of 1963. Industrial production remained unchanged

been January and April as compared with an increase of 3.7 per cent between September and December 1963. (See Table 1.) Furthermore, inventories of finished goods held by manufacturing industry rose in the first quarter of 1964 after falling during the preceding three quarters. (See Table 2.), suggesting that production has been catching up with demand.

The levelling off of output is attributable to a slowdown or decline in three sectors of final demand: personal consumption, exports and inventory investment. Retail sales stabilized in the first quarter of 1964 at about the level of the last two quarters of 1963. The volume of exports advanced to a high level in March, but fell off sharply in April and barely recovered in May.

Table 1. United Kingdom: Selected Economic Indicators, 1962-64  
(Seasonally adjusted data, unless otherwise noted)

	1962	1963		1964			
	Dec.	June	Dec.	Mar.	Apr.	May	June
INDUSTRIAL PRODUCTION INDEX (1958 = 100)	113	118	125	126	126	n.a.	n.a.
RETAIL SALES VOLUME INDEX (1961 = 100)	101	102	106	105	106	104	n.a.
EXPORT VOLUME INDEX (1961 = 100)	101	109	115	117	106	116	n.a.
SELECTED OUTPUT:							
Steel (Th. tons; wkly. av.)	346	415	471	501	506	493	n.a.
Passenger cars (Ths.; wkly. av.) <sup>a/</sup>	22	33	31	36	41	n.a.	n.a.
Engineering and electrical goods index (1958 = 100) <sup>a/</sup> <sup>b/</sup>	122	126	133	<sup>c/</sup> 134	n.a.	n.a.	n.a.
UNEMPLOYMENT (per cent) <sup>a/</sup>	2.5	2.1	2.2	1.9	1.8	1.6	1.4

Source: Monthly Digest of Statistics

<sup>a/</sup> Not seasonally adjusted.

<sup>b/</sup> 3-month moving average.

<sup>c/</sup> Preliminary.

However, the most important factor contributing to the slowdown was the decline in inventory investment in the first quarter of 1964. Inventories in wholesale and retail trade actually declined marginally in January-March, following an increase of £69 million in the fourth quarter of 1963, more than offsetting the increase from £75 million to £95 million in inventory investment in manufacturing industry during the same period. (See Table 2.)

Table 2. United Kingdom: Inventory Investment, 1963-64  
(In millions of pounds; seasonally adjusted; 1958 prices)

	1963				1964
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>
<b>MANUFACTURING INDUSTRY</b>					
Materials and fuel	-14	-8	-25	33	29
Work in progress	33	3	16	45	56
Finished goods	<u>37</u>	<u>-4</u>	<u>-24</u>	<u>-3</u>	<u>10</u>
Total	56	-9	-33	75	95
<b>DISTRIBUTIVE TRADES</b>					
	-19	19	-27	69	-1
<b>OTHER INDUSTRIES</b>					
	<u>-57</u>	<u>32</u>	<u>26</u>	<u>3</u>	<u>n. a.</u>
Total	-20	42	-34	147	n. a.

Source: United Kingdom, Central Statistical Office, Monthly Digest of Statistics.

Renewed expansion since April

Continued labor market tightness and further movement toward near-capacity utilization indicate renewed expansion since April. By June, labor markets and industrial plant capacity had become nearly as tight as in the 1959-61 upswing. The June survey of industrial trends, conducted by the Federation of British Industries, reveals that the proportion of firms reporting full plant capacity was the highest since June 1960.

In the key industrial areas of the Midlands and the South of England, job vacancies have outnumbered registered unemployed since February; in mid-June vacancies

exceeded unemployed for the country as a whole for the first time since September 1961. Nation-wide, the average unemployment rate in June was 1.4 per cent, but the rate for the Midlands and the South of England was only 0.8 per cent--the same rate which prevailed at the previous cyclical peak of June 1961.

Investment spending rising. According to available data, fixed capital formation rose in the first quarter of the year. Capital expenditure by manufacturing industry and the distributive trades, which accounted for about one-third of total fixed capital formation in 1963, rose by 6 per cent in the first quarter of 1964 to £525 million (see Table 3). Judging from somewhat fragmentary data, private expenditure on dwellings appears to be rising; housing starts in the first quarter of 1964 were almost double the number in the first quarter of 1963 and one-third higher than in the first quarter of 1961, a period of rapid expansion. New mortgage loans extended by building societies amounted to £167 million in the first quarter of 1964, as compared with £140 million in the first quarter of 1963 and £112 million in the first quarter of 1961, at the height of the previous cycle. No data on Government capital expenditures so far in 1964 are available at this writing, but the 1964-65 budget called for large increases in public sector investment.

