

PO-CH/NL/0186 PTA



PART A

Alex

Lawson

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PART A

CHANCELLOR'S 1988 PAPERS ON THE RETAIL PRICE INDEX (RPI)

Begin: 8/1/88

DD: 25 years

End: 25/3/88

Byman 6/9/95

CHANCELLOR'S 1988 PAPERS
ON THE RETAIL PRICE
INDEX (RPI)

PO -CH /NL/0186

PART A

OUTLOOK FOR RETAIL PRICES: DECEMBER AND JANUARY

1. The annual rate of inflation for December as measured by the 12 month change in the retail prices index is expected to fall to around $3\frac{3}{4}$ per cent compared with 4.1 per cent for November.
2. In December prices are expected to have fallen on average by nearly $\frac{1}{4}$ per cent. This compares with a rise of 0.3 per cent recorded in December last year. Most mortgagors faced lower mortgage interest rates in December and prices for cars, petrol and many alcoholic drinks are expected to have fallen. Of the price increases those for fresh foods are expected to be the most notable.
3. This outlook implies an average annual rate of inflation for the last quarter of 4 to $4\frac{1}{4}$ per cent, ie marginally above the Chancellor's Autumn forecast, but within the margin of error ($\pm\frac{1}{4}$ per cent).
4. For January the annual rate of inflation is expected to fall slightly further - to between $3\frac{1}{2}$ and $3\frac{3}{4}$ per cent. There is likely to be an increase of about $\frac{1}{3}$ per cent in the overall level of prices between December and January compared with the increase of 0.4 per cent recorded between the corresponding months last year. Although some price reductions are expected with the January sales, price increases are likely across a range of goods and services; rail fares are to increase on 10 January and the National Coal board raised their prices to wholesalers on 1 January.

Percentage change in the RPI

	12 months	over 1 month	
	all items	all items	all excluding seasonal food
Sept	4.2	0.3	0.4
October	4.5	0.5	0.5
November	4.1	0.5	0.5

FORECASTS

December	$3\frac{3}{4}$	$-\frac{1}{4}-0$	$-\frac{1}{4}$
January	$3\frac{1}{2}-3\frac{3}{4}$	$\frac{1}{3}$	$\frac{1}{4}$



Handwritten initials: pmp

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Minister of State for :

The Rt Hon John Wakeham MP
Lord Privy Seal and Leader of the
House of Commons
Lord Privy Seal's Office
Whitehall
LONDON
SW1A 2AT

CHIEF SECRETARY	
REC.	- 6 JAN 1988
ACTION	Sir P. Moleton
COPIES TO	CRIPMG, Miss M... 5 JAN 1988
	Mr A... Mr K... Miss Peterson
	Mr Luce, Mr T...
	Mr McT... Mr B...
	Mr R... Mr J. Dixon

Handwritten: Dear John,

ERROR IN THE RPI: VALIDATION OF UPRATING ORDER

You will be aware that the error in the calculation of the Retail Price Index announced by Norman Fowler on 11 December has affected the levels of social security benefits under the uprating order which took effect in April 1987 and the order which will come into effect in April 1988.

Colleagues have accepted in the extensive discussion which took place during the last fortnight that it is not desirable to alter the benefit rates set out in the uprating order (SI 1987 No 1978) which will come into effect in April 1988. Indeed, we are advised that there is no legal requirement to do so because we acted in good faith in basing the benefit rates on the movement of the Retail Price Index as published. But we believe it is desirable to introduce a clause into the Social Security Bill currently before the House to put beyond doubt the validity of the benefit levels set out in SI 1987 No 1978. This would avoid the danger of legal challenge on the grounds that the Secretary of State had not exercised his discretion to revoke SI 1987 No 1978 once he knew of the error.

We are advised that there is no question of making any further Order in relation to benefit rates for the period 1987-1988 (because that is effectively precluded by the provisions of the uprating provision in the Social Security Act 1966), but it would have been open to the Secretary of State to have revoked SI 1987 No 1978 before it comes into force in April 1988 and to have replaced it with an Order containing revised benefit rates reflecting the figures as they should have been if the error had not occurred. We are advised that we have a strong argument on administrative grounds to resist any attempt to require us to do so, but do not wish to be in the

E R.

position of having to face such a challenge. We believe it is essential to follow law officers advice in this respect, because although the financial and manpower costs of inserting a new clause into the Bill are negligible, the cost which would result from a successful legal challenge would be considerable. (There are incidentally no EC implications). We propose to introduce such a validating clause at Report Stage of the Bill, due to begin on 12 January, because it is essential that the clause should come into effect as soon as possible.

Similar considerations apply to the Occupational Pensions Revaluation Order (SI 1987) No 1981), which likewise requires an increase in line with prices. We would propose to validate this order in the same clause. The clause is likely to attract some comment, but we believe the reasons for it will be understood on both sides of the House. And the action we have taken to compensate long-term beneficiaries will have done much to defuse the controversy which would otherwise have attached to a provision of this nature.

I should be grateful for your agreement, and the agreement of colleagues, to this course of action by 8 January. Copies of this letter go to members of L Committee, the Secretary of State for Employment and to the Secretary of State for Northern Ireland. The clause would cover both GB and Northern Ireland, whose legislation is similarly affected.

Yours sincerely,

Nick.

NICHOLAS SCOTT

OFFICERS' PENSIONS SOCIETY LTD.

Registered in England No: 418311.

President:

Air Chief Marshal Sir Ruthven Wade, K.C.B., D.F.C.

pmg



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Chairman
Admiral SIR PETER WHITE, G.B.E.
General Secretary,
Major General L.W.A. GINGELL, C.B., O.B.E.
Assistant General Secretary
Group Captain F. VINCENT, O.B.E.

LWAG/SLL

Hon Peter Brooke MP
Paymaster General
HM Treasury
Parliament Street
London SW1P 3AG

5th January 1988

Dear Minister,

Retail Prices Index (Error)

As you might expect, on behalf of our 54,000 members we have followed closely the statements in the House of Commons concerning the error in understating the annual inflation rate on average by about 1/10th of 1% in most months since February 1986. We welcome your written answer of 18th December 1987 concerning the position of public service pensioners, and we do understand the point you make that the administrative costs of precise compensation would be out of all proportion to the sums involved.

However, our main concern is that Armed Forces pensioners should not suffer a permanent loss and we would be grateful for your assurance that in the annual uprating due in April 1989 this error will be taken into account.

There has been widespread interest from our members, and we would like to publish your reply to this letter in the next edition of our journal, "The Pennant", which goes to the printers at the end of March 1988.

*I look forward to your reply
Yours sincerely
L W A Gingell*

L W A Gingell
General Secretary

PAYMASTER GENERAL	
REC	7 JAN 1988
ACTION	Mr Luce
	Blochlex, Bst
	Sir P Middleton
	Mr Anson
	Dana Mueller
	Mr Kemp
	Mr Gilmore

*Mr Hartin
Mr Dixon
Mr Rick Allen
Mr R McIntyre
Mr D Pann
Mr Shendran
Mr Bellgett
pmg*

PRIVATE AND CONFIDENTIAL



Caxton House Tothill Street London SW1H 9NF

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Facsimile 01-213 5465 Telex 915564

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON SW1

6 January 1988

Dear David,

OUTLOOK FOR RPI

... I enclose a numbered copy of the latest DE note.

Copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Timothy Walker (Trade and Industry), Ms A Large (CSO), John Footman (Bank of England), Chris Cloke (CO) and Sir Brian Hayes (Trade and Industry).

Yours sincerely,

Angela Wilkins

PP.

BEVERLEY EVANS
Private Secretary

PRIVATE AND CONFIDENTIAL

FROM: J D PORTES

Date: 7 January 1988

1. MR GIBSON ^{MS 4/1}

2. CHIEF SECRETARY

pmf

cc Chancellor

Financial Secretary
Paymaster General
Sir Peter Middleton
Miss Mueller
Mr Anson
Mr Kemp
Miss Peirson
Mr Luce
Mr Turnbull
Mr McIntyre

RPI ERROR: VALIDATION OF UPGRATING ORDER

Mr Scott's letter of 5 January 1988 (copied to the Financial Secretary and passed to you).

2. Mr Scott asks for colleagues' agreement to the inclusion of a short clause in the Social Security Bill to validate the April 1988 benefit rates against any possible legal challenge resulting from the error in the calculation of the RPI.

3. The legal advice is that such legal action would be unlikely to succeed, given the administrative problems and the Government's efforts to compensate long-term beneficiaries, but Mr Scott believes that a clause is a sensible precaution given the serious consequences that would result from successful legal challenge.

4. We recommend that you reply to Mr Scott agreeing to the inclusion of the proposed clause. A draft letter is attached.

J D Portes
J D PORTES

DRAFT LETTER FOR CHIEF SECRETARY'S SIGNATURE TO NICHOLAS SCOTT

I have seen your letter of 5 January to John Wakeham.

I am content with the inclusion of a short clause in the Social Security Bill to validate the 1988 benefit rates.

Copies of this letter go to members of L Committee, the Secretary of State for Employment and the Secretary of State for Northern Ireland.

cc- CX, TST, AMG.

SIR P. MIDDLTON, DAME ANNE
MUELLER



Mr Anson, Mr Kemp
Miss Pearson, Mr Luce
Mr Tienbun, Mr McIntire
Mr Gibson, Mr Peters.

Treasury Chambers, Parliament Street, SW1P 3AG

2

Nicholas Scott Esq MBE JP MP
Minister of State for Social Security and the Disabled
Department of Health and Social Security
Richmond House
79 Whitehall
London
SW1A 2NS

NMS

8 January 1988

Dear Nick,

ERROR IN THE RPI: VALIDATION OF UPDATING ORDER

I have seen your letter of 5 January to John Wakeham.

I am content with the inclusion of a short clause in the Social Security Bill to validate the 1988 benefit rates. A similar problem arises on the public sector pensions updating order which follows the terms of the DHSS order. I think the clause should accordingly be drafted in such a way as to meet that case too. The Treasury Solicitors are looking at this urgently and I would suggest that your lawyers get in touch with them.

I am copying this letter to members of L Committee, Norman Fowler and Tom King.

John Major
JOHN MAJOR

PERSONAL AND CONFIDENTIAL



Caxton House Tothill Street London SW1H 9NF

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Facsimile 01-213 5465 Telex 915564

Paul Gray Esq
10 Downing Street
LONDON SW1

13 January 1988

Dear Paul,

RETAIL PRICE INDEX

... I enclose a copy of our note and draft press release on the Index of Retail Prices due to be released at 11.30 pm on Friday 15 January.

Numbered copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Alison Brimelow (Trade and Industry), Andrea Large (CSO), John Footman (Bank of England), Paul Cuthbert-Brown (CO) and Sir Brian Hayes (Trade and Industry).

Sincerely,
Beverley Evans.

BEVERLEY EVANS
Private Secretary

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GENERAL INDEX OF RETAIL PRICES : DECEMBER 1987

The annual rate of inflation, as measured by the 12-month change in the retail prices index, fell to 3.7 per cent in December, from the 4.1 per cent recorded for November.

2. The overall level of prices was 0.1 per cent lower in December than in November compared with the increase of 0.3 per cent recorded between the corresponding months last year. Most mortgagors faced lower mortgage interest rates (down about one point to around 10% per cent) and prices for motor vehicles and petrol fell. Among the price increases those for fresh foods were the most notable.

3. The average annual rate of inflation for the last quarter of 1987 was 4.1 per cent - in line with the forecast in the Chancellor's Autumn Statement.

4. In January the 12-month rate may fall a little further towards 3% per cent. There is likely to be an increase of about 1/3 per cent in the overall level of prices between December and January compared with an increase of 0.4 per cent recorded between the corresponding months last year. Although some price reductions are expected with the January sales, price increases are likely across a range of goods and services; rail fares increased on 10 January and coal prices are set to rise.

Producer Prices

5. These prices were, on average, increasing faster than retail prices in December. There were falls in the prices of a number of imported materials, following the recent strength of sterling against the dollar, but these were more than offset by a seasonal rise in the costs of industrial electricity and higher prices for food manufacturing materials, metals and petroleum products. Between November and December the price index for materials and fuels purchased by manufacturing industry rose by 3.0 per cent, more than half of which resulted from the electricity price rises. This took the 12-month rate to 4.0 per cent, from the 3.2 per cent for November.

6. The 12-month rate of increase in the price index for home sales of manufactured products was little changed in December at 3.8 per cent. This rate has been between 3% and 4 per cent since March 1987.

Tax and Prices Index

7. The tax and prices index increased by 1.9 per cent in the year to December compared with 2.4 per cent recorded for November.

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International comparisons

8. The latest 12-month percentage changes in consumer prices in the main OECD countries and the averages for all EEC and OECD countries are as follows:-

	UK	FRANCE	FEDERAL GERMANY	ITALY	NETHER -LANDS	JAPAN	USA	CANADA	OECD Averages	EEC
1986										
Q3	2.6	2.1	-0.4	5.4	-0.4	0.2	1.7	4.2	2.5	3.0
Q4	3.4	2.1	-1.1	4.4	-1.8	-0.5	1.3	4.3	2.1	2.9
1987										
Q1	3.9	3.2	-0.5	4.1	-1.2	-1.3	2.2	4.1	2.3	2.2
Q2	4.2	3.4	0.1	4.2	-1.0	-0.2	3.8	4.6	3.9	3.0
Q3	4.3	3.4	0.6	4.9	0.2	0.1	4.2	4.5	3.7	3.3
Q4	4.1									
June	4.2	3.3	0.2	4.6	-0.9	-0.4	3.7	4.8	3.4	3.1
July	4.4	3.4	0.7	4.7	0.1	-0.4	3.9	4.7	3.5	3.3
August	4.4	3.5	0.8	4.8	0.2	0.1	4.3	4.5	3.9	3.4
September	4.2	3.2	0.4	5.2	0.2	0.5	4.3	4.5	3.9	3.2
October	4.5	3.2	0.9	5.3	0.1	0.4	4.5	4.3	3.9	3.4
November	4.1	3.2	1.0	5.2	-0.1	0.4	4.5	4.2	3.9	3.3
December	3.7									

STATISTICS DIVISION
DEPARTMENT OF EMPLOYMENT

13th JANUARY 1988

FROM: S PRICE
DATE: 14 JANUARY 1988

*more as expected.
Jim Hibberd*

- 1. MR J S HIBBERD
- 2. CHANCELLOR OF THE EXCHEQUER

- cc:
- PS/Chief Secretary
 - PS/Financial Secretary
 - PS/Economic Secretary
 - PS/Paymaster General
 - Sir Peter Middleton
 - Sir Terence Burns
 - Miss Mueller
 - Mr Anson
 - Mr Lankester
 - Mr Kemp
 - Mr N Monck
 - Mr Odling-Smee
 - Mr Scholar
 - Mr Sedgwick
 - Mr Bottrill
 - Mr Hibberd
 - Mr S J Davies
 - Mr R I G Allen
 - Mr Gilhooly
 - Mr Mowl
 - Mr Pickford
 - Mr de Berker
 - Mr Patterson
 - Mr Cropper
 - Mr Tyrie
 - Mr Call

*Thanks. For let
me see a table
showing the comparison
of the past 5 yrs,
plus the cumulative totals.
I will then discuss @
10/11/88*

Ch/

RPI 87 on 86 = 4.1%
Excl m.i.p. = 3.7%

*mpw
18/1*

*(P.S. What is the annual
inflation rate for the year as
a whole - 1987 or
1988 - both
with + without
mortgage payments?)*

THE DECEMBER RPI (to be published at 11.30 am on Friday 15 January)

The RPI fell from 103.4 to 103.3 between November and December. The annual inflation rate was 3.7 per cent in December, down from 4.1 per cent in November. Excluding mortgage interest payments, the December figure was 4.0 per cent, the same as in November.

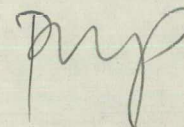
2. The 0.1 per cent fall from November to December compares with a 0.3 per cent rise last year. The fall in inflation is mainly due to lower mortgage interest rates, which fed through onto the index almost completely in December. However, the prices of motor vehicles and petrol also fell last month, offset by larger than normal rises in seasonal food, particularly fresh vegetables. Were it not for the error in the RPI uncovered last month, the actual inflation figure would have been 3.6 per cent.

3. The December figure was exactly as expected for this month. The average inflation figure of 4.1 per cent for the quarter is consistent with the Autumn Statement forecast of 4 per cent (rounded to $\frac{1}{4}$ per cent). Inflation will probably fall further to around $3\frac{1}{2}$ per cent in January.

4. In the City there is a narrow range of expectations about the change in prices between November and December. Phillips and Drew, Wood Mackenzie and Alexander Laing and Cruickshank expect no change. James Capel and the Nomura Research Institute expect a rise of +0.1 per cent and Warburg Securities expects a fall of -0.1 per cent. In addition Capel Cure Myers forecast an annual inflation rate of 3.6 per cent. The actual figures are -0.1 per cent and 3.7 per cent.

