Evening Standard

The invisible facts in Nigel's tricky trade equation

by John Phelps

A FRENCHMAN steps into Marks & Spencer in Marble Arch and buys a new striped sweater with his Visa credit card.

Does the deal count as further evidence of our worrying consumer boom or is it a far more virtuous addition to Britain's invisible earnings?

As things stand, almost certainly the Frenchman will rank alongside the gentleman on the Clapham bus with a video recorder under his arm as another debit transaction.

But then, equally, transactions by our own free-spending tourists may never appear.

Not surprisingly, Nigel Lawson and his Treasury team along with various economists are concerned that the trade figures which are presented every month as facts are anything

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The one thin about yesterday's nent of a precise lion current account deficit s that it will prove to be very wrong at the end of the day.

There is a fairly straightforward formula for working out the actual figures involving additions of foreign investment, home savings, the Public Sector Borrowing Requirement (or surplus) and consumer spending. The figures have never added up and never will.

Roger Nightingale, a long-standing critic of any official statistics, reckons the margin of error in any one year probably amounts to billions of pounds.

"You certainly can't place any credence on one month's trade figures," he says. "Basically they are a complete nonsense."

Around at SBCI Savory Milln, economist Dr Gerard Lyons has been monitoring trends for years and is concerned about import penetration.

With the aid of statistics compiled by the Central Statistical Office, he demonstrates that industry after industry is now virtually controlled by the importers.

Electricals and electronics have seen import penetration rise from 36% to 49% since 1981, metal manufacturing from 25% to 44%, chemicals from 30% to 41%, textiles from 39% to 47%..., the list seems endless.

He is concerned that the safety mechanism of a lower pound seems to have been ruled out by the inflation battle and that manufacturers may be deterred from investment by high interest rates.

It sounds a telling case—unless his official statistics are all wrong in the first place.

Chancellor is fus

Dewe Rogerson
chester Evening News
uesday, July 26, 1988

Strong case for credit controls

NIGEL LAWSON has rejected the use of credit controls but the teenage scribblers are at odds with him again.

Studies by two City economists, Stephen Hannah of County NatWest and Gerard Lyons of SBCI Savory Milln, support the view that higher interest rates are not enough to cool the overheating which currently threatens the economy.

The impact of raising rates is not as decisive as is often thought. A 2% hike will probably reduce inflation by ½%.

Research to be published in the National Institute of Economic Affairs' Economic Review next month suggests that even the Treasury's own model is now less sensitive to interest rate movement than it once was.

In other areas the effects are less desirable. Higher rates lead to higher sterling, putting pressure on the current account now deeply in deficit.

Controlling inflation and guiding exchange rates require different tactics. And increased interest rates do not only hit overgeared individuals. More than a fifth of companies in a recent CBI survey said they would be seriously impeded.

The approach now must therefore be to attack personal sector borrowings head-on, through direct restrictions.

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CITY EDITOR ANTHONY HILTON

Nigel & Co get the sums in a £900m twist!

by John Phelps

BRITAIN'S yawning trade imbalance with the rest of the world, already causing considerable City disquiet, now turns out to be running at a startling £300 million a month more than anyone thought.

Today the Government revised its carefully prepared statistics to disclose that the first quarter trade gap was £2.8 billion against the £1.9 billion previously projected.

It means that Nigel Lawson's forecast of a total deficit of £4 billion for the whole year is right out of court—many in the City now think we could easily see double that figure.

Lawson: £300m a month trade blunder

Underlining their fears the Government also disclosed today that wage inflation is now running at 8.75%, double the rate of price increases. And with the Budget tax rebates filtering through from next week, the spending spree which is sucking in imports shows no signs of abating.

Interest rates

Only the expectation of higher interest rates stopped a sterling sell off in the wake of the news. So certain are dealers that Nigel Lawson must act soon that the pound actually improved fractionally.

The Government spokespeople at the Central Statistical Office explained that the bulk of the revision was down to our invisible earnings which were £600 million below previous expectations during the first three months of this year.

In particular it seems that Britons going abroad have been spending heavily with their stalwart pound while American and other tourists here have been spending less.

On top of that the Customs and Excise concede they have been making errors in the ways they have collated their statistics.

Not enough account has been taken of the costs of shipping and insuring goods coming in and out of the country.

Altogether the gap in physical trading is now understood to be some £300 million more than previously thought.

De Gerard Lyons, the economist at SBCI Savory Milln, takes the view that the trend in our trade is so bad that raising interest rates may not be enough.

"The Government may have to introduce controls on credit even if this is an anathema to its free market philosophy," he says.

Surprise ½p for Sid!

by Michael Foster

A HALF PENNY doesn't generally buy you much these days. But British Gas chairman Sir Denis Rooke has bought himself a dollop of goodwill in the City today by deciding to pay Sid a final dividend of 5.5p against an expected 5p to take the full year total to 8p.

British Gas shares rose 6.5p to 185.5p against their offer for sale price of 135p as brokers frantically upgraded their dividend forecasts for the year ahead.

British Gas also did well to lift its pre-tax profits to £1.26 billion (£1.10 billion) leading to a post-tax total of £816 million (£681 billion) for the year to March.

The total was only held back by a change in accounting policy relating to explorations which took £30 million off the total.

Belated rise

British Gas managed the increase despite the mild weather last winter. Total gas sales were 1% down; stripping out the climatic effects would indicate an underlying increase of 3.6%.

British Gas benefited from a belated rise in gas prices and broker James Capel looks set to lift this year's forecast of post-tax profits from £900 million.

On the strategic front, British Gas is in a comfortable position to make aggressive moves with net liquid funds rising £463 million by the year end.