Table 3. United Kingdom: Gross Fixed Domestic Capital Formation, 1963-64  
(In millions of pounds; seasonally adjusted; 1958 prices)

	1963				1964
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>
MANUFACTURING INDUSTRY AND DISTRIBUTIVE TRADES					
Plant and Equipment	220	226	224	231	247
Construction	137	148	143	147	149
Vehicles	98	104	105	118	129
Total	<u>455</u>	<u>478</u>	<u>472</u>	<u>496</u>	<u>525</u>
OTHER PRIVATE (excl. dwellings)	42	39	44	41	n.a.
DWELLINGS (Pvt. and Govt.)	150	220	235	246	n.a.
OTHER PUBLIC SECTOR	<u>354</u>	<u>388</u>	<u>415</u>	<u>433</u>	<u>n.a.</u>
Total	1,001	1,125	1,166	1,216	n.a.

Source: U.K., Central Statistical Office, Monthly Digest of Statistics.

Fixed capital formation will continue to rise during the next few months. New domestic orders for engineering and electrical goods rose sharply in the first quarter of this year--outweighing a decline in export orders--and order books lengthened. (See Table 4.) In May, the steel industry revised its February estimate of 1964 output upwards from 25.5 million tons to 26.0 million tons. In addition, industrial construction activity will evidently increase; industrial building authorizations expanded by one-third between the fourth quarter of 1963 and the first quarter of 1964. Finally, the Federation of British Industries' June survey of industrial trends showed an increase--in the four months since the preceding survey--in the proportion of respondent firms planning to spend as much or more on investment in new building and plant and equipment this year as they did in the past 12 months.

Table 4. United Kingdom: Selected New Orders and Building Authorizations, 1963-64<sup>a/</sup>

	1963				1964
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>
<u>ENGINEERING AND ELECTRICAL GOODS</u>					
Orders on hand (Dec. 1958 = 100)					
Export	123	128	136	144	144
Domestic	<u>115</u>	<u>121</u>	<u>128</u>	<u>131</u>	<u>139</u>
Total	117	123	130	135	140
Net new orders (Av. 1958 deliveries = 100)					
Export	121	146	146	159	136
Domestic	<u>135</u>	<u>135</u>	<u>137</u>	<u>139</u>	<u>150</u>
Total	132	138	140	145	146
Deliveries (Av. 1958 deliveries = 100)					
Export	139	133	124	139	136
Domestic	<u>122</u>	<u>120</u>	<u>119</u>	<u>131</u>	<u>132</u>
Total	126	123	120	133	133
<u>INDUSTRIAL BUILDING AUTHORIZATIONS</u>					
(Mn. sq. ft.)					
Manufacturing industry	8	9	8	9	11
Other industrial	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>2</u>
Total	9	10	9	10	13

Source: U.K., Board of Trade, Board of Trade Journal.

a/ Figures are not seasonally adjusted.

Upward wage and price trends moderate

Wages and prices continued to rise from March through May 1964, but not as rapidly as in the three previous months, when a 5 per cent increase in wages granted by the engineering industries led to a jump in the weekly wage rate index and in the wholesale price index for manufactured goods. Between January and April, the weekly wage rate index increased by only 1.0 per cent as contrasted with a 2.4 per cent increase in the previous three months. Likewise, the wholesale prices of manufactured goods for the home market (excluding food, beverages, and tobacco) rose by only 0.4 per cent between January and April as contrasted with an increase of 1.1 per cent in the previous three months. (See Table 5.) The recent sharp rise in the cost of living index reflects in part increases in the tobacco and alcoholic beverage taxes. Basic materials prices have eased in recent months after registering marked increases in 1963.