SIMON PRICE
EAL DIVISION
x 5401

RESTRICTED



FROM T R H LUCE
14 January 1988
Room 55/G
Ext 4544

PAYMASTER GENERAL

cc PS/Chancellor
Chief Secretary
Sir P Middleton
Mr Anson
Dame Anne Mueller
Mr Kemp
Mr Beastall
Mr C D Butler
Mr Gilmore
Mr Hawtin
Mr C Kelly
Miss Peirson
Mr Turnbull
Mr Dixon
Mr Instone
Mr Fox
Mr McIntyre
Mr M Richardson
Mr Pain
Mr Rayson
Mr Corcoran
Mr Griffiths
Mr A Hurst
Mr Sheridan
Mr Hayden
File A
File B

RPI ERROR: PAYMENTS TO CHARITIES

1 This is a note, for your information, of the arrangements being made by the public service pension departments and the voluntary sector side of the DHSS for carrying forward the commitments you and Mr Nicholas Scott gave Parliament on 18 December. It will be at least two or three weeks before we or they can put specific issues for decision by Ministers, because no department yet has firm and well-founded proposals for spending the money. We do however raise a point on the Parliamentary scheme (paragraph 12) and outline a possible announcement procedure (paragraph 13) on which you may wish to comment now.

Money Saved and Available for Charities

2 The total is about £15m, the upper end of the £10m-£15m bracket mentioned to Parliament. £7m comes from the main centrally-

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administered public service schemes (Civil Service, Teachers, NHS, Armed Forces). £7½m is the residue of the social security savings left after compensation payments to individuals.

Public Service Charities

3 As expected, the prospects are most promising for the "national" service groups - the Civil Service and the three Armed Forces. Neither OMCS nor MOD at present envisage much difficulty in proposing disbursements to well-established charities in their fields on a scale sufficient to use up the savings attributable to the Civil Service and the Armed Forces pension schemes should that be desirable, though we doubt whether either department has yet thought through the various "propriety" and policy difficulties involved in giving relatively large one-off sums to charities not used to receiving them. Some difficulties may emerge as they go into matters further.

4 NHS staff and teachers are employed by health and local authorities. For neither is there the same framework of national charities, though for both some unions run small-scale benevolent associations. The DHSS see the charity payments scheme as an opportunity to promote the establishment of a national NHS benevolent association, independent of the unions, which they have been pressed to do for some time. DES and the Scottish Office have not so far come up with many concrete ideas about teachers. They may have difficulty in spending much, but are thinking further.

General Voluntary Sector

5 The DHSS voluntary sector people are still working on a package which they say may possibly include payments to established general trusts (e.g. Rowntree and Sainsbury), and client group voluntary bodies (e.g. for old people, single-parent families, the homeless). They are also considering endowing a new trust; and have received an approach from the Charities Aid Foundation who have offered to act as their agents in disbursing some or all of the money.

Timing of Payments

6 Generally speaking all departments (including the DHSS voluntary sector people) see great difficulty in making any payments this financial year. Their ideas are not concrete enough to bring to fruition in the handful of days left for 1987-88 Supplementary Estimates. We have pressed them strongly to come up with at least one or two small payments which could properly be made, so that when the time comes to announce the arrangements for allocating the money, Ministers will not have to acknowledge that no charity has yet received any. The OMCS may be able to arrange something; the other departments probably cannot.

7 For the larger payments, however, we have emphasised the risk to financial propriety inherent in rushing things; and said that if need be the payments might be spread over 1988-89 and 1989-90. This would help donor departments and recipients to plan sensible and well-targeted spending; and would enable Ministers to say that the "savings" had accrued over two years (1987-88 and 1988-89) and would be disbursed over the same period but on a lag of a year, because the RPI error had been discovered so late in 1987-88. It would also divide the main calls on the Reserve between two years.

Arrangements between Departments for Administering Payments

8 DHSS are still opposed to administering the whole £15m (contrary to the view first taken by Mr Scott). We have told the public service pension departments that if DHSS maintain this refusal each of them (including OMCS for the Civil Service) will have to make and account for payments in their own areas. None of them have so far objected to this. Two of them (OMCS and MOD) say they already have suitable Votes. We have made clear that under no circumstances would the Treasury run a general fund for the public service interests, though we would continue to coordinate the broad pattern of payments and would need to put the overall proposals to Treasury Ministers before decisions or commitments were made.

9 It may possibly emerge that the public service departments between them will be unable satisfactorily to spend the whole of the £7m savings attributable to their pension schemes. Some "undershoot" on the public service side - say £1m or £2m - might be no bad thing if the DHSS could make good use of it for the more broadlybased voluntary sector. But at present they say that any addition to "their" £7½m would be unwelcome because they are already in some difficulty over spending that. As time passes and they come under pressure from voluntary sector bids they may possibly think again.

Local Government, Police and Fire

10 It is relevant here that the position on the "devolved" public service schemes - local government, police and fire - remains unclear. In your Parliamentary answer you said that the public authorities concerned should discuss with their departments whether any remedy of the RPI error should be provided. You made clear that the decisions you announced applied only to the centrally-administered schemes.

11 The DOE hope that nothing will be necessary vis-a-vis local government pensioners. The Home Office, however, are convinced that their Ministers will be strongly pressed to make some payments to police and fire service charities; will feel obliged to do so; and will have to accept that the whole cost will fall on central government. We have not, of course, agreed to this. But in case it should happen, we plan to engineer a slight undershoot for the other public services which we could if necessary use to finance payments for the police and firemen. If, in the event, it is not needed for this purpose we would press the DHSS to use it up.

Parliament and the Judiciary

12 Both these schemes are covered by the main decision you announced on the centrally administered schemes. The Lord Chancellor's Department say that nothing needs to be done for judges. There is, I believe, an MPs' benevolent fund. If you

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think it appropriate, we can provide you or the Lord Privy Seal with a letter asking the Trustees whether they would like it to be considered.

Preparations for an Announcement

13 We have asked all departments concerned to let us have firm proposals within a fortnight. But it may be well into February before a satisfactory overall package is cleared and ready for announcement. We will submit to you again once we have suitable raw material. You may want to propose the same division of responsibility between Mr Scott and yourself as on 18 December. Mr Scott could say (probably this time in a written answer) what is happening on the DHSS voluntary sector, and give a very broad general account covering the total savings of £15m. You could explain (again in a written answer) broadly the position for the public services. If it were thought necessary to give details of the recipient bodies, this could perhaps be done in Press statements from the DHSS and the individual public service departments.

14 We have not discussed these announcement possibilities with the other departments yet; but it would be helpful to know if you think them on the right lines.

TRH

T R H LUCE

PRESS NOTICE

Department of Employment

Caxton House, Tothill Street, London SW1H 9NF
Telephones: Direct lines — Press Office 01-213 7439 (24 hour answering service)
Public Enquiries 01-213 5551 Exchange — 01-213 3000
Telex 915564 DEPEMP Press Office Facsimile — 01-213 3892

7/88

January 14, 1988

UNEMPLOYMENT CONTINUES TO FALL

Commenting on today's figures, Employment Secretary, Mr Norman Fowler said: "Unemployment (seasonally adjusted) fell again in December, by 35,000. It has now fallen in each of the last 18 months and the unemployment rate has now reduced to 9.4%. In the last 12 months unemployment has fallen by 505,000 and by 311,000 in the last 6 months. Over the last year the UK rate has fallen faster than in any other major industrialised country and is now below that of many of our European partners, including France, Belgium and the Netherlands. Unemployment has continued to fall throughout the country with the largest fall in the unemployment rate in the West Midlands, Wales, North West and the North. The number of school-leavers, at 64,000, was the lowest December figure since 1979.

"The employed labour force continued to grow strongly in the third quarter of 1987, by 84,000. It is now 404,000 higher than a year ago. 239,000 of these jobs were full-time and 165,000 part-time. 1.45 million extra jobs have now been created since 1983. The latest figures available show that between 1983 and 1986 employment in the UK increased by more than the rest of the EC put together.

"Prospects for employment remain good but they could be undermined by excessive pay awards. The $\frac{1}{4}$ % increase in average earnings growth is a sign that settlements in both the public and private sectors are running at too high a level. It is important that wage growth is restrained if the substantial improvement in the jobs market is to continue".

PRESS NOTICE

Department of Employment

Caxton House, Tothill Street, London SW1H 9NF

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Public Enquiries 01-213 5551 Exchange — 01-213 3000

Telex 915564 DEPEMP Press Office Facsimile — 01-213 3892

6/88

LABOUR MARKET STATISTICS

JANUARY 14, 1988

SUMMARY STATISTICS

Thousands

		Level	Change on previous period	Change on previous year
<u>Unemployment (UK)</u>				
Total (not seasonally adjusted)	December 10	2,696	+ 10	- 533
Total (excluding school leavers)	December 10	2,614	- 35	- 505
<u>Employed Labour Force</u>	September; Q3 1987	24,446	+ 84	+ 404
<u>Employees in employment</u>				
Services	September Q3 1987	14,578	+ 85	+ 364
Manufacturing	September Q3 1987	5,063	- 22	- 50
Manufacturing employment	November 1987	5,077	+ 11	- 34
<u>Vacancies</u> (UK at jobcentres)	December 4	257	- 12	+ 46

Percentage change on previous year
(underlying increase)

Index of Average Earnings

Whole Economy	November	8½
Services	November	8½
Manufacturing	November	8½

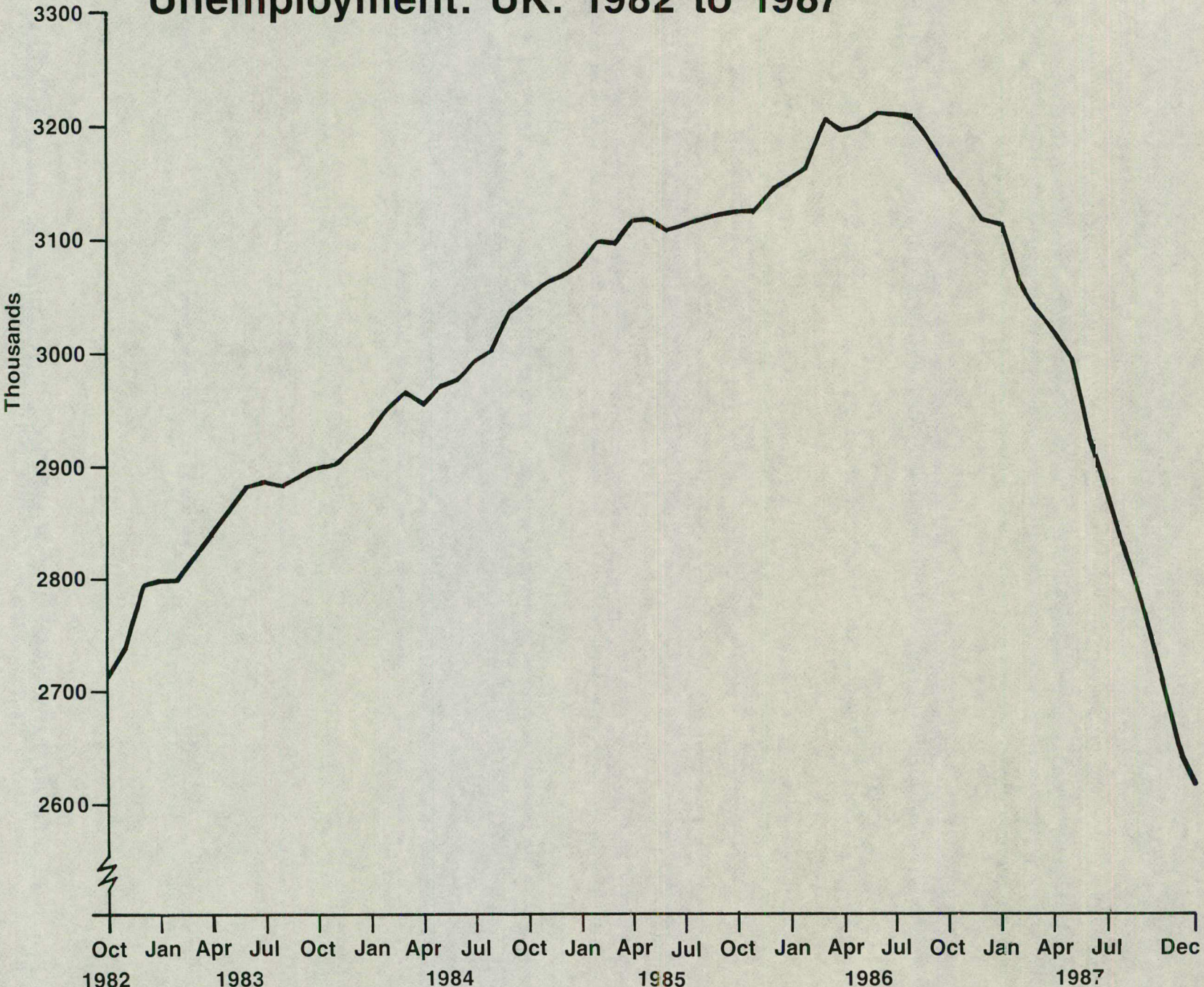
Notes

1. All figures seasonally adjusted GB except where otherwise stated.
2. The employed labour force comprise employees in employment; the self-employed and HM Forces.

prepared by the Government Statistical Service



Unemployment: UK: 1982 to 1987



Note: Seasonally adjusted excluding school leavers

mp

EUROMONEY

Euromoney Publications PLC, Nestor House, Playhouse Yard, London, EC4V 5EX, UK.
Telephone: 01-236 3288. Fax: 329 4349. Telex: 8814985/6 EURMON G

January, 1988

Dear Executive,

The Bank Register 1988

The unprecedented worldwide growth of financial markets and the institutions active in them has created a vital need for accurate and accessible information. To meet that need, Euromoney has published The Bank Register, the most comprehensive and up to date directory of the world's banks and financial institutions.

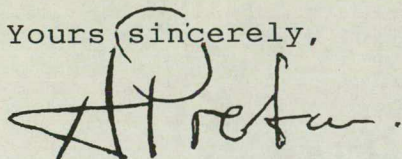
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The 1988 edition includes a total of 55,000 names of senior officers from banks in 200 countries and contains over 3,500 pages. To help you find just the information you want, the Bank Register has a main alphabetical index and specially designed indices and appendices, which respond to the needs of banking specialists and users of banking services.

The Bank Register 1988 will be published next month. To ensure you receive your copy on publication, please complete and return the order form today. You will find full details of the directory and how to order in the enclosed brochure.

Yours sincerely,



Allyson Preston
Editor - The Bank Register



THE QUEEN'S AWARD FOR
EXPORT ACHIEVEMENT 1983 1986



mpw ~~_____~~

FROM: MISS M P WALLACE
DATE: 15 January 1988

MR S PRICE

to ring back

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Sir P Middleton
- Sir T Burns
- Dame Mueller
- Mr Anson
- Mr Kemp
- Mr Monck
- Mr Lankester
- Mr Odling-Smee
- Mr Scholar
- Mr Sedgwick
- Mr Bottrill
- Mr Hibberd

- Mr R I G Allen
- Mr Gilhooly
- Mr Mowl
- Mr Pickford
- Mr de Berker
- Mr Patterson
- Mr Cropper
- Mr Tyrie
- Mr Call

THE DECEMBER RPI (to be published at 11.30am on Friday 15 January)

The Chancellor has seen and was grateful for your minute of 14 January.

mpw.

MOIRA WALLACE

PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM on
FRIDAY 15 JANUARY

259/87

January 15, 1988

GENERAL INDEX OF RETAIL PRICES

DECEMBER 1987

The general index of retail prices for all items for December 8, 1987 was 103.3 (January 13, 1987 = 100). This represents a decrease of 0.1 per cent on November 1987 (103.4) and an increase of 3.7 per cent on December 1986 (99.6, January 1974 = 100).

The decrease in the index between November and December was mainly the result of lower mortgage interest rates for most mortgagors (down about one point to around 10½ per cent) and lower prices for motor vehicles and petrol. Of the price increases, those for fresh foods were the most notable.

The movements for the main groups in the index are shown in Table 2.

Table 1.

