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Output Trends and Exports in the United Kingdom

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Output Trends and Exports in the United Kingdom

In recent months there has been considerable discussion both in Britain and abroad about the course of the British economy during the first half of 1964. Contrasted with 1963, main economic indicators no longer give a clear picture of continued growth in aggregate domestic output, supported in part by expanding exports. First, some economic indicators of final output have ceased to grow, or have even declined, producing an extensive controversy about the behavior of output. Second, seasonally-adjusted monthly export figures have shown such wide month-to-month fluctuations that it is difficult to ascertain the underlying trend. However, it is clear that exports have failed to match the high and moderately rising level of imports; as a result, even on a balance of payments basis the current account deficit is widening.

This brief note will attempt to show that a significant change has occurred in the industrial situation of the United Kingdom compared with 1963, and that this change may be related to the relatively sluggish performance of exports.

The debate about aggregate domestic output centers upon conflicting movements in important economic indicators. For example, the falling rate of unemployment and the rising trend of capital expenditures, construction contracts and bank advances, in evidence since January, are indicative of further business expansion. On the other hand, the seasonally-adjusted index of industrial production has remained unchanged at 127 (1958 = 100) from January through July. (See Table 1.)

Table 1. United Kingdom: Selected Economic Indicators

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	Jan.	Feb.	March	I Qtr.	April	May	June	II Qtr.	July
Unemployment rate (per cent)	2.2	2.0	1.9		1.8	1.6	1.4		1.6
Business spending on fixed capital (£ million)*				510				525	
Changes in Bank adv. (£ million)*	14	65	17		17	44	31		70
Value of New Const. contracts (£ million)				686				725	
Index of industrial production *	127	127	127		127	127	127		127

* Seasonally adjusted.

Resolution of the debate is made more difficult by the diverse trends of the output indices of individual industries. Output of chemicals, metals and gas, electricity and water has grown, while it remained stable in mining, food, and construction. Finally, output declined in such important sectors as textiles, engineering and allied industries, timber and printing and publishing. (See Table 2.)

Table 2. United Kingdom: Indices of Industrial Output* 1963-1964 c/

	1 9 6 3				1 9 6 4		
	March	June	Sept.	Dec.	Jan.	March	June
<u>Expanding industries</u> <u>in 1964</u>							
Chemicals and allied industries (68)	134	137	139	143	147	147	150
Total metals (68)	107	110	116	124	119	127	a/131
Gas, electricity and water (54)	130	127	131	135	134	142	137
<u>Stable industries</u> <u>in 1964</u>							
Mining (72)	96	95	95	97	96	97	96
Food and drink (86)	113	116	116	117	115	116	115
Bricks, pottery and glass (28)	123	127	137	142	146	142	143
Other (22)	125	125	127	133	135	135	n.a.
Construction b/ (126)	102	124	127	131	n.a.	131	n.a.
<u>Declining industries</u> <u>in 1964</u>							
Engineering and allied industries (310)	117	117	120	124	127	125	124
Textiles and allied industries (92)	110	114	113	115	121	118	116
textiles (58)	107	109	110	112	118	117	113
Timber and allied industries (20)	100	115	122	121	135	128	126
Paper, printing and pub. (55)	122	126	129	136	140	139	137

* Seasonally adjusted - weights given in parentheses.

a/ May.

b/ Quarterly values.

c/ Complete industrial breakdown of output only available through June, 1964.

Compared to last year, it is clear that a change in the trend of the aggregate index occurred in the first half of 1964. During 1963, the index advanced at an average monthly rate of 1.4 per cent, while there has been no movement this year. Furthermore, all major sectors of the index recorded output gains throughout 1963 by contrast, a number of important industries showed declines this year.

The appearance of declining in output in various industries marks the significant change in the industrial situation of the United Kingdom between 1963 and 1964. The marked reductions in output of timber and textiles and the modest slackening of production in the important (and heavily-weighted) engineering and allied industries group have clearly served as a drag on the total manufacturing index. They help to explain why the aggregate monthly figures for 1964 have not reflected the gains in output shown by the expanding industries such as metals and chemicals. Furthermore, a wide range of industries show stable output during 1964.

There is some evidence which suggests that the slowdown in output in certain industries may be related to the sluggish export performance of 1964. Even though data limitations prevent a detailed analysis, it may be significant that some industries which show reduced output during 1964 have also failed to record export gains this year. The volume of exports in July of both machinery and transport equipment and textiles were actually slightly below the early 1964 volume. (See Table 3.) For the machinery group, the average for the second quarter was below the average for the first. Unfortunately, the breakdown of the export volume index does not permit similar comparisons for timber and paper and publishing.

Table 3. United Kingdom: Selected Export Volume Indices
January-July, 1964 *

	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>
Textiles *	100	101	108	106	114	102	97
Machinery and transport equipment *	101	117	116	100	112	102	100

* Seasonally adjusted.

The hypothesis that these shortfalls in both output and exports during 1964 are related seems to be supported by a review of the evidence for the preceding year. During 1963, both the output and export indices for textiles exhibited strong upward trends; there is a similar parallel between output in the engineering and allied industries and the export index of machinery and transport equipment. (See Table 4.)

Table 4. United Kingdom: Selected Output and Export Volume Indices*, 1963

	Output Indices		Export Indices	
	Textiles	Engineering & allied ind.	Textiles	Machinery & trans. equip.
January	106	123	92	104
February	106	124	96	106
March	107	125	102	113
April	108	121	97	99
May	109	125	103	107
June	109	125	107	103
July	111	126	101	102
August	112	128	105	105
September	110	128	103	109
October	113	127	101	109
November	113	130	103	105
December	112	130	104	117

* Seasonally adjusted.

Although the diverse movements of individual output indices heightens the debate about the current course of output, they do not affect the judgment about the significant change in the trend of aggregate output index. ^{1/} Because of the substantial weight of the declining industries, only an appreciable and carefully selected redistribution of weights could produce a rising trend in the aggregate index for 1964. However, the application of such a distribution to the 1963 individual output series would have increased the rate of growth of the aggregate index for that year and thus have maintained (or perhaps even increased) the difference in performance between these two years. First, all industrial components of the index registered gains in output during 1963, but only a few industries did so in 1964. Second, those few industries which expanded output in 1964 grew at an even faster rate in 1963.

^{1/} Where individual components of a general statistical series exhibit marked differences in trend, the question of whether the general series accurately summarizes the developments among the component series becomes a matter of weighting. For 1964, for example, the index of industrial production can be broken down as follows:

	Weight
Expanding industries	19 per cent
Constant-output industries	33 per cent
Declining industries	48 per cent