Table 5. United Kingdom: Wage and Price Indices, 1963-64  
(December 1962 = 100)

	1963			1964			Percentage Change	
	June	Oct.	Dec.	Jan.	Apr.	May	Oct. 1963 to Jan. 1964	Jan. 1964 to Apr. 1964
Wage rates, weekly	101.6	102.0	104.3	104.5	105.4	105.5	2.4	1.0
Wholesale Prices:								
Manufactured goods for home market <u>a/</u>	100.7	101.1	101.6	102.2	102.6	n.a.	1.1	0.4
Basic materials and fuels used in manufacturing	98.1	105.6	104.7	105.7	104.9	103.9	0.1	- 0.8
Cost of Living	101.6	101.4	101.9	102.3	103.7	104.6	0.9	2.2
Export unit value index, manufactured goods	101.0	101.9	101.9	101.9	101.9	101.9	-	-

Source: U.K., Central Statistical Office, Monthly Digest of Statistics  
a/ Excluding food, drink, and tobacco.

Financing the expansion

The role of bank lending in financing economic activity has greatly diminished in the past year. From March through May, seasonally adjusted bank advances increased by only £35 million as contrasted with increases of £150 million and £130 million in the two previous three-month periods (see Table 6). The bulk of the increase in bank lending has been used to finance personal consumption either directly through "personal and professional loans" or indirectly through loans to hire purchase finance houses. In the year ending May 1964, loans to these groups of borrowers, together with loans to other financial institutions, expanded by 14 per cent and accounted for about two-thirds of the total credit expansion. Bank loans to manufacturing industry, on the other hand, increased by only 3 per cent and accounted for little more than one-tenth of the increase in total bank lending. In absolute terms, borrowing by manufacturing industry expanded by £10 million or less in each of the past three quarterly periods.

Table 6. United Kingdom: Financing the 1963-64 Expansion  
(In millions of pounds)

	<u>Changes in Quarter Ending:</u>					<u>Outstanding May 1964</u>
	<u>1963</u>			<u>1964</u>		
	<u>May</u>	<u>Aug.</u>	<u>Nov.</u>	<u>Feb.</u>	<u>May a/</u>	
<u>BANK LENDING (Seasonally Adjusted)</u>						
Manufacturing industry	+ 16	+ 17	+ 8	+ 3	+ 10	1,278
Hire purchase finance companies and other financial institutions	+ 34	+ 18	+ 11	+ 48	+ 18	651
Retail trade	+ 8	+ 7	+ 30	+ 9	+ 5	519
Personal and professional	+ 43	+ 40	+ 34	+ 35	+ 23	976
Other	+ 16	+ 12	+ 67	+ 35	- 21	1,488
Total	+117	+ 94	+150	+130	+ 35	4,912
<u>INSTALMENT CREDIT</u>	+ 23	+ 32	+ 20	+ 22	b/ + 34	c/ 1,003
<u>NEW CAPITAL ISSUES (net)</u>	+125	+119	+159	+206	+212	-
of which:						
U. K. Corporations	(+107)	(+106)	(+117)	(+154)	(+170)	-

Source: U.K., Central Statistical Office, Financial Statistics.

a/ Preliminary.

b/ March and April only.

c/ End-April.

Manufacturing industry, along with other corporations, have relied to an increasing extent upon new capital issues for finance. British corporations increased the net amount of funds raised by security issues from £107 million in the three months ending May 1963 to £170 million in comparable period this year. (See Table 6.) Retained corporate earnings have also helped finance the expansion of output.

There has been a marked increase in instalment credit in the quarterly period ending in May. During March and April alone instalment credit rose by \$34 million as contrasted with an increase of £23 million in the full three months period ending May 1963. Instalment credit outstanding reached a new record at the end of April of £1,003 million. The previous peak was £971 million, reached in August 1961 at the height of the last period of business expansion.

Interest rates move upward

Government bond prices eased between mid-April and May 1 in reaction to the announcement that the 1964-65 budget will entail a substantially larger deficit. Bond prices firmed briefly<sup>after May 1</sup>, but began to fall again following the announcement of the large April trade deficit. In June, as sterling weakened, the bond market was depressed further; the yield on War Loan reached 6.29 per cent on June 18. Toward the end of June and in early July, the market recovered somewhat. On July 10, long-term yields ranged between 6.05 and 6.18 per cent for the longest-dated issues (see Table 7).