	All items			All items except seasonal food			
	Index Jan 13 1987 = 100	Percentage change over			Index Jan 13 1987 = 100	Percentage change over	
		1 month	6 months	12 months		1 month	6 months
1987							
July	101.8	-0.1	+1.8	+4.4	101.9	+0.1	+1.9
August	102.1	+0.3	+1.7	+4.4	102.2	+0.3	+1.9
September	102.4	+0.3	+1.8	+4.2	102.6	+0.4	+2.0
October	102.9	+0.5	+1.1	+4.5	103.1	+0.5	+1.5
November	103.4	+0.5	+1.5	+4.1	103.6	+0.5	+1.9
December	103.3	-0.1	+1.4	+3.7	103.3	-0.3	+1.5

TABLE 2

	Indices (13 January 1987 = 100)		Percentage change over the month
	November 10, 1987	December 8, 1987	
All items	103.4	103.3	-0.1
All items excluding Food	103.8	103.5	-0.3
All items excluding Housing	103.0	103.2	+0.2
Food	101.6	102.4	+0.8
Seasonal Food	96.8	102.4	+3.6
Non seasonal Food	102.1	102.4	+0.3
Catering	105.3	105.8	+0.5
Alcoholic Drink	103.3	103.1	-0.2
Tobacco	101.1	101.2	+0.1
Housing	105.6	103.9	-1.6
Fuel and Light	98.3	98.2	-0.1
Household Goods	104.2	104.3	+0.1
Household Services	103.8	104.0	+0.2
Clothing and Footwear	102.9	103.4	+0.5
Personal Goods and Services	103.9	104.1	+0.2
Motoring Expenditure	105.4	105.0	-0.4
Fares and Other Travel Costs	103.1	103.2	+0.1
Leisure Goods	103.1	103.2	+0.1
Leisure Services	103.7	103.6	-0.1

NOTES TO EDITORS

1 As reported by the Secretary of State for Employment on December 11, 1987, it has been discovered that from February 1986 to October 1987 a computer program error affected the monthly index. The official figures are always stated to one decimal place and the extent of the understatement of index levels will depend on rounding. The all items index figures for February 1986 to January 1987 will be understated by about 0.06 per cent; the index figure for January 1987 taking January 1974 as 100 was 394.5. The index figures for February to October 1987 were affected by an error about 0.09 per cent. In most months this will have resulted, with rounding, to an understatement of 0.1 points in the published figures which take January 1987 as 100. However, because the January index link, 394.5, was understated the understatements relative to January 1986 may have rounded to 0.1 or 0.2 per cent.

2 The General Index of Retail Prices (RP1) measures the average change from month to month in the prices of goods and services purchased by most households in the United Kingdom. The expenditure pattern on which the index is based is revised each year using information from the Family Expenditure Survey. The expenditure of certain higher income households and pensioner households, mainly dependent on state pensions and benefits, is excluded.

3 The index is compiled using a large and representative selection of more than 600 separate goods and services for which price movements are regularly measured in about 180 towns throughout the country. Approximately 130,000 separate price quotations are used each month in compiling the index.

4 The prices of some items of food show significant seasonal variation. A separate price index is compiled for these "seasonal foods", the expenditure on which accounts for around 2½ per cent of household expenditure. The variation caused by these items is removed from the series of indices for 'all items except seasonal food'.

5 Rates of change of indices can be calculated over periods of any length. Rates calculated over long periods are slow to detect changes in trend while calculations over very short periods give rather volatile results. To help in assessing what is happening to prices, rates of changes in the all items index and the index for all items except seasonal food are shown in Table 1 over successive periods of one month, six months and twelve months.

6 Following the recommendations which the Retail Prices Index Advisory Committee made in its report submitted to the Secretary of State for Employment in July 1986, the index has been re-referenced to make January 1987 = 100. Calculations of movements in the index over periods of time which span January 1987 are made as follows:-

The index for the later month (January 1987 = 100) is multiplied by the index for January 1987 (January 1974 = 100) and divided by the index for the earlier month (January 1974 = 100). 100 is subtracted to give the percentage change between the two months.

Using the all items index for example: take the index for December 1987 (103.3) and multiply it by the January index (394.5) then divide by the December 1986 index. Subtract 100 from the result which gives 3.7 as the percentage (393.0) change in the index over the twelve months to December.

7 The index for December 1987, if translated to the old reference date (January 1974 = 100) would be 407.5.

8 Other changes made to the index in 1987 are given in an article in the April edition of Employment Gazette.

9 The Retail Prices Index Advisory Committee was first established in 1946 and advises on the methodology used for compiling the RPI. Committee members include representatives of consumers, employees, employers, retailing organisations, academic experts, government departments and other official bodies. The Committee's latest report - 'Methodological Issues Affecting The Retail Prices Index' Cmnd 9848 HMSO £6.50 - was published on 15 July 1986. The Government announced at the same time that all its recommendations were to be accepted.

10 The housing costs of owner-occupiers are reflected in the index using an indicator which represents mortgage interest payments. A weighted average of building societies base mortgage interest rates is used in the calculation.

11 The index is given in full in the Employment Gazette.

RESTRICTED



FROM: S P JUDGE
DATE: 18 January 1988

MR LUCE

mpj

cc PS/Chancellor
PS/Chief Secretary
Sir Peter Middleton
Mr Anson
Dame Anne Mueller
Mr Kemp
Mr Beastall
Mr C D Butler
Mr Gilmore
Mr Hawtin
Mr C Kelly
Miss Peirson
Mr Turnbull
Mr Dixon
Mr Instone
Mr Fox
Mr McIntyre
Mr M Richardson
Mr Pain
Mr Rayson
Mr Corcoran
Mr Griffiths
Mr A Hurst
Mr Sheridan
Mr Hayden

RPI ERROR: PAYMENTS TO CHARITIES

The Paymaster General was grateful for your clear submission of 14 January, bringing him up-to-date on recent progress.

He has the following detailed comments:

- i. he agrees it is sensible to engineer a slight undershoot on public services other than police and fire, for use as necessary by the Home Office (your paragraph 11);
- ii. he is content to write to the Lord President about the benevolent fund for MPs - which does exist (your paragraph 12); and
- iii. he agrees with your proposals for announcing the position in the public services, by way of a Written Answer towards the end of February (your paragraph 13).

I will be grateful for drafts in due course.

S P JUDGE
Private Secretary

JO1037

COPY NO 2

MR P GRAY
Prime Minister's Office

Ref: F8/13

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - NOVEMBER 1987

The provisional index of the output of the production industries for November 1987 will be published at 11.30 am tomorrow, Tuesday 19 January. A copy of the Press Notice is attached.

Latest figures

The November 1987 index of the output of the **production industries** - energy and manufacturing - is provisionally estimated at 115.2 (1980=100, seasonally adjusted), a decrease of $\frac{1}{2}$ per cent on October. For **manufacturing** the index was 112.6, also a decrease of $\frac{1}{2}$ per cent on October (see also paragraph on bias adjustment below).

In the three months to November 1987, the output of the **production industries** was 1 per cent higher than in the previous three months; **manufacturing** output was $1\frac{1}{2}$ per cent higher. Some industry detail is given in the attached Table A.

Assessment

Manufacturing output reached a temporary peak in the second quarter of 1985 and then declined by 3 per cent by the first quarter of 1986. Since then manufacturing output has grown steadily with the exception of a slackening in growth in the first quarter of last year, which was largely a reflection of severe weather in January. The provisional figures for the third quarter and for October and November show sharp rises compared with earlier months. (The figure for August may be erratically high due to seasonal adjustment difficulties.) They suggest that the rate of underlying growth in recent months may be about $6\frac{1}{2}$ per cent, slightly in excess of the recorded increase in manufacturing output, which, in the three months to November 1987, is put at 6 per cent compared with the same period a year ago. In the three months to November, manufacturing output was $2\frac{1}{2}$ per cent above the previous peak in the first half of 1979.

Energy output seems to have peaked during 1986 and has since then declined.

Since 1985 the output of **production industries** has grown steadily, reflecting the growth in manufacturing. The figure for August was particularly high due to a combination of high oil extraction and manufacturing output. In the three months to November the output of production industries was $3\frac{1}{2}$ per cent higher than a year ago but, as with manufacturing, the recent underlying growth rate may be a little higher at about 4 per cent per year.

Bias adjustment for manufacturing output

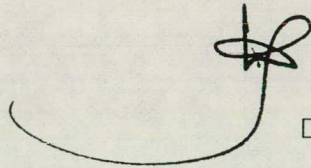
In line with revised procedures introduced in January 1986, figures for manufacturing output in the latest six months include adjustments to try to allow for underestimation in the provisional estimates. The overall size of the bias adjustment is dependent on the size of any discrepancy between the growth in the CSO raw figures and the growth implied by the CBI figures, while the historical month by month profile of the bias in the CSO figures contributes to the profile of the adjustment over the six month period for which it is applied. This profile is updated from time to time.

Revisions

The index of manufacturing output has been revised downwards by around $\frac{1}{2}$ per cent in the second and third quarters of 1986, by 1 per cent in the first quarter of 1987 and by around $\frac{1}{2}$ per cent in the second quarter. The index of production has been revised downwards by around $\frac{1}{2}$ per cent in the first quarter of 1987.

Figures for December 1987

Figures for December 1987 are scheduled for publication on Tuesday 16 February 1988.



D C K Stirling

18 January 1988

Central Statistical Office

Table A

Copy No.

** PERSONAL AND CONFIDENTIAL until release of Press Notice at 11.30 am on January 19 1988 and thereafter unclassified **

Index of output of the production industries 1980=100

SUMMARY	Total production industries	Energy and water supply	Total manufacturing industries	Metals	Other minerals and mineral products	Chemicals and man-made fibres	Engineering and allied industries	Food, drink and tobacco	Textiles, footwear, clothing and leather	Other manufacturing
1985	108.1	120.2	103.8	112.8	94.6	119.2	104.0	101.0	101.9	99.0
1986	109.7	125.2	104.2	110.5	97.0	120.9	101.8	102.5	103.8	103.8
1986 2	109.3	125.6	103.4	109.6	97.0	119.1	101.4	101.6	104.1	102.4
3	110.4	127.4	104.4	108.5	97.9	121.0	101.9	102.8	103.2	104.9
4	110.8	121.1	107.1	115.0	99.4	125.0	104.7	104.7	104.7	107.5
1987 1	111.2	124.6	106.3	113.8	97.6	126.7	102.9	104.5	102.0	106.8
2	112.0	121.1	108.7	118.8	101.3	128.5	104.6	105.2	105.6	113.2
3	114.6	122.5	111.7	119.8	104.3	130.7	108.7	104.9	107.7	117.2
1987 S	114.1	120.9	111.6	117	105	130	109	105	106	117
0	115.6	122.1	113.2	122	105	132	110	106	109	119
N	115.2	122.6	112.6	130	104	131	109	106	108	120
Percentage change latest 3 months on: previous 3 months										
a year earlier	+1.2	+0.4	+1.5	+0.9	+0.7	+1.6	+1.8	+0.7	+0.3	+2.1
1st quarter 1981(a)	+3.7	-2.0	+6.0	+9.5	+5.5	+5.9	+5.6	+1.6	+2.8	+11.3
1st half 1979(b)	+20.9	+19.8	+21.3	+23.6	+17.1	+36.3	+21.7	+6.1	+18.3	+26.9
	+7.5	+23.1	+2.4	-5.8	-3.2	+20.9	-0.4	+5.8	-10.1	+6.8
DETAILED ANALYSIS	Coal and coke	Extraction of mineral oil and natural gas	Mineral oil processing	Other energy and water supply	Metals	Other minerals and mineral products	Chemicals	Man-made fibres	Metal goods not elsewhere specified	
1985	67.2	150.4	98.6	105.9	112.8	94.6	120.5	74.0	99.4	
1986	79.3	153.0	99.9	111.7	110.5	97.0	122.5	67.9	97.6	
1986 2	79.6	152.5	103.1	113.1	109.6	97.0	120.6	68.9	98.0	
3	78.3	158.1	101.0	111.2	108.5	97.9	122.6	65.8	97.9	
4	79.1	147.1	99.0	108.0	115.0	99.4	126.9	62.4	98.3	
1987 1	75.9	153.0	95.7	112.0	113.8	97.6	128.7	59.4	97.7	
2	75.5	147.8	98.9	108.4	118.8	101.3	130.3	65.7	99.3	
3	76.5	147.9	104.5	111.2	119.8	104.3	132.8	61.0	104.8	
1987 S	75	146	106	109	117	105	132	60	105	
0	73	146	104	114	122	105	134	71	108	
N	73	149	107	111	130	104	133	66	104	
Percentage change latest 3 months on: previous 3 months										
a year earlier	-4.5	+1.7	+5.3	-1.2	+0.9	+0.7	+1.5	+8.2	+2.6	
1st quarter 1981(a)	-7.1	-3.4	+8.6	+0.8	+9.5	+5.5	+6.0	+3.4	+7.7	
1st half 1979(b)	-24.4	+37.2	+10.7	+15.2	+23.6	+17.1	+38.1	-27.2	+19.2	
	-22.8	+55.9	-5.8	+6.3	-5.8	-3.2	+23.7	-52.3	-14.2	
DETAILED ANALYSIS continued	Mechanical engineering	Electrical and instrument engineering	Motor vehicles and parts	Other transport equipment	Food	Drink and tobacco	Textiles	Clothing, footwear and leather	Paper, printing and publishing	All other manufacturing
1985	91.9	131.0	87.4	94.4	103.9	95.0	98.4	104.9	98.2	99.9
1986	88.2	129.9	82.5	96.5	105.5	96.4	98.9	108.0	102.2	105.7
1986 2	89.9	126.5	81.9	96.0	104.1	96.4	99.2	108.4	101.3	103.7
3	86.8	131.5	81.3	97.8	105.8	96.6	97.8	107.9	102.4	107.8
4	89.7	136.0	85.6	97.8	108.2	97.5	100.2	108.7	105.8	109.5
1987 1	84.0	137.5	83.7	97.6	106.6	100.1	99.1	104.5	105.3	112.9
2	88.2	135.3	86.1	100.4	107.0	101.7	102.0	108.7	110.4	116.5
3	91.3	139.7	95.4	99.3	106.0	102.6	103.8	111.1	115.0	119.7
1987 S	90	141	99	99	104	106	103	109	115	119
0	92	142	94	101	107	104	105	112	117	122
N	87	147	88	101	108	103	106	110	117	122
Percentage change latest 3 months on: previous 3 months										
a year earlier	-1.5	+4.5	+1.6	+0.7	-0.6	+3.3	+1.1	-0.4	+2.5	+1.7
1st quarter 1981(a)	+2.0	+6.9	+11.1	+2.5	-0.7	+6.9	+5.3	+0.9	+11.4	+11.2
1st half 1979(b)	+2.7	+55.0	+21.9	-4.9	+7.6	+2.9	+15.6	+20.5	+22.5	+32.1
	-18.5	+39.0	-24.0	+6.9	+6.7	+4.0	-16.1	-4.5	+9.0	+4.6

(a) Last trough for production industries (b) Last peak for production industries

Personal numbered copies of the minute and attachment to:

Treasury	(Principal Private Secretary (Sir Peter Middleton
Cabinet Office	(Mr Jack Hibbert
Department of Trade and Industry	(Private Secretary Secretary of State's Office (Private Secretary Chancellor of the Duchy of Lancaster and Minister for Trade and Industry (Private Secretary to Robert Atkins (Private Secretary to John Butcher (Sir Brian Hayes (Mr H H Liesner (Mr A Whiting (Mr N Harvey (Mr S W Treadgold
Bank of England	(Mr R Leigh-Pemberton

Both manufacturing and production industries' output fell back this month from October's very high levels, but CSO have left their estimates of underlying growth rates unchanged, at 6½% and 4% respectively.

FROM: PETER CURWEN
DATE: 18 January 1988

1. MR PICKFORD
2. CHANCELLOR OF THE EXCHEQUER

- Chief Secretary
- Financial Secretary
- Economic Secretary
- Paymaster General
- Sir Peter Middleton
- Sir Terence Burns
- Mr Cassell
- Mr Monck
- Mr Burgner
- Mr Scholar
- Mr Sedgwick
- Mr R I G Allen
- Mr MacAuslan
- Mr Hibberd
- Mr Bush
- Mr Brooks
- Mr Hudson
- Mr Dyer
- Mr Call
- Mr Cropper
- Mr Tyrie
- Mr Stirling - CSO
- Mr Kingaby - CSO
- HB/002

Handwritten note:
P.S. How does latest 3 months low compare with Q2 1979? v.i.

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - NOVEMBER

This will be published at 11.30am on Tuesday 19 January.

2. The index of production rose by 1.2 per cent between the latest 3 months and the previous 3 months and by 3.7 per cent between the latest 3 months and the same period a year earlier. The estimate for November was 0.3 per cent down on October.

3. Manufacturing output rose by 1.5 per cent between the latest 3 months and the previous 3 months and by 6.0 per cent between the latest 3 months and the same period a year earlier. The estimate for November was 0.5 per cent down on October.

4. There have been significant downward revisions to the levels of manufacturing output in the first half of 1987 and the second and third quarters of 1986. These revisions have little effect on the growth rate between the latest 3 months and the previous 3 months but work to boost the growth rate between the latest 3 months and the same period a year earlier.

5. Recent movements

percentage changes	Latest 3 months on previous 3 months	Latest 3 months on same period year earlier	November on October	Latest 3 months on 1979H1
Index of Production within which:	+1.2	+3.7	-0.3	+7.5
Manufacturing	+1.5	+6.0	-0.5	+2.4
Energy and Water	+0.4	-2.0	+0.4	+23.1

6. Although manufacturing output fell back in November little significance should be attached to this. The provisional figures for each month since the summer are all indicative of strong growth and the CSO remain of the view that underlying growth is running at $6\frac{1}{2}$ per cent a year - a faster rate of growth than at any time since 1973 and actually faster than currently recorded growth. Manufacturing output in the 3 months to November is nearly $2\frac{1}{2}$ per cent above the 1979H1 peak although the November figure itself is $1\frac{1}{4}$ per cent below the June 1979 monthly high.

7. Energy sector output has risen in each of the last 2 months but this seems to be no more than a fluctuation around a downward trend which has been apparent since 1986Q3. The trend reflects a decline in the extraction of coal, oil and natural gas.