The Treasury bill rate edged upwards in the first three weeks of June. Applications for new Treasury bills at the weekly auction (other than from the Discount Houses) declined, reportedly because further rises in the bill rate were expected. Funds withdrawn from the Treasury bill and government bond markets were placed in more highly liquid assets, such as 2-day local authority deposits. Consequently, the yield on this money-market asset fell from 4.69 per cent on May 29 to 4.50 per cent on

Table 7. United Kingdom: Selected Financial Indicators, 1964  
(In per cent per annum)

	<u>Apr.</u> <u>10</u>	<u>May</u>		<u>June</u> <u>19</u>	<u>July</u> <u>3</u>	<u>July</u> <u>10</u>
		<u>1</u>	<u>29</u>			
<u>MONEY MARKETS</u>						
Treasury bills (90 day)	4.16	4.16	<u>a/</u> 4.25	4.32	<u>b/</u> 4.34	4.34
Local authority deposits:						
2-day	4.56	4.81	4.69	4.50	4.62	4.50
90-day	4.94	5.00	5.00	5.00	5.03	4.94
90-day (covered)	4.18	4.24	4.26	4.43	4.48	4.41
Euro-dollar deposits (90-day)	4.25	4.19	4.25	4.38	4.31	4.38
<u>COVERED ARBITRAGE</u> (favor U.K.)						
U.K./U.S. Treasury bills	- .24	- .03	<u>a/</u> .06	.28	<u>b/</u> .33	.36
<u>SECURITY PRICE INDICES<sup>c/</sup></u> (April 10, 1962 = 100)						
Industrial stocks	113.48	116.92	111.42	113.45	115.64	115.10
Long-term government bonds	107.09	105.19	105.19	104.13	104.79	105.05
<u>GOVERNMENT BOND YIELDS<sup>c/</sup></u>						
5% 1967	4.95	4.95	4.90	5.08	5.05	5.05
5% 1971	5.34	5.39	5.36	5.48	5.41	<u>d/</u> 5.50
5% 1986-89	5.84	6.00	6.01	6.08	6.05	6.02
5-1/2% 2008-12	5.95	6.10	6.10	6.20	6.15	6.12
3-1/2% War Loan	6.02	6.17	6.19	6.29	6.18	6.18

---

a/ June 1.  
b/ July 6.  
c/ Previous Thursdays.  
d/ Ex dividend.

19. The covered differential in favor of U.K. over U.S. Treasury bills widened to 0.33 per cent by July 6, but no funds moved to London. At the end of June, markets steadied.

Official intervention in the bond market between February and May was undertaken only to smooth out short-term fluctuations. In this period, the Government introduced two new "tap" issues: a £400 million medium-term issue in February (5-1/4% Funding 1978-80) and a \$400 million long-term issue in May (5-3/4% Funding 1987-91).

Stock prices advanced in the last half of April, following the budget message. However, the market deteriorated in May and the first half of June, owing mainly to political uncertainties and the poor April trade returns. The market recovered in the latter part of June and in the first week of July.

#### Sterling weakens

After remaining steady in April and May, sterling came under speculative pressure in June as Continental commercial banks withdrew funds from London in order to meet their domestic liquidity needs. Between May 28 and June 26, the spot rate fell from 279.85 cents to 279.08 cents (see Table 8). Some spot sales were covered by 3-month forward purchases, closing the forward discount from 0.76 per cent per annum on May 28 to 0.49 per cent per annum on June 26. At the same time, the investment dollar premium rose from 12.25 per cent on May 28 to 13.50 per cent on June 12, as investors attempted to shift funds into foreign (mainly U.S.) securities. The spot rate continued weak through mid-July.

Table 8. United Kingdom: Selected Exchange Rates, 1964

<u>MONTHLY AVERAGES</u>	<u>Spot Sterling (U.S. cents)</u>	<u>3-Month Forward Discount (% p.a.)</u>	<u>Investment Dollar Premium (per cent)</u>
January	279.83	-0.31	11.88
February	279.69	-0.49	11.34
March	279.81	-0.68	11.19
April	279.90	-0.76	11.00
May	279.94	-0.76	11.42
June	279.42	-0.58	13.34
<u>SELECTED FRIDAYS</u>			
May 28	279.85	-0.76	12.25
June 5	279.53	-0.66	13.38
12	279.44	-0.60	13.50
19	279.42	-0.57	12.88
26	279.08	-0.49	13.62
July 3	<u>a/</u> 279.12	<u>a/</u> -0.48	12.00
10	279.11	-0.53	11.25

Source: Federal Reserve Bulletin; Bank of England.

a/ July 6.

While some of the pressure on the pound was absorbed by a fall in the spot rate, the Bank of England intervened in the market from time to time during this period. Reserves declined by \$56 million in June. (See Table 9.)

Table 9. United Kingdom: Reserve Position 1964  
(In millions of U.S. dollars)

	<u>Changes:</u>						<u>Outstanding June 30, 1964</u>
	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>	<u>May</u>	<u>June</u>	
A. Gold and convertible currencies	+17	-48	+34	+53	+48	-56	2,705
B. Drawing rights on IMF	--	+ 3	- 2	--	--	<u>n.a.</u>	<u>a/</u> 2,400
Total	+17	-45	+32	+53	+48	<u>n.a.</u>	

a/ May 31.

Source: U.K., Central Statistical Office, Monthly Digest of Statistics, and I.M.F., International Financial Statistics.

Underlying weaknesses in balance of payments

While the immediate pressure on sterling may be attributed to short-run developments which may be reversed in the near future, the United Kingdom's balance of payments has been in deficit for over a year. The over-all deficit for the first quarter of 1964 was £85 million, as compared with deficits of £31 million in the third and £108 million in the fourth quarter of 1963. (See Table 10.) Pressure on the balance of payments came primarily from the large trade deficit,<sup>2/</sup> but also from a net movement out of sterling in February by nonofficial foreign creditors and, reportedly, from a substantial increase in investment abroad by U.K. oil companies.

The large first quarter 1964 deficit was offset entirely by an overseas sterling area surplus with nonsterling countries, as measured by net accruals of sterling from nonsterling countries and by net sales of gold and nonsterling currencies for sterling. The outer sterling area apparently continued to support the pound by running a substantial surplus with nonsterling countries as British reserves increased by £19 million (\$53 million) in April and £17 million (\$48 million) in May.

Adverse trade balance continues

The trade balance deteriorated in the first five months of 1964. The March deficit was only £4 million larger than the £61 million monthly average in the fourth quarter of 1963, but the deficit widened to £107 million in April owing to a 10 per cent fall in exports. In May exports recovered, but barely to the March level, so that the trade gap remained slightly higher than in March (see Table 11).

---

<sup>2/</sup> The trade deficit (£107 million) is overstated since the January export figure understates actual exports owing to a change in compilation procedures. The unrecorded export receipts are included in the £89 million errors and omissions figure.

Table 10. United Kingdom: Balance of Payments, 1963-64.

(In millions of pounds)

	1963				1964
	I	II	III	IV	I
<b>A. CURRENT ACCOUNT</b>					
Trade balance, seas. adj.	20	5	-26	- 33	-107
Other, seas. adj.	51	35	40	39	45
Total	<u>71</u>	<u>30</u>	<u>14</u>	<u>6</u>	<u>- 62</u>
Seasonal Factors	7	38	-42	- 3	- 5
Total	<u>78</u>	<u>68</u>	<u>-28</u>	<u>3</u>	<u>- 67</u>
<b>B. LONG-TERM CAPITAL</b>	- 53	5	-28	- 71	- 91
<b>C. NET ERRORS AND OMISSIONS</b>	--	-50	-20	- 59	89
<b>D. PRIVATE SHORT-TERM CAPITAL<sup>a/</sup></b>	-114	- 8	45	19	- 17
<b>SURPLUS OR DEFICIT (-)</b>	<u>- 89</u>	<u>15</u>	<u>-31</u>	<u>-108</u>	<u>- 86</u>
<b>E. FINANCING</b>					
Foreign central bank assistance	101	-83	--	--	--
Sterling liabilities to:					
Non-sterling area official <sup>b/</sup>	- 50	-45	- 8	75	33
Outer sterling area:					
Payments surplus with U.K.	- 21	12	- 7	- 6	- 37
Payments surplus with non-sterling countries	62	62	52	11	90
Drawing rights on IMF (increase -)	--	3	2	--	--
Gold and foreign exchange (increase -)	<u>- 3</u>	<u>36</u>	<u>- 8</u>	<u>28</u>	<u>--</u>
<b>TOTAL FINANCING</b>	<u>89</u>	<u>-15</u>	<u>31</u>	<u>108</u>	<u>86</u>

<sup>a/</sup> Excluding changes in sterling balances held by sterling area residents which are included in Group E.