8. The index of production dropped slightly in November reflecting the movement in manufacturing output. (City forecasters are, on average, expecting growth of about $\frac{1}{2}$ per cent.) However, the index is on a steady upward path and, as with the manufacturing series, the CSO believe that underlying growth, at 4 per cent a year, is slightly faster than recorded growth.

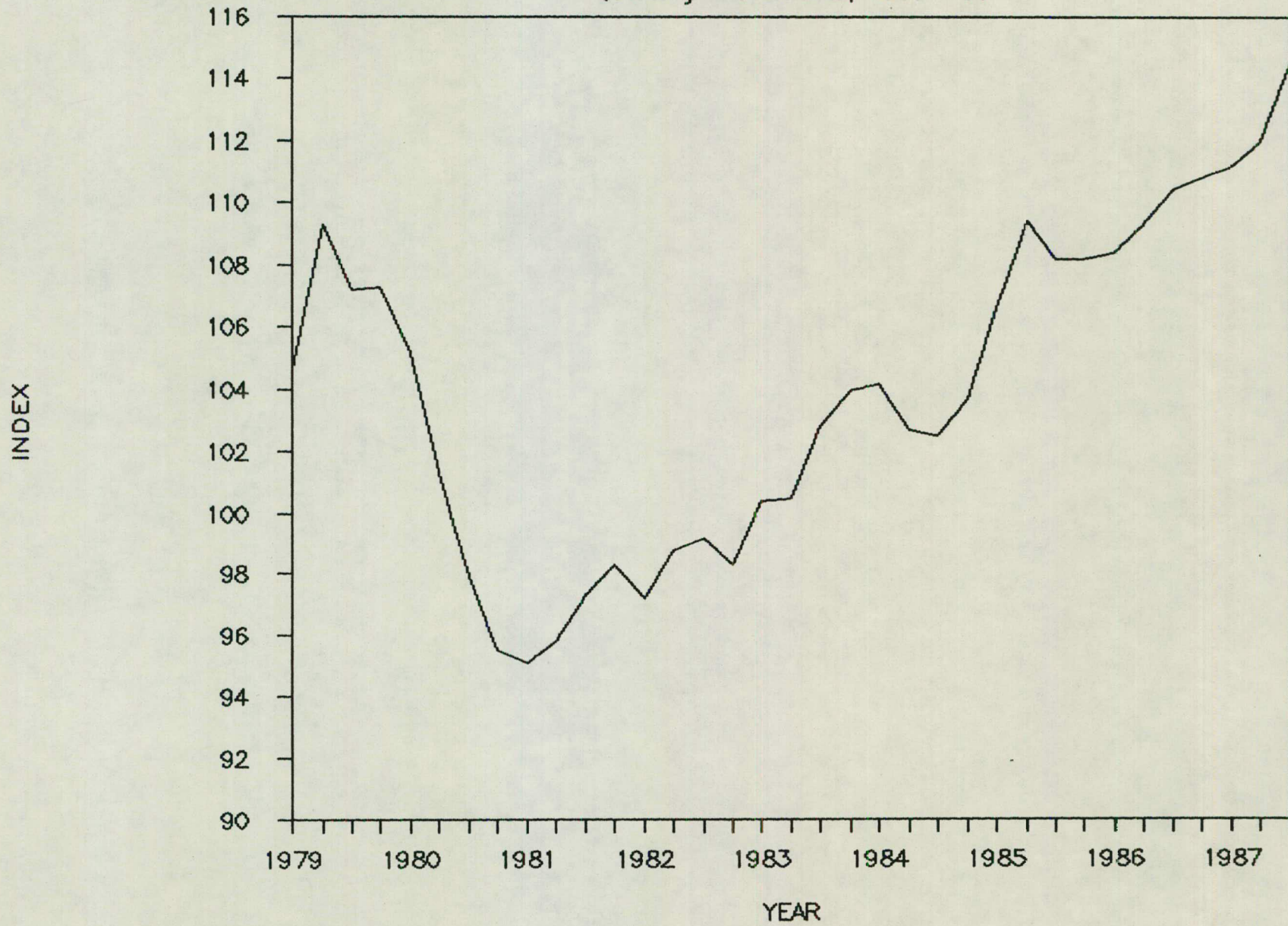
9. To coincide with the release of these figures the Department of Employment will release estimates showing manufacturing productivity in the 3 months to November up 6.6 per cent on a year earlier. Over the same period unit wage and salary costs in manufacturing are estimated to have risen by 1.6 per cent.

Peter S. Curwen

PETER S CURWEN

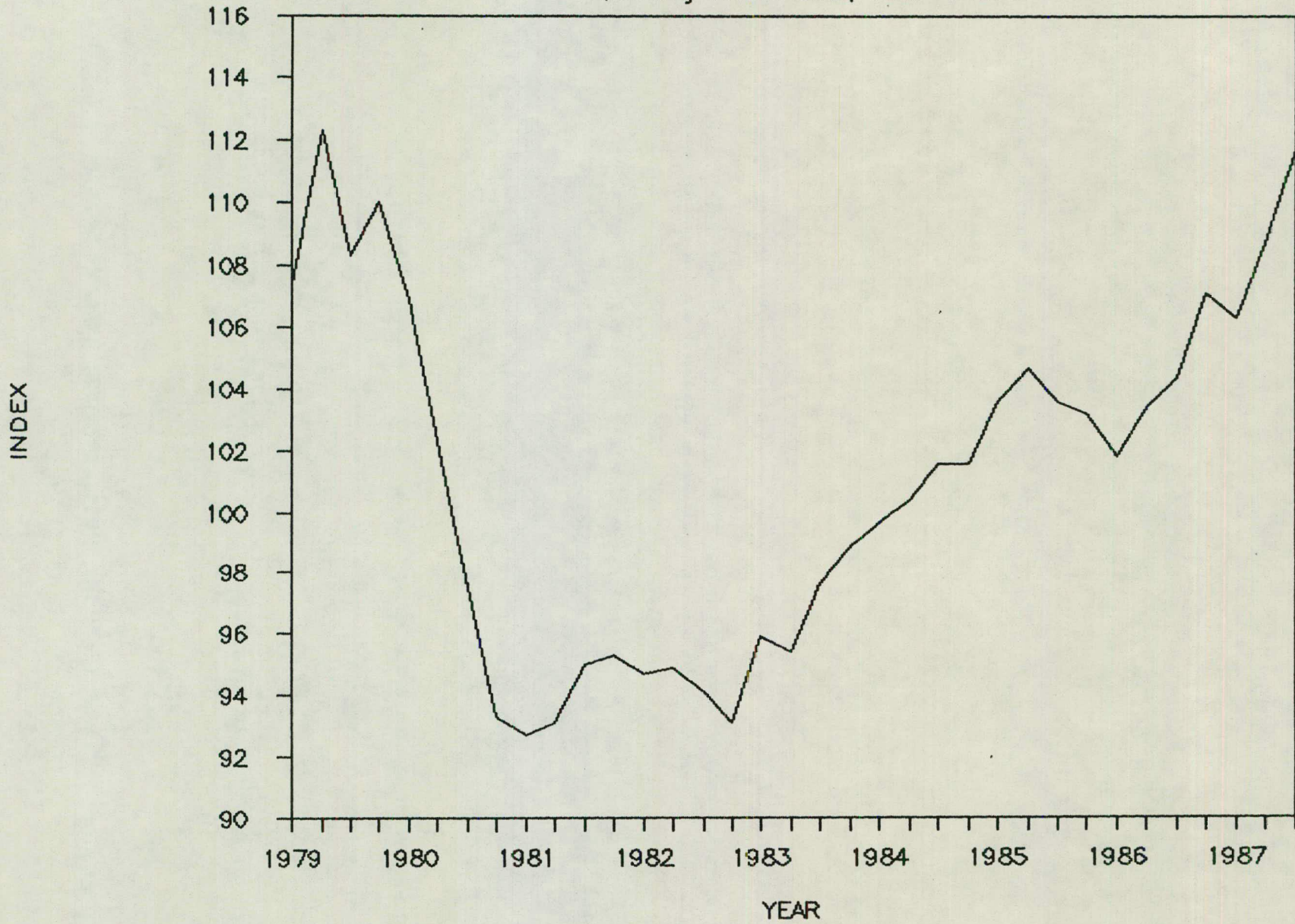
INDUSTRIAL PRODUCTION

Quarterly movements; 1980=100



MANUFACTURING OUTPUT

Quarterly movements; 1980=100



mpw.



FROM: MOIRA WALLACE
DATE: 19 JANUARY 1988

MR CURWEN - *EB*

cc Mr Pickford

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - NOVEMBER

The Chancellor has seen and was grateful for your note of 18 January.
He has asked how the latest 3 months compare with Q2 1979.

mpw.

MOIRA WALLACE

~~*bf to m 22/1*~~



FROM: MOIRA WALLACE
DATE: 19 JANUARY 1988

pmw

MR S PRICE

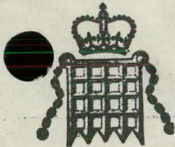
cc PS/Sir P Middleton
Mr J S Hibberd

RPI

You kindly let me know the figures for annual inflation, calendar 1987 on calendar 1986 (4.1%, or 3.7% excluding mortgage interest payments). The Chancellor has asked for a table showing the comparison for each of the past five years, plus the cumulative totals. I should be grateful if you could provide this.

mpw.

MOIRA WALLACE



H.M. CUSTOMS AND EXCISE
 KING'S BEAM HOUSE, MARK LANE
 LONDON EC3R 7HE

papers pse.
purp

Please Dial my Extension Direct:
 Use Code (01)-382 followed by
 Extension Number 5...0.2.3

FROM: P R H ALLEN
 DATE: 20 January 1988

PS/ECONOMIC SECRETARY

cc PS/Chancellor
 Mr Culpin
 Miss Sinclair

RPI IMPACT EFFECTS

1. Your minute dated 14 December asked for clarification of my submission dated 10 December.
2. Within a year, the RPI weights do not change. The formula in paragraph 3 of your minute is therefore incorrect. The correct formula is:

$$RPI = \frac{\sum v_o p_1}{\sum v_o p_o} \times 100$$

where v_o is the weight

p_o is the initial price

p_1 is the price after raising duties

Internal circulation: CPS, Mr Knox, Mr Jefferson Smith,
 Mrs Hamill, Ms French

Thus the RPI impact effect of a duty change depends on the RPI weight and the consequent price change. Now the increase in price required to raise an extra £1 billion depends on the increase in duty and the proportion of duty in the price. The increase in duty depends on the current revenue yield and the elasticities. As I explained in my minute of 10 December, all of these vary between each good and therefore so does the RPI impact effect.

3. I hope that this clarifies the position.

RA.

P R H ALLEN

x 4349

MR ALLEN - C&E

Mrs Mannell
for advice, pre

15/12

FROM: P D P BARNES
DATE: 14 December 1987Spoke to creation
Agreed not urgent

RPI IMPACT EFFECTS

The Economic Secretary was grateful for your submission of 10 December.

2. When we spoke, you told me that the RPI impact of raising an additional £1 billion in duty would depend on the RPI weighting of the item on which duty was increased, even if all items had identical elasticities.

3. The Economic Secretary does not follow this reasoning. According to him,

$$\text{RPI} = \frac{\sum v_1 p_1}{\sum v_0 p_0} \times 100$$

where: v_0 equals initial volume of each product category;

p_0 equals initial price;

p_1 equals price after raising duties;

v_1 equals volume after raising duties.

So, if total consumer spending is £100 billion, then $\sum v_0 p_0 = £100$ billion.

4. The Economic Secretary thinks that if the sole change were to increase duty on one item by £1 billion with no change in volume, then $\sum v_1 p_1$ would increase to £101 billion, ie the RPI would increase by 1 per cent. The Economic Secretary thinks that this could be achieved by, say, raising spending on beer from £4.5 billion to £5.5 billion, or on wine from £3.1 billion to £4.1 billion, and it would only be if volumes changed that there would be a differential impact on the RPI.

20/12

5. I would be grateful for your comments.

PB

P D P BARNES

Private Secretary

The fall in manufacturing output in November has not invalidated the conclusion that output in the last 3 months is higher (albeit marginally) than in 1979 Q2.

FROM: PETER CURWEN
DATE: 20 January 1988

1. MR PICKFORD
2. CHANCELLOR OF THE EXCHEQUER

Shelby
20/1

[Handwritten signature]

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - NOVEMBER

You asked how estimates of manufacturing output and the index of production in the latest 3 months compared with 1979Q2. A table is attached showing monthly and quarterly estimates of manufacturing output in 1979 and 1987.

2. In the 3 months to November manufacturing output was 0.2 per cent up on 1979Q2. Over the same period the index of production rose by 5.2 per cent.

3. The CSO regard the estimate of manufacturing output in 1979Q2 as erratically high, reflecting the bounce-back in economic activity following the 'Winter of Discontent'; hence our normal practice of using 1979H1 as the best estimate of the previous peak in activity.

Peter S. Curwen

PETER S CURWEN

Manufacturing Output

(1980 = 100)

		Monthly	Quarterly
1979	J	100.3	
	F	109.7	107.4
	M	112.2	
	A	110.9	109.9 (a)
	M	112.1	112.3
	J	114.0	
	J	111.8	
	A	106.9	108.3
	S	106.2	
	O	107.9	
	N	110.3	110.0
	D	111.8	
1987	J	104.5	
	F	107.4	106.3
	M	107.1	
	A	108.2	
	M	109.0	108.7
	J	108.9	
	J	110.8	
	A	112.7	111.7
	S	111.6	
	O	113.2	112.5 (b)
	N	112.6	

Note: (a) 1979H1

(b) 3 months to November 1987



RPI

	All - items	Excluding mortgage interest payments
1983	4.6	5.2
1984	5.0	4.4
1985	6.1	5.2
1986	3.4	3.6
1987	4.1	3.7
	<hr/>	<hr/>
	25.5	24.1

BF 22/11



FROM: A C S ALLAN

DATE: 21 January 1988

MR S PRICE

cc Sir T Burns
Mr Sedgwick
Mr Hibberd
Mr Pickford

RPI

The Chancellor was most grateful to you for providing the annual figures for the RPI including and excluding mortgage interest payments so promptly.

2. He noted that the figures for the RPI excluding mortgage interest payments were 3.6 per cent for 1986 and 3.7 per cent for 1987. The 1986 figure was reduced by the fall in oil prices, and this suggests that - even allowing for the non-revalorisation of excise duties in the 1987 Budget - that "underlying" inflation was certainly no higher, and may have been a little lower in 1987 than in 1986. There is also the effect of the RPI "error", which will have made the 1987 figures look slightly worse than the 1986 figures.

3. He would be grateful if you could let him have a note, by close of play tomorrow (Friday 22 January), commenting on these points, with figures for the RPI excluding the effects of oil prices, excise duties etc.

A handwritten signature in black ink, appearing to read 'ACSA' with a large flourish underneath.

A C S ALLAN



mpw

FROM: MISS M P WALLACE

DATE: 22 January 1988

MR CURWEN

cc Mr Pickford

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - NOVEMBER

The Chancellor has seen and was grateful for your minute of 20 January.

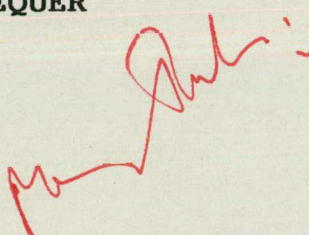
mpw.

MOIRA WALLACE

FROM: S PRICE
DATE: 22 JANUARY 1988

CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton
Sir T Burns
Mr Sedgwick
Mr Hibberd
Mr Pickford
Mr Allan



RPI

You asked me to comment on the points raised in Mr Allan's minute, on whether "underlying" inflation was lower in 1987 than in 1986.

2. The uprating of excise duties in the 1986 budget had an overall effect of about $\frac{1}{2}$ per cent on both the total RPI and the RPI excluding mortgage interest payments. The effect of across the broad revalorisation would have been the same. Had revalorisation occurred in 1987, it would have added about 0.3 per cent to the 12 month inflation rate in April, or about 0.2 per cent to the average inflation rate for the year. An adjusted figure for 1987 relative to the actual 1986 figure is set out in Table A.

3. The RPI "error" had the effect of understating the RPI by about 0.06 per cent relative to January 1986 from February 1986 to January 1987, and by 0.09 per cent relative to January 1987 from February to October 1987. This means that annual average RPI inflation could have been under estimated by 0.1 per cent in both 1986 and 1987, although it is possible that (with rounding to the nearest 0.1 per cent) the outcomes could have been different to those in the table.

4. Thus Table A removes the effect of no revalorisation in 1987 and the RPI error. However, you also made the point that oil prices fell in 1986 (and rose in 1987). This would have some effect on inflation via costs, but to give an estimate of this would be highly speculative. Table B excludes the effect of petrol from the index and makes the corrections applied above. The figures show that the

underlying rate of inflation did indeed fall between 1986 and 1987, once the effect of petrol prices is excluded.

5. I also give figures for private sector RPI inflation, excluding nationalised industries, food, housing, petrol and gas. This can be thought of as the non-energy private sector underlying rate, stripped of its most volatile components, and is probably the closest approximation to an underlying rate that we have. After adjustment (Table C), this also shows a fall between 1986 and 1987. However, it is worth pointing out that the average inflation rate for producer output prices (excluding food, drink and tobacco) rose from 4.3 per cent in 1986 to 4.5 per cent in 1987.

Simon Price

SIMON PRICE

CORRECTED UNDERLYING AVERAGE ANNUAL RATES OF INFLATION⁽¹⁾

A: RPI excluding mortgage interest payments

	<u>1986</u>	<u>1987</u>
Actual	3.6	3.7
Corrected for normal revalorisation	3.6	4.0
Corrected for normal revalorisation and "error"	3.7	4.1

B: RPI excluding mortgage interest payments and petrol

	<u>1986</u>	<u>1987</u>
Actual	4.9	3.8
Corrected for normal revalorisation	4.9	4.0
Corrected for normal revalorisation and "error"	5.0	4.1

C: Private Sector RPI excluding food, housing, petrol and gas

	<u>1986</u>	<u>1987</u>
Actual	4.4	3.9
Corrected for normal revalorisation	4.4	4.2
Corrected for normal revalorisation and "error"	4.5	4.3

(1) The annual average rate of inflation is the percentage change in the average value of the index in one year from the average value the previous year.

UNCLASSIFIED



mpw

FROM: MOIRA WALLACE
DATE: 25 January 1988

MR S PRICE

cc Sir P Middleton
Sir T Burns
Mr Sedgwick
Mr Hibberd
Mr Pickford
Mr Allan

RPI

The Chancellor has seen and was most grateful for your minute of 22 January.

mpw.

MOIRA WALLACE

8/88

February, 1988

GENERAL INDEX OF RETAIL PRICES
JANUARY 1988

The general index of retail prices for all items for January 12, 1988 was 103.3 (January 13, 1987 = 100). This represents no change on December 1987 (103.3) and an increase of 3.3 per cent on January 1987.

Of the increases between December and January. Those for food prices, motor insurance premia and, with the end of pre-Christmas discounts, prices for alcoholic drinks were the most notable. However, winter sales reduced the prices of clothing, footwear and household durables. There was a small reduction in owner occupiers' housing costs as the residual effects of the December cut in mortgage interest rates fed through to the index.

The movements for the main groups in the index are shown in Table 2.

Table 1.

	All items				All items except seasonal food		
	Index Jan 13 1987 = 100	Percentage change over			Index Jan 13 1987 = 100	Percentage change over	
		1 month	6 months	12 months		1 month	6 months
1987							
August	102.1	+0.3	+1.7	+4.4	102.2	+0.3	+1.9
September	102.4	+0.3	+1.8	+4.2	102.6	+0.4	+2.0
October	102.9	+0.5	+1.1	+4.5	103.1	+0.5	+1.5
November	103.4	+0.5	+1.5	+4.1	103.6	+0.5	+1.9
December	103.3	-0.1	+1.4	+3.7	103.3	-0.3	+1.5
January 1988	103.3	0.0	+1.5	+3.3	103.3	0.0	+1.4

TABLE 2

	Indices (13 January 1987 = 100)		Percentage change over the month
	December 8, 1987	January 12, 1988	
All items	103.3	103.3	0.0
All items excluding Food	103.5	103.4	-0.1
All items excluding Housing	103.2	103.2	0.0
Food	102.4	102.9	+0.5
Seasonal Food	102.4	103.7	+1.3
Non seasonal Food	102.4	102.7	+0.3
Catering	105.8	106.4	+0.6
Alcoholic Drink	103.1	103.7	+0.6
Tobacco	101.2	101.4	+0.2
Housing	103.9	103.9	0.0
Fuel and Light	98.2	98.3	+0.1
Household Goods	104.3	103.3	-1.0
Household Services	104.0	105.0	+1.0
Clothing and Footwear	103.4	101.1	-2.2
Personal Goods and Services	104.1	104.3	+0.2
Motoring Expenditure	105.0	105.1	+0.1
Fares and Other Travel Costs	103.2	105.1	+1.8
Leisure Goods	103.2	102.8	-0.4
Leisure Services	103.6	103.6	0.0

NOTES TO EDITORS

1 As reported by the Secretary of State for Employment on December 11, 1987, it has been discovered that from February 1986 to October 1987 a computer program error affected the monthly index. The official figures are always stated to one decimal place and the extent of the understatement of index levels will depend on rounding. The all items index figures for February 1986 to January 1987 will be understated by about 0.06 per cent; the index figure for January 1987 taking January 1974 as 100 was 394.5. The index figures for February to October 1987 were affected by an error about 0.09 per cent. In most months this will have resulted, with rounding, to an understatement of 0.1 points in the published figures which take January 1987 as 100. However, because the January index link, 394.5, was understated the understatements relative to January 1986 may have rounded to 0.1 or 0.2 per cent.

2 The General Index of Retail Prices (RP1) measures the average change from month to month in the prices of goods and services purchased by most households in the United Kingdom. The expenditure pattern on which the index is based is revised each year using information from the Family Expenditure Survey. The expenditure of certain higher income households and pensioner households, mainly dependent on state pensions and benefits, is excluded.

3 The index is compiled using a large and representative selection of more than 600 separate goods and services for which price movements are regularly measured in about 180 towns throughout the country. Approximately 130,000 separate price quotations are used each month in compiling the index.

4 The prices of some items of food show significant seasonal variation. A separate price index is compiled for these "seasonal foods", the expenditure on which accounts for around 2½ per cent of household expenditure. The variation caused by these items is removed from the series of indices for 'all items except seasonal food'.

5 Rates of change of indices can be calculated over periods of any length. Rates calculated over long periods are slow to detect changes in trend while calculations over very short periods give rather volatile results. To help in assessing what is happening to prices, rates of changes in the all items index and the index for all items except seasonal food are shown in Table 1 over successive periods of one month, six months and twelve months.

6 Following the recommendations which the Retail Prices Index Advisory Committee made in its report submitted to the Secretary of State for Employment in July 1986, the index has been re-referenced to make January 1987 = 100. Calculations of movements in the index over periods of time which span January 1987 are made as follows:-

The index for the later month (January 1987 = 100) is multiplied by the index for January 1987 (January 1974 = 100) and divided by the index for the earlier month (January 1974 = 100). 100 is subtracted to give the percentage change between the two months.

7 Other changes made to the index in 1987 are given in an article in the April edition of Employment Gazette.

8 The Retail Prices Index Advisory Committee was first established in 1946 and advises on the methodology used for compiling the RPI. Committee members include representatives of consumers, employees, employers, retailing organisations, academic experts, government departments and other official bodies. The Committee's latest report - 'Methodological Issues Affecting The Retail Prices Index' Cmnd 9848 HMSO £6.50 - was published on 15 July 1986. The Government announced at the same time that all its recommendations were to be accepted.

9 The housing costs of owner-occupiers are reflected in the index using an indicator which represents mortgage interest payments. A weighted average of building societies base mortgage interest rates is used in the calculation.

10 The index is given in full in the Employment Gazette.

my

MONTHLY NOTE ON THE BALANCE OF PAYMENTS - FEBRUARY 1988

- * The visible trade deficit in December was £1.2 billion, broadly unchanged from November, and the current account deficit was also unchanged at £0.6 billion. The current account deficit for 1987 as a whole is now estimated at £2.7 billion.
- * UK cost competitiveness probably deteriorated by 2½-3 per cent as sterling appreciated in the fourth quarter but deteriorated further since then. (Paragraph 3)
- * G5 countries' whose domestic demand rose strongly in the third quarter, showed a further rise in industrial production in October and November. (Paragraph 3)
- * UK domestic demand rose more rapidly than the average of other major countries in the third quarter reflecting strong consumers' expenditure and an increase in the rate of stockbuilding. Consumers' expenditure, however was broadly flat in the fourth quarter. (Paragraph 4)
- * Export volumes (excluding oil and erratics) which increased by 8 per cent between 1986 and 1987, rose in December and probably remain on an upward trend, although the CBI reports less optimism about the year ahead. (Paragraph 5)
- * Import volumes (excluding oil and erratics) fell back a little in December but in 1987 as a whole were 9½ per cent higher than in 1986. (Paragraph 7)
- * The terms of trade fell slightly in December as the oil price continued to weaken. (Paragraph 8)
- * The £2.7 billion current account deficit in 1987 is close to the Autumn Statement forecast for a current account deficit of £2½ billion in 1987. Independent forecasts now point on average to a deficit £3.4 billion in 1988 compared with £3½ billion in the Autumn Statement though some of these forecasts do not take account of the recent appreciation of sterling. (Paragraph 9)

P DAVIS

EA2 DIVISION

MONTHLY NOTE ON THE BALANCE OF PAYMENTS - FEBRUARY 1988

Current account

1. The December trade figures, published on 28 January showed a deficit on non-oil trade of £1.5 billion, partially offset by a surplus on oil trade of £0.3 billion. The invisibles projection remained unchanged at a surplus of £0.6 billion a month giving a current account deficit of £0.6 billion, broadly unchanged from November. Total export volumes rose slightly faster than import volumes in December but this was offset by a small deterioration in the terms of trade. The current account deficit in the fourth quarter was £1.5 billion compared with £1.1 billion in the previous quarters and £1.0 billion in the fourth quarter of 1986.

2. New customs procedures, including the introduction of the Single Administrative Document (SAD) throughout the EC, and the adoption of a new system of commodity coding were initiated on 1 January. Firms may have brought shipments forward into December to avoid possible delays at ports during the transition to the new system. The flow of export documents was high during December and has since fallen back, but it is too soon to judge whether this was anything than a normal monthly fluctuation. There was no sign of any unusual pattern in the flow of import documents during December.

TABLE 1: CURRENT ACCOUNT

		Current balance	Visible total	of which: oil	manufactures	Other goods	£ billion Invisibles balance
1986		-0.9	-8.5	4.1	-5.5	-7.0	7.5
1987		-2.7	-9.8	4.2	-7.3	-6.8	7.1
1986	Q2	0.1	-1.6	0.8	-0.7	-1.7	1.7
	Q3	-0.9	-2.9	0.6	-1.7	-1.8	2.0
	Q4	-1.0	-2.7	0.8	-1.8	-1.7	1.7
1987	Q1	0.6	-1.1	1.2	-0.7	-1.6	1.7
	Q2	-0.7	-2.4	1.0	-1.9	-1.5	1.7
	Q3	-1.1	-3.0	0.9	-2.2	-1.8	1.9
	Q4	-1.5	-3.3	1.0	-2.5	-1.8	1.8
October		-0.3	-0.9	0.4	-0.7	-0.5	0.6*
November		-0.6	-1.2	0.3	-1.0	-0.6	0.6*
December		-0.6	-1.2	0.3	-0.8	-0.7	0.6*

*CSO projection

CHART 1: CURRENT ACCOUNT

Average of latest three months

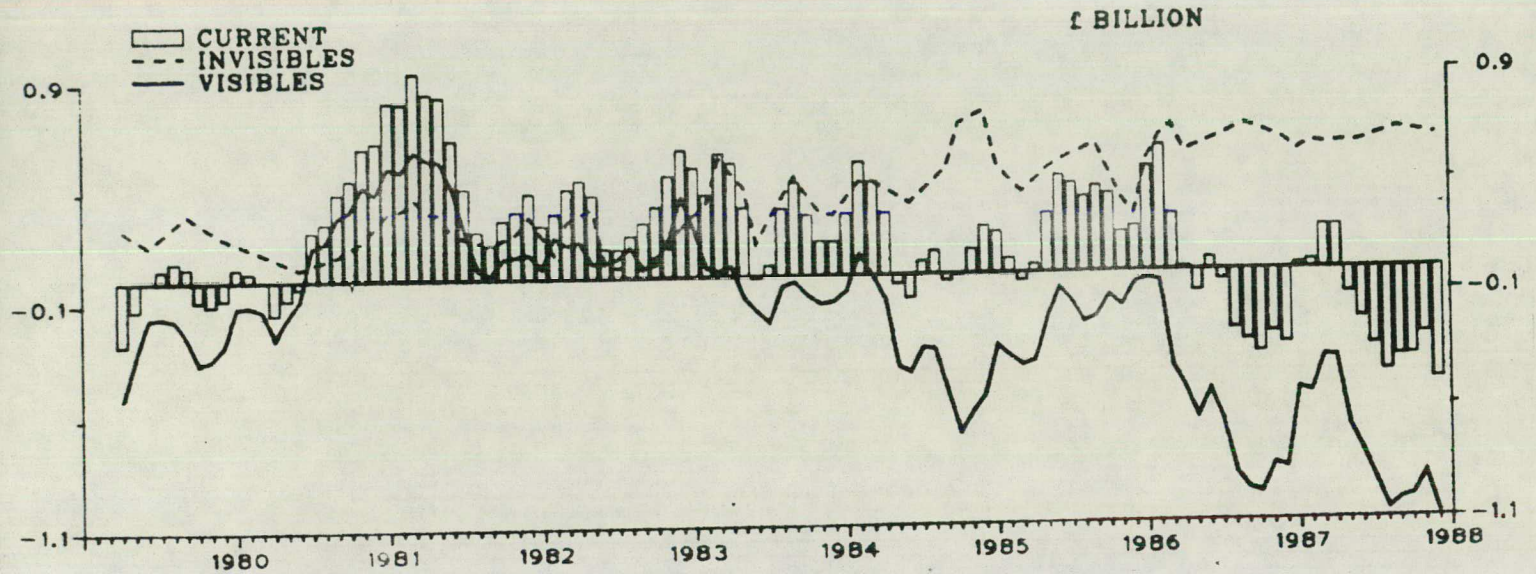
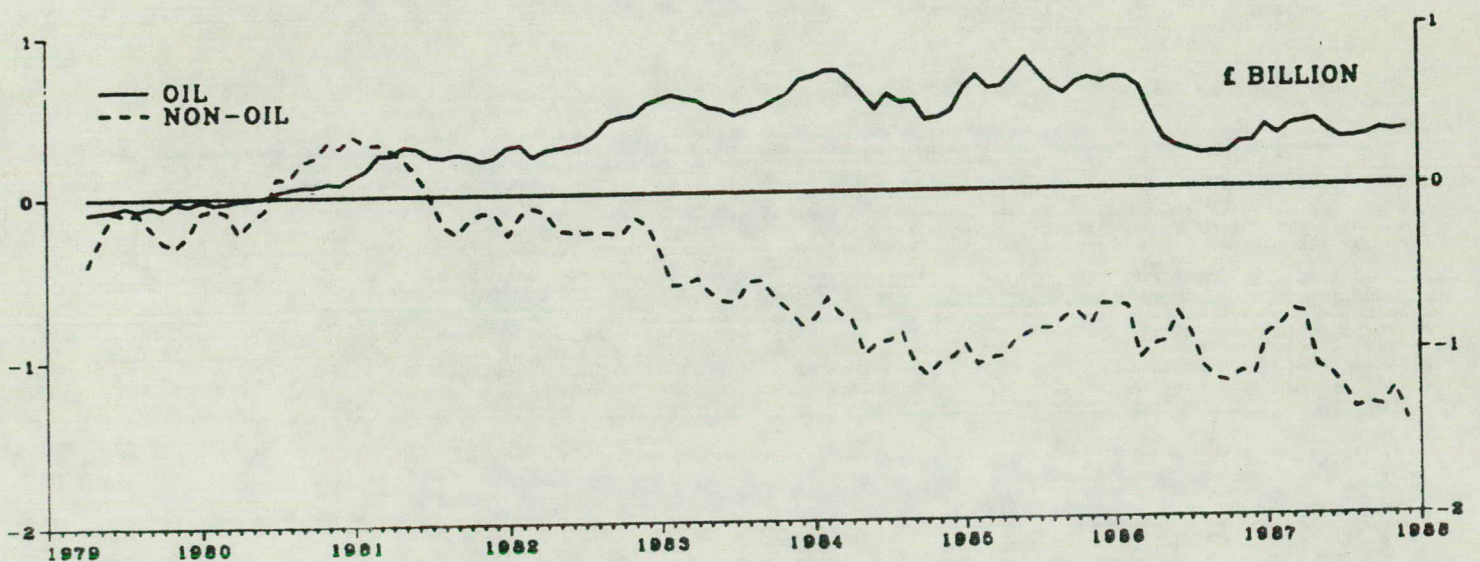


CHART 2: VISIBLE BALANCE

Average of latest three months



DETERMINANTS OF UK TRADE

Competitiveness

3. UK competitiveness (as measured by relative actual unit labour costs in the manufacturing sector), which was broadly flat in the third quarter as the exchange rate stabilised and UK unit labour costs continued to rise at a similar rate to those elsewhere, probably deteriorated by 2½-3 per cent in the fourth quarter as the exchange rate appreciated. The sterling index has however fallen back a little since the beginning of January leaving competitiveness around 7 per cent better than on average in 1984 and 1985.