<sup>b/</sup> Central monetary institutions only.

Source: U.K., Central Statistical Office, Economic Trends, June 1964.

Table 11. United Kingdom: Foreign Trade, 1963-64  
(Millions of pounds; seasonally adjusted; monthly averages)

	1963				1964			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	Mar.	Apr.	May
Imports, c.i.f.								
Food, beverages, and tobacco	126	141	148	143	150	143	142	148
Fuels	48	49	46	46	48	48	50	49
Basic materials	77	76	85	91	93	90	94	89
Chemicals	15	17	18	19	20	19	21	21
Other semi-manufactures	55	58	60	64	73	78	76	72
Finished manufactures and other	<u>53</u>	<u>56</u>	<u>57</u>	<u>59</u>	<u>69</u>	<u>74</u>	<u>72</u>	<u>71</u>
Total	375	395	412	422	453	451	457	450
Exports, f.o.b.	327	335	346	348	<sup>a/</sup> 356	373	337	370
Re-exports, f.o.b.	<u>12</u>	<u>13</u>	<u>13</u>	<u>13</u>	<u>12</u>	<u>13</u>	<u>13</u>	<u>13</u>
Trade balance, customs returns	-36	-47	-53	-61	<sup>a/</sup> -85	-65	-107	-67
Trade balance, balance of payments basis	7	-2	-9	-11	<sup>a/</sup> -36	<sup>b/</sup> -17	<sup>b/</sup> -55	<sup>b/</sup> -20

Source: U.K., Board of Trade Journal.

<sup>a/</sup> January export figures are not comparable to those for other months owing to a change in compilation procedure. The recorded export figure is understated and hence the trade deficit for the first quarter is overstated.

<sup>b/</sup> Preliminary.

Imports of fuel and basic materials leveled off in the first five months 1964 after rising to a level 21 per cent above first-half 1963 average. However, there has been a steady rise in imports of fuels, semi-manufactures, and finished manufactures in 1964, including heavier steel purchases from abroad, in part the result of the strike in January in a major British steel company.

During the past year, the growth of exports to the Common Market slowed down, after expanding at an annual rate of nearly 20 per cent between 1959 and 1963. Exports to the "Six" rose by around 10 per cent between February-May 1963 and February-May 1964. Machinery exports have leveled off during the past year, advancing by only 4 per cent between the first five months of 1963 and the first five months of 1964 as compared with an average growth of 10 per cent per annum between 1959 and 1963. Machinery exports accounted, in fact, for one-third of the decline between March and April. Motor vehicle sales also fell between March and April, partly as the result of deflationary measures undertaken in Italy.

Short-run export prospects are uncertain. On the one hand, official statements emphasize that a growth in British exports will accompany the expansion of incomes and output abroad. On the other hand, net new export orders for engineering and electrical goods leveled off in the latter part of 1963 and fell in the first quarter 1964 (see Table 4). Furthermore, rising prices of manufactures are becoming a matter of concern to exporters. The export unit value index shows no change since last September (see Table 5, above), but the index is an unreliable measure of export price movements. Prices of manufactured goods did rise markedly around the beginning of 1964, and the Federation of British Industries' June survey of industrial trends reports that ". . . more firms say that export prices rose during the past four months and 60 per cent say that prices are the main factor limiting further increases in exports."

July 21, 1964

ADDENDUM

Data on foreign trade in June, released since completion of the foregoing report, reveal a sharp deterioration in the U.K. trade balance, with the deficit (on a seasonally adjusted basis) rising from £67 million in May to £113 million. Imports rose from £450 to £473 million between May and June--4.4 per cent above the relatively stable January-May average level. Exports fell from £370 million in May to £348 million in June, and re-exports declined from £13 to £12 million.

The general stability in the level of U.K. imports in the first five months reflected a rising trend in imports of semi-manufactures and finished goods offset by a decline in basic materials imports. Data showing the distribution of the import rise from in June are not yet available. Exports have fluctuated fairly widely from month to month this year, falling in January, April and June and recovering in February and May. However, inasmuch as the declines in April and June have been progressively smaller, the long-run export trend appears to be upward, albeit very gently so.