TABLE 2: RELATIVE UNIT LABOUR COSTS IN MANUFACTURING

(% changes on a year earlier in brackets)

		Relative unit labour in common currencies		costs 1980=100 in domestic currencies		Sterling exchange rate index 1975=100	
1985		85.0	(2.5)	101.9	(3.1)	78.2	(-0.6)
1986		78.0	(-8.2)	104.7	(2.7)	72.8	(-7.0)
1987						72.6	(-0.3)
1986	Q4	71.1	(-19.0)	103.3	(-1.5)	68.3	(-14.6)
1987	Q1	72.4	(-12.4)	103.5	(-2.4)	69.9	(-6.9)
	Q2	75.8	(-8.5)	104.3	(-1.4)	72.8	(-4.3)
	Q3	75.9*	(0.5)	104.3*	(0.6)	72.7	(+1.1)
	Q4	78.0*	(9.7)	105.2*	(1.8)	74.9	(+9.7)
December						75.8	(+10.7)
January						75.0	(+8.9)

* projected

World trade and domestic demand

4. G5 industrial production, continued to grow strongly in October and November when it was 5 per cent higher in the last three months than a year earlier reflecting in part a recovery in export volumes. Domestic demand growth picked up in the third quarter following a modest second quarter rise. US GDP grew by 4.2 per cent (at an annual rate) in the fourth quarter. UK domestic demand rose more rapidly than that of other major countries in the third quarter. UK consumers' expenditure was little changed in the fourth quarter while retail sales fell back a little in December. Stockbuilding was also strong in the third quarter, but investment, on current estimates, fell back a little (though past experience suggests this may well be revised up).

TABLE 3: INDICATORS OF DEMAND

(Indices 1980=100)

		G5 Countries			UK			
		Export volumes*	Domestic demand	Industrial production	Export volumes**	Domestic demand	Manufacturing production	Retail Sales
1985		110	113.3	112.0	114.9	112.3	103.8	116.4
1986		111	118.0	113.0	117.7	116.5	104.2	122.6
1987					126.8			129.7
1986	3	107	118.9	113.2	118.5	116.7	104.4	123.7
	4	116	119.2	113.3	125.3	119.6	107.1	126.5
1987	1	110	119.7	113.8	124.4	118.4	106.3	125.4
	2	115	120.8	115.0	122.5	119.9	108.7	128.3
	3	115	122.6	117.4	129.3	123.8	111.7	131.8
	4				131.1			133.4
October				119.2	127.8		113.2	133.0
November				119.4	131.7		112.6	134.4
December					133.9			132.9
Latest 3 months on a year earlier		7½	3	5	4½	6	6	5½

* Not seasonally adjusted

** Excluding oil and erratics

Exports

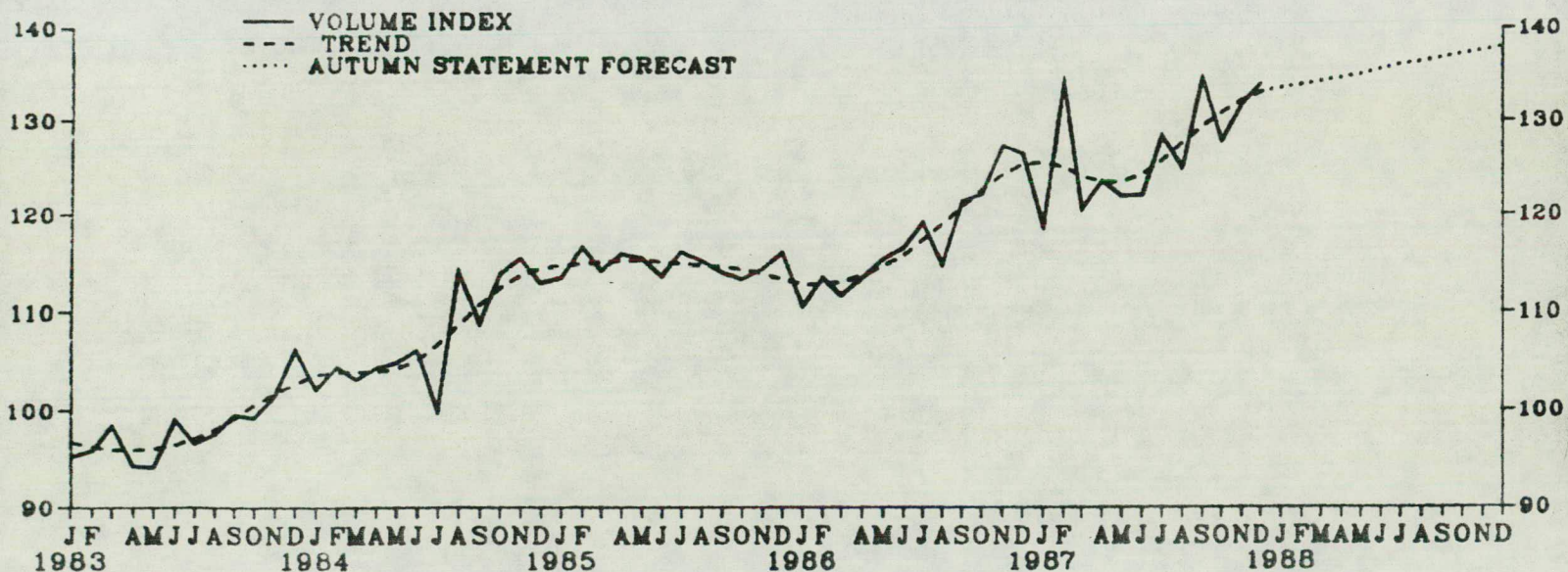
5. Export volumes (excluding oil and erratics) rose in December and the trend remains probably upwards. In the fourth quarter exports of manufactures grew strongly to a level 9 per cent higher than a year earlier, reflecting particularly strong growth in exports of passenger motor cars, other consumer goods and capital goods. The CBI quarterly trends survey for January indicates that manufacturers' export order books remain above normal and further growth in export orders and deliveries is expected over the next four months but at a slower rate than recently. The survey indicates a sharp fall in export optimism which, in the past, has been an indicator of a subsequent slowdown in export growth. Exports of non manufactures remain below the high levels recorded at the end of 1986 and in early 1987, although exports of fuel have recovered and are close to their April peak.

TABLE 4: EXPORT VOLUMES (1980 = 100)

	Goods*	Goods less oil and erratics*	Manufactures (excluding erratics)	Food, drink and tobacco	Basic materials	Fuel	
1986	123.1	117.7	116.9	129.6	117.1	175.5	
1987	130.6	126.8	126.7	129.6	126.2	175.5	
1986	3	122.6	118.5	117.6	133.5	126.3	174.3
	4	130.5	125.3	122.6	146.2	128.9	178.9
1987	1	130.0	124.4	122.2	129.0	144.8	183.1
	2	126.3	122.5	121.0	124.4	120.3	170.7
	3	130.7	129.3	130.1	133.1	124.3	164.2
	4	135.6	131.1	133.5	132.0	115.5	183.9
October	132.4	127.8	130.9	144.2	109.3	170.1	
November	136.1	131.7	132.5	125.5	123.1	180.1	
December	138.2	133.9	137.1	126.2	114.0	201.4	
Latest 3 months on							
- a year ago	4	4½	9	9½	-10	-3	
- previous 3 months	3½	1½	2½	-1	-7	12	
November on October	1½	1½	3½	½	-7½	12	
1987 on 1986	6	8	8½	0	8	0	

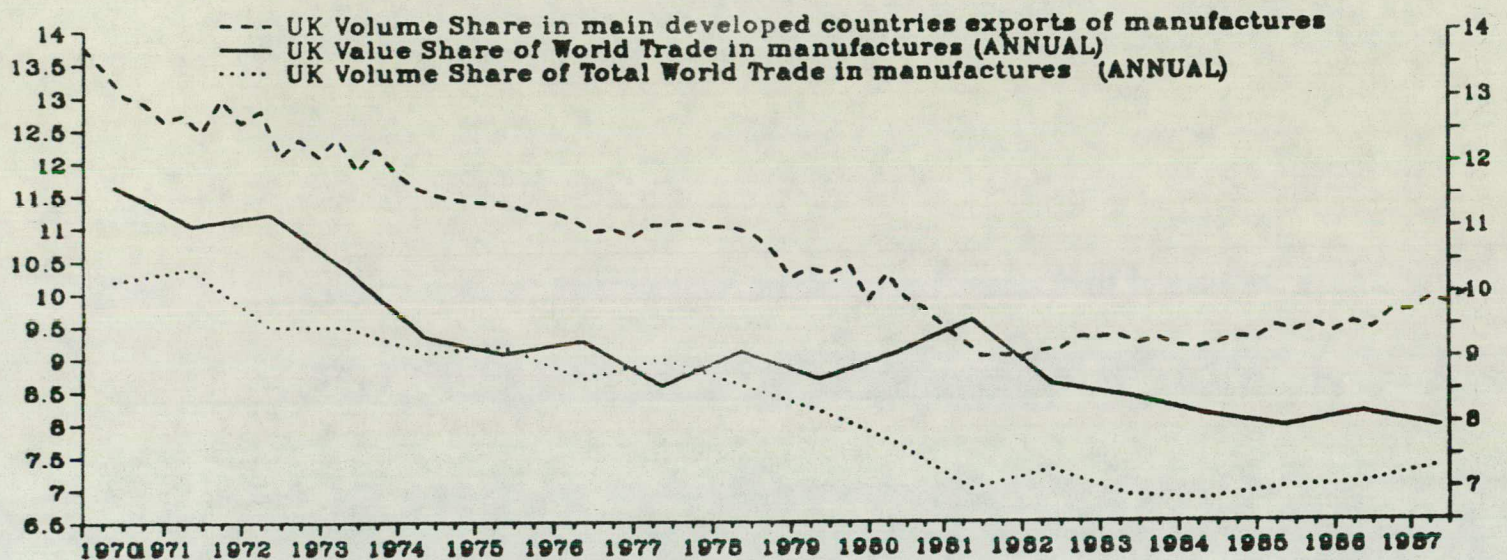
* Balance of payments basis

CHART 4: NON OIL EXPORT VOLUMES EXCLUDING ERRATICS



6. The value of exports to developed countries rose by 4 per cent in the fourth quarter (exports rose by 3 per cent to the EC, by 5 per cent to the US and by 7½ per cent to Japan) whilst exports to developing countries fell by 4 per cent reflecting a decline in exports to non-oil developing countries. On the basis of available information to the third quarter of 1987 UK manufacturers appear to have increased slightly their volume share of developed countries' exports over the past year although the UK share of total world trade in manufactures, including the rapidly increasing manufactured exports of newly industrialised countries, has probably remained broadly flat.

CHART 5: SHARE OF EXPORTS IN WORLD TRADE IN MANUFACTURERS



Imports

7. The rise in total import volume in December reflected a sharp increase in imports of oil: the volume of imports excluding oil and erratics fell slightly in December reflecting a fall in imports of manufactures, especially consumer goods, although basic materials imports fell for the third successive month. The path of imports continues to be erratic, but the trend is still strongly upward and probably at a slightly faster rate than that of exports. In 1987 as a whole there was strong growth in imports of manufacturers (reflecting broadly similar rises in each major category although imports of cars fell) and basic materials, while imports of food drink and tobacco were little changed. In the fourth quarter on a year earlier, imports of intermediate, semi-manufactures and capital goods all rose strongly as a result of the continuing rise in domestic output, investment and stocks. Imports of consumer goods (excluding cars,) however, have risen the fastest over this period indicating the buoyancy of retail sales (although consumer goods imports fell back in December as retail sales fell). Imports of goods (excluding oil) rose more rapidly than domestic demand in the year to the third quarter of 1987.

CHART 6: NON OIL IMPORT VOLUMES EXCLUDING ERRATICS

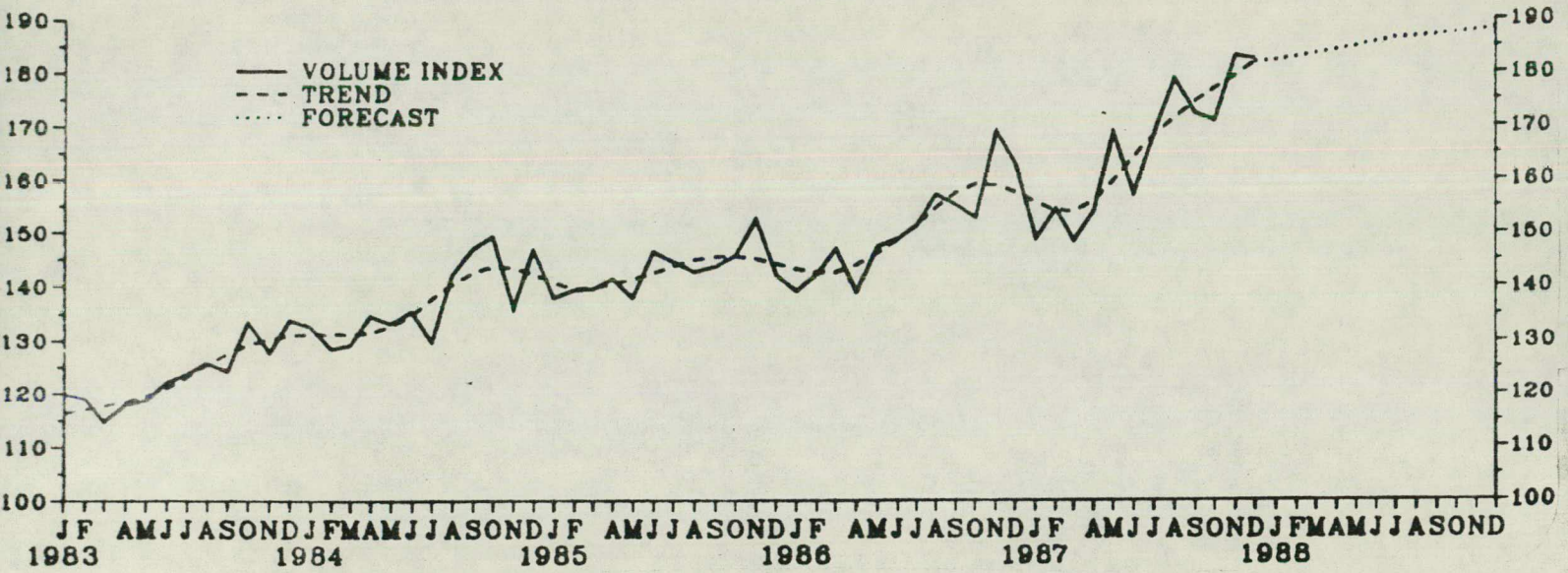


CHART 7: SHARE OF IMPORTS OF GOODS (EXCLUDING OIL) IN DOMESTIC DEMAND

(PER CENT, FOUR QUARTER MOVING AVERAGE).

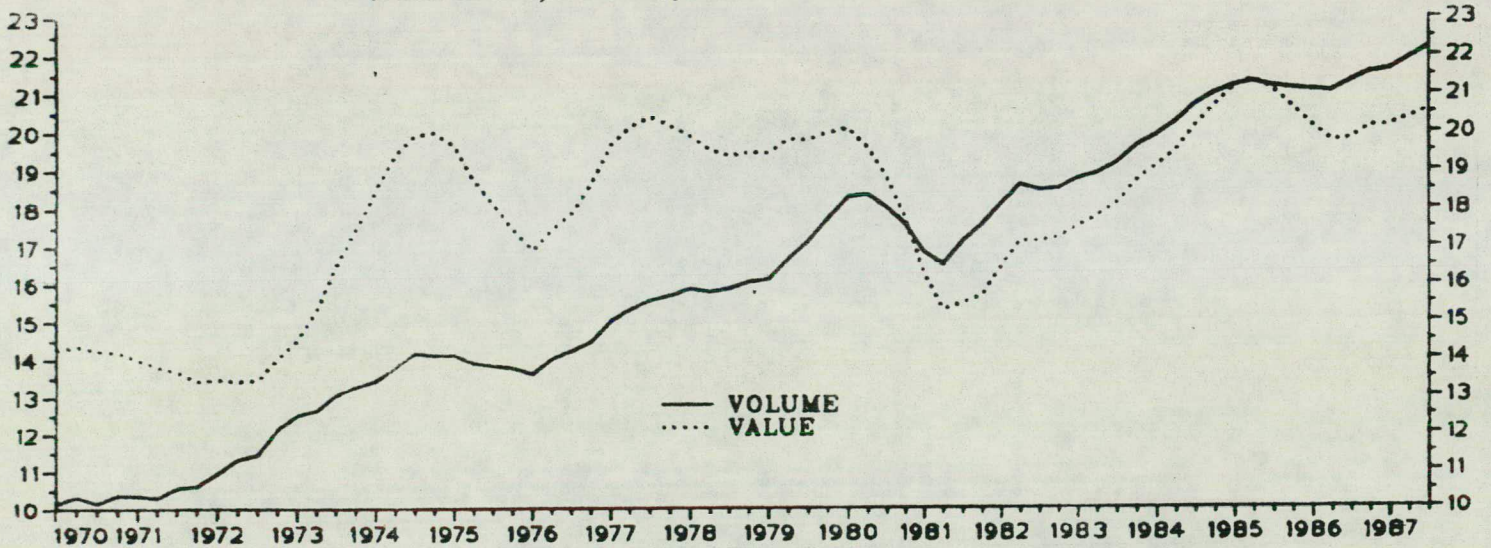


TABLE 5: IMPORT VOLUMES

		Goods*	Goods less oil and erratics*	Food, drink and tobacco	Basic materials	1980=100 Fuels	Manufactures less erratics
1986		134.1	150.9	123.5	108.7	93.4	163.0
1987		145.3	165.4	124.3	120.7	96.8	180.4
1986	4	144.0	161.4	125.3	119.4	106.2	174.4
1987	1	133.2	150.4	120.2	121.5	90.8	160.5
	2	140.9	159.8	119.5	122.2	89.8	172.8
	3	151.0	172.9	126.2	120.9	104.4	189.7
	4	156.1	178.6	131.1	118.1	102.4	198.5
October		149.1	170.7	122.2	120.8	92.0	192.6
November		158.9	182.8	127.5	117.7	96.4	203.5
December		160.5	182.3	143.5	116.0	118.7	199.3
% change							
Latest 3							
months on							
	- a year ago	8½	11	4½	-1	-3½	14
	- previous						
3 months							
	December on	3½	3½	4	-2½	-2	4½
	November	1	-½	13	-1½	23	-2
	1987 on 1986	8½	9½	½	11	3½	11

* Balance of payments basis

TABLE 6: IMPORT VOLUMES OF MANUFACTURES (EXCLUDING ERRATICS)

		1980 = 100					Capital
		Semi	Finished	of which:	Other	Inter-	goods
		manufactures	manufactures	Passenger	consumer	mediate	
				cars	goods	goods	
1986		152.0	170.4	131.6	158.3	187.0	183.1
1987		167.2	189.2	127.7	177.6	211.8	205.3
1986	4	156.6	186.4	133.0	170.1	204.9	205.4
1987	1	152.3	166.0	102.6	156.0	184.9	186.8
	2	163.2	179.3	120.8	171.6	202.8	191.5
	3	174.2	200.0	146.6	184.2	223.6	215.1
	4	179.0	211.5	140.6	198.4	236.2	227.7
October		174.8	204.5	134.4	189.1	229.6	220.9
November		179.0	219.7	147.0	210.3	247.5	229.2
December		183.4	210.2	140.4	195.9	231.4	233.1
% change							
Latest 3							
months on							
	- a year ago	14	13	6	17	15	11
	- previous						
3 months							
	December on	3	5½	-4	7½	5½	6
	November	2½	-4½	-4½	-7	-6½	1½
	1987 on 1986	10	11	-3	12	13	12

Trade prices

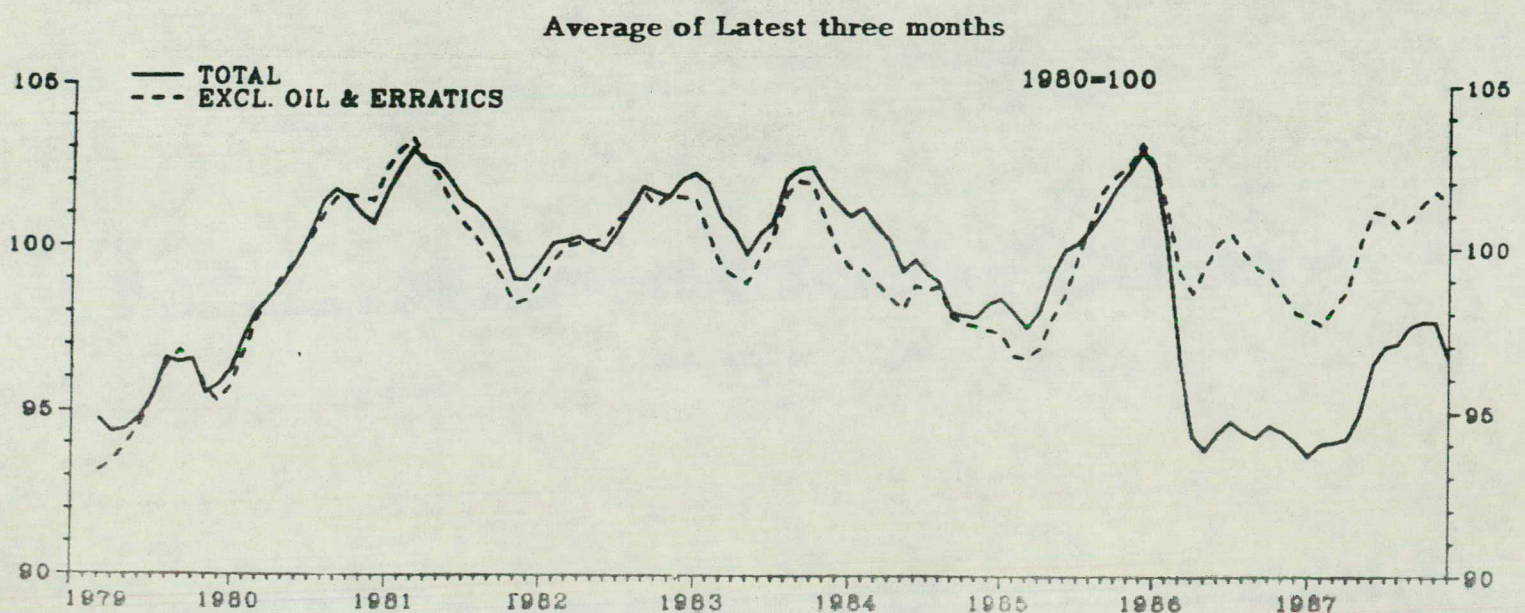
8. The total terms of trade worsened a little in December as the oil price continued to weaken, and fell by almost 1 per cent between the third and fourth quarters. The non-oil terms of trade, however, remained flat in December and in the fourth quarter were $\frac{1}{2}$ per cent higher than in the third quarter. Manufactures export prices were unchanged in the fourth quarter while import prices fell slightly as the firmer exchange rate held back price increases in sterling terms. Non manufacturing import prices also fell over this period as the rise in the exchange rate more than offset the effect of higher world commodity prices.

TABLE 7: TRADE PRICES (AVERAGE VALUES)

	Terms of trade		Manufactures (excl erratics)		Non Manufactures (excl fuel)		Exports of Fuel
	Total	Non oil (excl erratics)	Exports	Imports	Exports	Imports	
1986	94.9	99.4	136.3	135.0	128.4	127.2	76.3
1987	96.2	100.4	140.3	139.0	130.9	127.0	78.8
1986 3	94.5	99.7	136.3	133.4	126.8	126.9	57.4
4	95.0	99.0	137.6	137.0	130.0	129.1	68.4
1987 1	95.0	98.5	139.5	140.3	128.6	127.7	78.5
2	96.5	101.1	140.5	138.7	131.7	127.3	78.6
3	97.6	100.9	140.8	138.7	132.2	128.3	82.4
4	96.7	101.4	140.6	137.9	130.9	125.1	75.6
October	96.9	101.2	141.5	138.5	129.6	128.4	80.0
November	96.8	101.5	140.6	137.6	132.2	125.3	76.4
December	96.3	101.4	139.7	137.4	130.8	121.5	71.0
% change Latest 3 months on							
- a year ago	2	2 $\frac{1}{2}$	2	$\frac{1}{2}$	$\frac{1}{2}$	-3	10 $\frac{1}{2}$
- previous 3 months	-1	$\frac{1}{2}$	0	- $\frac{1}{2}$	-1	-2 $\frac{1}{2}$	-8 $\frac{1}{2}$

* BOP basis

CHART 8: TERMS OF TRADE



PROSPECTS

9. The current account deficit of £0.6 billion in December brings the total for 1987 to £2.7 billion which is very close to the Autumn Statement forecast of £2½ billion. Data revisions (especially to invisibles) however, are possible before the first 1987 current account estimate is published next March. Independent forecasters on average are projecting a deficit of £3.4 billion in 1988 - similar to the Autumn Statement forecast deficit of £3½ billion. Most recent forecasts have included upward revisions to deficits in 1987 and 1988. The OECD now forecasts a deficit of £5.8 billion in 1988.

TABLE 8: CURRENT ACCOUNT (£ billion)

	1987	1988	1989	1990
CBI (November)	-1.6	-2.6		
OECD (December)	-2.8	-5.8	-9.5	-
National Institute (November)	-1.6	-2.8	-5.0	-6.2
LBS (November)	-2.0	-2.6	-1.2	-0.6
Phillips and Drew (January)	-2.0	-4.2	-4.7	-3.5
Goldman Sachs (January)	-1.7	-3.6	-5.0	-5.5
Henley (January)	-1.8	-3.4	-4.3	-3.7
Oxford (November)	-1.4	-2.3	-2.7	-1.2
Liverpool (December)	-1.5	-3.1	-0.3	+1.3
Independent Average†	-2.0	-3.4	-3.5	-2.9
HMT Autumn Statement	-2½	-3½		

† Based on sample used in regular EB comparison - latest edition - January.

INTERNATIONAL COMPARISONS

10. The German and Japanese current surplus as both fell in the third quarter. In the US, trade volumes are responding to the decline in the dollar, although in the third quarter the US current account deficit widened a little. The November trade deficit in the US at \$13.2 billion was well below its third quarter average while the Japanese trade surplus rose very sharply in December.

TABLE 9: G5 COUNTRIES' CURRENT BALANCES*

		US	Japan	Germany	France	UK	\$ billion
1984		-107.0	35.0	8.4	0	2.1	
1985		-116.4	49.2	13.8	0.9	4.6	
1986		-141.4	85.6	37.8	3.4	-1.4	
1987							-4.7
1986		-33.8	21.6	8.2			
	3	-36.6	23.8	8.7	0.8	-1.3	
	4	-38.0	24.3	13.8	1.9	-1.4	
1987	1	-36.8	21.0	11.1	-0.3	0.9	
	2	-41.2	21.1	11.4	-1.2	-1.1	
	3	-43.4	19.9	10.5	-1.3	-1.9	
	4						-2.6

* Seasonally adjusted

OUTLOOK FOR RETAIL PRICES: JANUARY AND FEBRUARY

1. The annual rate of inflation for January as measured by the 12 month change in the retail prices index is expected to fall to between $3\frac{1}{4}$ and $3\frac{1}{2}$ per cent compared with 3.7 per cent for December. The figures will be released on Friday 12 February. The impact of sale price reductions now seems likely to be larger than was anticipated in last month's outlook.

2. Over the month to January prices are expected to have shown a slight rise overall, up to $\frac{1}{4}$ per cent. This compares with the rise of 0.4 per cent recorded for January last year. Food prices, motor insurance premia and, with the end of pre-Christmas discounts, prices for alcoholic drinks are all likely to be higher in January than in December. However, winter sales reduced the prices of clothing, footwear and household durables and the weak dollar led to lower petrol prices.

3. For February the annual rate of inflation is expected to be at the upper end of the range for January. An increase of about $\frac{1}{2}$ per cent in the overall level of prices between January and February is anticipated and this compares with the increase of 0.4 per cent recorded between the corresponding months last year. Prices are likely to recover with the ending of the January sales.

Percentage change in the RPI

	12 months	over 1 month	
	all items	all items	all excluding seasonal food
October	4.5	0.5	0.5
November	4.1	0.5	0.5
December	3.7	-0.1	-0.3
FORECASTS			
January	$3\frac{1}{4}$ - $3\frac{1}{2}$	0- $\frac{1}{4}$	0- $\frac{1}{4}$
February	$3\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$

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Paul Gray Esq
Private Secretary
10 Downing Street
LONDON SW1

3 February 1988

Dear Paul

OUTLOOK FOR RPI

... I enclose a numbered copy of the latest DE note.

Copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Alison Brimelow (Trade and Industry), Ms A Large (CSO) John Footman (Bank of England), Paul Cuthbert-Brown (CO) and Sir Brian Hayes (Trade and Industry).

Yours sincerely

Peter Baldwin

for

BEVERLEY EVANS
Private Secretary

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GENERAL INDEX OF RETAIL PRICES : JANUARY 1988

The annual rate of inflation, as measured by the 12-month change in the retail prices index, fell to 3.3 per cent in January, from the 3.7 per cent recorded for December.

2. The overall level of prices was unchanged between December and January compared with an increase of 0.4 per cent recorded between the corresponding months last year. Food prices, motor insurance premia and, with the end of pre-Christmas discounts, prices for alcoholic drinks were higher in January. However, winter sales reduced the prices of clothing, footwear and household durables. There was a small reduction in owner occupiers' housing costs as the residual effects of the December cut in mortgage interest rates fed through to the index.

3. In February the 12-month rate may edge up slightly towards 3½ per cent. There is likely to be an increase of about ½ per cent in the overall level of prices between January and February - slightly more than the increase of 0.4 per cent recorded between the corresponding months last year. Prices are likely to recover with the ending of the January sales.

Producer Prices

4. These prices continued to increase faster than retail prices in January. Although the price index for manufacturing industry output rose by 0.7 per cent between December and January, much of this was due to the usual tendency for manufacturers to implement price rises at the beginning of the year. This left the 12-month rate virtually the unchanged at 3.8 per cent. This rate has been between 3½ and 4 per cent since March 1987.

5. Prices for materials and fuels purchased by manufacturing industry rose by 0.8 per cent between December and January, largely reflecting seasonal influences. The 12-month rate fell slightly to 3.5 per cent in January from 3.7 per cent recorded for December at 3.8 per cent.

Tax and Prices Index

6. The tax and prices index increased by 1.4 per cent in the year to January compared with 1.9 per cent recorded for December.

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International comparisons

7. The latest 12-month percentage changes in consumer prices in the main OECD countries and the averages for all EEC and OECD countries are as follows:-

	UK	FRANCE	FEDERAL GERMANY	ITALY	NETHER -LANDS	JAPAN	USA	CANADA	OECD Averages	EEC
1986										
Q4	3.4	2.1	-1.1	4.4	-1.8	-0.5	1.3	4.3	2.1	2.9
1987										
Q1	3.9	3.2	-0.5	4.1	-1.2	-1.3	2.2	4.1	2.3	2.2
Q2	4.2	3.4	0.1	4.2	-1.0	-0.2	3.8	4.6	3.9	3.0
Q3	4.3	3.4	0.6	4.9	0.2	0.1	4.2	4.5	3.7	3.3
Q4	4.1	3.2	1.0	5.3	-0.1	0.5	4.5	4.2	4.0	3.3
July	4.4	3.4	0.7	4.7	0.1	-0.4	3.9	4.7	3.5	3.3
August	4.4	3.5	0.8	4.8	0.2	0.1	4.3	4.5	3.9	3.4
September	4.2	3.2	0.4	5.2	0.2	0.5	4.3	4.5	3.9	3.2
October	4.5	3.2	0.9	5.3	0.1	0.4	4.5	4.3	3.9	3.4
November	4.1	3.2	1.0	5.2	-0.1	0.4	4.5	4.2	3.9	3.3
December	3.7	3.1	1.0	5.1	-0.2	0.5	4.4	4.2	4.0	3.2
1988										
January	3.3									

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pyf

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Paul Gray Esq
10 Downing Street
LONDON SW1

10 AL
February 1988

Dear Paul

RETAIL PRICE INDEX

... I enclose a copy of our note and draft press release on the Index of Retail Prices due to be released at 11.30 pm on Friday 12 February.

Numbered copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Alison Brimelow (Trade and Industry), Andrea Large (CSO), John Footman (Bank of England), Paul Cuthbert-Brown (CO) and Sir Brian Hayes (Trade and Industry).

Yours Sincerely
Peter Baldwin

For **BEVERLEY EVANS**
Private Secretary

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WJP

This is a larger error than usual in our one month ahead forecasts. It appears mainly due to particularly heavy price discounting in the January sales.

FROM: S PRICE
DATE: 11 FEBRUARY 1988

Jim Hibberd 11/2/88

- 1. *mis* MR J S HIBBERD
- 2. CHANCELLOR OF THE EXCHEQUER

- cc:
- PS/Chief Secretary
 - PS/Financial Secretary
 - PS/Economic Secretary
 - PS/Paymaster General
 - Sir Peter Middleton
 - Sir Terence Burns
 - Mr Anson
 - Dame A Mueller
 - Mr Kemp
 - Mr Scholar
 - Mr Lankester
 - Mr N Monck
 - Mr Odling-Smee
 - Mr Sedgwick
 - Mr Bottrill
 - Mr Hibberd
 - Mr S J Davies
 - Mr R I G Allen
 - Mr Gilhooly
 - Mr H Bush
 - Mr Mowl
 - Mr Pickford
 - Mr de Berker
 - Mr Patterson
 - Mr Cropper
 - Mr Tyrie
 - Mr Call

2.16 x, what is the latest estimate of real GDP growth in 1987?

Ch/ currently assuming 4.3%

WJP 15/2

John, see of Budget speech - GDP growth > reflects for 15% from 1986? 1987 for a general

THE JANUARY RPI (to be published at 11.30 am on Friday 12 February)

The RPI was unchanged at 103.3 in January. The annual inflation rate was 3.3 per cent in January, down from 3.7 per cent in December. Excluding mortgage interest payments, the January figure fell to 3.7 per cent from 4.0 per cent in December.

2. The official DE average annual inflation rate for 1987 has now been published. It is 4.2 per cent, a rise from 3.4 per cent in 1986. Due to rounding, this differs from the 4.1 per cent figure I calculated last month.

(in January)

3. The unchanged RPI compares with a rise of 0.4 per cent last year. The fall in inflation is mainly due to relatively heavy reductions in the January sales, although seasonal food prices also rose by less than last year and petrol prices continued to fall (last year they rose by 1.4 per cent). There was a small reduction in owner occupiers' housing costs as the residual effects of the December cut in mortgage interest rates fed through to the index.

X/

4. The January figure was lower than we expected. Seasonal food prices were very low. But the main factor seems to be that the sales reductions were unusually large in January. It may be that the volume of retail sales in December, which were static after the November high level, were lower than retailers were expecting. This may have led them to discount prices quite heavily to shift unwanted stocks. Producer output prices rose by about the same amount as last year and inflation here shows no signs of declining, despite low growth in manufacturing costs. This suggests that the January figure is somewhat exceptional. Nevertheless, we expect inflation to be about the same in February and March.

5. The scale of the fall in the rate of inflation will take the City rather by surprise. Morgan Grenfell and Phillips and Drew expect the RPI to rise by 0.4 per cent between December and January. Warburg expect a rise of 0.3 per cent, and James Capel, Wood Mackenzie and the Nomura Research Institute expect a figure of 0.2 per cent. In addition Capel Cure Mayers forecast an annual inflation rate of 3.5 per cent. The actual figures are 0.0 and 3.3 per cent.

6. Points to make

- This is the lowest RPI inflation figure since October 1986.
- Three successive monthly falls in inflation rate.

SIMON PRICE
EA1 DIVISION
x 5401



PRESS
AND
INFORMATION SERVICE

CSO

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LONDON
SW1P 3AQ

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Press Notice at 11.30 a.m. on...12/2/88.....
and thereafter unclassified.

CSO(88) 12

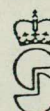
12 February 1988

TAX AND PRICE INDEX, JANUARY 1988

The Tax and Price Index (TPI) for January was 101.4 based on January 1987 = 100. Over the twelve months to January the increase in the TPI was 1.4 per cent, compared with an increase of 3.3 per cent in the Retail Prices Index (RPI).

TAX AND PRICE INDEX

	<u>TPI</u> (Jan 1978=100)	<u>TPI</u> Jan 1987 = 100)	<u>Percentage change in</u> <u>TPI over 12 months</u>	<u>Corresponding</u> <u>change in RPI</u>
<u>1987</u>				
January	198.0	100.0	2.6	3.9
February		100.5	2.7	3.9
March		100.7	2.8	4.0
April		99.7	2.5	4.2
May		99.8	2.4	4.1
June		99.8	2.5	4.2
July		99.7	2.8	4.4
August		100.0	2.6	4.4
September		100.4	2.4	4.2
October		100.9	2.9	4.5
November		101.5	2.4	4.1
December		101.4	1.9	3.7
<u>1988</u>				
January		101.4	1.4	3.3



Notes to editors

The purpose and methodology of the TPI were described in an article in the August 1979 issue of Economic Trends, and the series from January 1979 is published regularly in the Monthly Digest of Statistics. Figures from January 1976 are available from the CSO.

What the TPI measures

The TPI measures the increase in gross taxable income needed to compensate taxpayers for any increase in retail prices. The RPI measures changes in retail prices; the TPI also takes account of the changes to direct taxes (and employees' National Insurance contributions) facing representative cross-section of taxpayers. It is thus an additional, more comprehensive, index.

The TPI increased by 1.4 per cent over the twelve months up to January 1987 while the RPI increased by 3.3 per cent. The increase in the TPI was smaller because of the increase in personal income tax allowances and the reduction in the basic rate of income tax in the 1987 Budget. The effect on the TPI of the changes in National Insurance contributions, which took effect in April 1987, was negligible.

4. When direct taxation or employees' National Insurance contributions change (usually at Budget time) the TPI will rise by less than or more than the RPI according to the type of changes made. Between Budgets the monthly change in the TPI is normally slightly larger than that in the RPI (a more than pro-portionate increase in gross income is needed to offset any rise in prices, since all the extra income is fully taxed). In fact there was no change in either the TPI or the RPI between December 1987 and January 1988. However, the focus of attention should be the changes over twelve months.

Coverage and calculation of the TPI

5. Non-taxpayers and those with incomes over #22,415 a year at January 1987 are excluded from the TPI. Non-taxpayers are excluded because the RPI already provides a measure of the change needed to maintain the purchasing power of their incomes. Those with high incomes are excluded because the changes in their tax liabilities are not necessarily representative of the majority of tax-payers, and because broadly the same percentage (the top 4 per cent) is already excluded from the households on whose expenditure patterns the RPI is based. Otherwise everybody is included, whether working, unemployed or retired, so long as they pay tax.

6. The TPI reflects changes in people's tax and National Insurance contribution liabilities. If the index were instead to reflect actual payments it would be subject to highly erratic movements, which would be difficult to interpret and could be misleading.

7. The current composition and distribution of gross taxable incomes are estimated from Inland Revenue's Survey of Personal Incomes in 1984/85, updated by later aggregate data on incomes. With the exception of housing benefit, non-taxable income, (and in particular child benefit), is not covered. From February 1987 onwards, housing benefit is included in the income base for calculating the TPI because of changes made to the RPI as a result of the RPI Advisory Committee's recommendations. The RPI now reflects changes in gross housing costs which, for a substantial minority of tax-payers, are partially offset by receipts of housing benefit. After excluding those with high incomes, the sample comprises 32,037 tax units (single people or married couples). The change in tax and National Insurance contribution liability resulting from any uniform increase in gross incomes can be estimated from this. So the change in gross income needed to offset a particular RPI increase can be found.

Additional notes to editors

As reported by the Secretary of State for Employment on December 11, 1987, it has been discovered that from February 1986 to October 1987 a computer program error affected the monthly index. The official figures are always stated to one decimal place and the extent of the understatement of index levels will depend on rounding. The all items index figures for February 1986 to January 1987 will be understated by about 0.06 per cent; the index figure for January 1987 taking January 1974 as 100 was 394.5. The index figures for February to October 1987 were affected by an error about 0.09 per cent. In most months this will have resulted, with rounding, to an understatement of 0.1 points in the published figures which take January 1987 as 100. However, because the January index link, 394.5, was understated the understatements relative to January 1986 may have rounded to 0.1 or 0.2 per cent.

As a consequence the TPI has been understated by between 0.05 per cent and 0.1 per cent each month between February 1986 and January 1987. During the months from February 1987 to October 1987 the index has been understated by about 0.1 per cent each month. As with the RPI, the understated figures will not be revised.



FROM: MISS M P WALLACE

DATE: 15 February 1988

MR S PRICE

cc Mr J S Hibberd

THE JANUARY RPI

The Chancellor has seen and was grateful for your minute of 11 February.

A handwritten signature in cursive script, appearing to read "M.P.W." followed by a period.

MOIRA WALLACE



cc. **PS/chlex**
PS/CST
Sir P Middleton
Mr Anson
Dame A Mueller
Mr Phillips
Mr Luce

Treasury Chambers, Parliament Street, SW1P 3AG

G B Fawcett Esq
Public Service Pensioners' Council
Hamilton House
Mabledon Place
LONDON WC1H 9BD

mp
Mr Cilmore
Mr Hawtin
Mr Dixon

22 February 1988

Mr Fawcett

Mr RIG Allen

Mr P McIntyre

Mr D Pain

Mr Sheridan

Dear Mr Fawcett,

Thank you for your letter of 7 January concerning public service pensions and the understatement in the Retail Prices Index and for your subsequent letter of 12 February. I am sorry not to have replied before now.

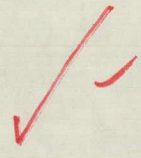
You ask particularly about future pension increase arrangements, and seek an assurance that no departure from the annual uprating in line with the RPI is being contemplated by the Government. I am pleased to give you that assurance, and to confirm that public service pensioners will suffer no continuing loss, as pension levels from April 1989 will be what they would have been had the error not occurred.

The arrangements for allocating the sums saved to charities are still being worked out. We will let you have the details as soon as possible.

Yours sincerely
Peter Brooke

PETER BROOKE

PERSONAL AND CONFIDENTIAL



PHP

OUTLOOK FOR RETAIL PRICES: FEBRUARY AND MARCH

1. The annual rate of inflation for February and March as measured by the 12 month change in the retail prices index is expected to be little changed from the 3.3 per cent for January. The figures for February will be released on Friday 25 March.
2. Over the month to February prices are expected to have increased by between 1/3 and 1/2 per cent. This compares with the rise of 0.4 per cent recorded for February last year. Food prices and, with the end of the January sales, prices for clothing, footwear and household goods are all likely to be higher for February than those reported for January. However, the prices of motor vehicles and petrol are likely to be lower.
3. An increase of about 1/3 per cent in the overall level of prices is anticipated between February and March and this compares with the increase of 0.2 per cent recorded between the corresponding months last year. Small price increases are likely to be spread over a large range of goods and services.

Percentage change in the RPI

	12 months	over 1 month	
	all items	all items	all excluding seasonal food
November	4.1	0.5	0.5
December	3.7	-0.1	-0.3
January	3.3	0.0	0.0
FORECASTS			
February	3 1/4 - 3 1/2 %	1/3 - 1/2	1/3
March	3 1/4 - 3 1/2 %	1/3	1/3

Further outlook (Budget effects)

4. The 1988 Budget proposals will increase the retail prices index by about 0.4 per cent. One quarter of this effect arises from the reduction in the standard rate of personal taxation which will reduce tax relief on mortgage interest payments and therefore increase the

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amount of interest payable. (This is in line with last year's changes and is therefore neutral on the 12 month change). The remainder of the effect arises from excise duty increases which were not uprated in last year's Budget. Other price ^{changes} ~~mergers~~ which will affect the RPI for April include those for LA rates and rents, water charges and electricity. The inflation rate is likely to increase slightly to around 3½ per cent for April.

The Chancellor's forecast for inflation in Q4 1988 is now 4 per cent — down from the 4½ per cent forecast issued in his Autumn Statement.

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Paul Gray Esq
Private Secretary
10 Downing Street
LONDON SW1

16 March 1988

Dear Paul,

OUTLOOK FOR RPI

... I enclose a numbered copy of the latest DE note.

Copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Alison Brimelow (Trade and Industry), Ms A Large (CSO) John Footman (Bank of England), Paul Cuthbert-Brown (CO) and Sir Brian Hayes (Trade and Industry).

*Sincerely,
Beverley*

BEVERLEY EVANS
Private Secretary

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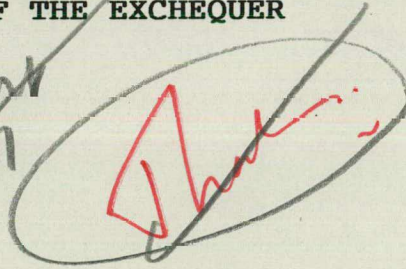
FROM: S PRICE
DATE: 18 MARCH 1988

1. MR J S HIBBERD
2. CHANCELLOR OF THE EXCHEQUER

cc : Sir Peter Middleton
Sir Terence Burns
Mr Odling-Smee
Mr C M Kelly
Mr Scdgvick
Mr Hibberd
Mr Gilhooly
Mr de Berker

*Tim de Berker
18/3.*

*Tony Dight
CPI*



MONTHLY PATH OF THE RPI IN 1988

The table below gives a monthly path for the total RPI which is consistent with that published in the FSBR. I also give a path for the RPI excluding mortgage interest payments and for the TPI.

2. The figures for February will not be available until 23 March, but the DE Outlook for Retail Prices for February does not lead me to think that the path will be revised when the RPI is published. The signs are that we are on target for our forecast of 3.3 per cent for the first quarter of this year.

3. The Budget measures will first be felt in April, together with the electricity price rise, higher rates and council house rent rises. However, there is only a small rise in inflation that month. There are a number of reasons for this. For example, the electricity price rise will take three months to come through completely. Due to low sterling oil prices, petrol price inflation is forecast to remain negative. Also, despite lower taxes leading to a fall in the implicit subsidy to mortgage interest payments, owner occupiers housing cost inflation will still be negative in April. This is because the tax cuts in the 1987 Budget offset the cuts this year, leaving the twelve month-change in housing costs unchanged between March and April.

S PRICE
EA1
5401

MONTHLY PATH OF INFLATION IN 1988
Year-on-year percentage change

	RPI	RPI excluding mortgage interest payments	TPI
January	3.3	3.7	1.4
-----	-----	-----	-----
February	3.3	3.6	1.5
March	3.3	3.6	1.6
April	3.6	3.9	1.3
May	3.9	3.9	1.6
June	4.2	4.1	2.1
July	4.2	4.2	3.1
August	4.3	4.2	2.2
September	4.2	4.2	2.0
October	4.0	3.9	1.8
November	3.8	3.7	1.5
December	4.2	3.8	2.0
	<u>3.9</u>	<u>3.9</u>	<u>1.8</u>



PAF

FROM: A A DIGHT

DATE: 21 March 1988

MR S PRICE

MONTHLY PATH OF THE RPI IN 1988

The Chancellor has seen and was grateful for your minute of 18 March.

A A Dight
A A DIGHT

PERSONAL AND CONFIDENTIAL



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213..5803.....

Switchboard 01-213 3000 GTN Code 213

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Paul Gray Esq
10 Downing Street
LONDON
SW1A 2AA

23 March 1988

Dear Paul,

RETAIL PRICES INDEX

... I enclose a copy of our note and draft press release on the Index of Retail Prices due to be released at 11.30 pm on Friday 25 March.

Numbered copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Alison Brimelow (Trade and Industry), Andrea Large (CSO), John Footman (Bank of England), Paul Cuthbert-Brown (CO) and Sir Brian Hayes (Trade and Industry).

Yours sincerely

Peter Baldwin

for **BEVERLEY EVANS**
Private Secretary

PERSONAL AND CONFIDENTIAL

FROM: S PRICE
DATE: 24 MARCH 1988

The outcome for February was as expected. We are on target for our forecast for the first quarter of 1988.

1. MR J S HIBBERD
2. CHANCELLOR OF THE EXCHEQUER

*J. Hibberd
24/3.*

- PS/Chief Secretary
- PS/Financial Secretary
- PS/Economic Secretary
- PS/Paymaster General
- Sir Peter Middleton
- Sir Terence Burns
- Mr Anson
- Dame A Mueller
- Mr Kemp
- Mr Scholar
- Mr Lankester
- Mr Monck
- Mr Odling-Smee
- Mr C W Kelly
- Mr Sedgwick
- Mr Bottrill
- Mr Hibberd
- Mr S J Davies
- Mr R I G Allen
- Mr Gilhooly
- Mr Bush
- Mr Mowl
- Mr Pickford
- Mr de Berker
- Mr Patterson
- Mr Cropper
- Mr Tyrie
- Mr Call

Tony Dale

THE FEBRUARY RPI (to be published at 11.30 am on Friday 25 March)

The RPI rose to 103.7 in February. The annual inflation rate was 3.3 per cent, unchanged from January. Excluding mortgage interest payments, the February figure fell to 3.6 per cent from 3.7 per cent the previous month.

2. The rise in the RPI of 0.4 per cent was the same as the rise at this time last year. Prices for clothing, footwear and household goods rose after the January sales (where there were unusually large reductions this year). Seasonal food prices also rose, but food inflation is still below total inflation. Petrol prices continue to fall.

3. The outcome was exactly what we have been expecting. Looking ahead, the inflation figure for March may well be unchanged. Inflation is likely to rise in April as the Budget measures affect the RPI - mainly revalorisation of excise duties. April is also a month for council house rent and local authority rates increases, both of

ich will probably be above last years's levels. The electricity and recently announced gas price rises take place in April, but these will take three months to fully feed through into the RPI. Weak petrol prices (despite the duty increase) should help keep the increase in inflation at a fairly modest level, but the figure will probably be over 3½ per cent.

4. The City is mostly expecting inflation to remain steady or fall slightly. Phillips and Drew, James Capel and Warburg Securities expect the RPI to rise by 0.3 per cent; Wood Mackenzie and CL-Alexanders, Laing and Cruickshank (who have changed their title recently) expect 0.4 per cent, while Morgan Grenfell expects 0.5 per cent. The correct figure is 0.4 per cent.

5. Points to Make

- Inflation continues to remain low - January and February figures lowest since October 1986.
- No special factors - inflation low over a range of goods and services.
- No resurgence in inflation despite rapid growth in the economy last year.

SIMON PRICE
EA1 DIVISION
X 5401

PERSONAL AND CONFIDENTIAL

GENERAL INDEX OF RETAIL PRICES : FEBRUARY 1988

The annual rate of inflation, as measured by the 12-month change in the retail prices index, at 3.3 per cent, was the same in February as in January.

2. The overall level of prices was 0.4 per cent higher in February than in January, the same as the increase recorded between the corresponding months last year. Food prices and, with the end of the winter sales, prices for clothing, footwear and household goods were all higher. There were lower prices for motor vehicles and petrol.

3. In March the 12-month rate is likely to remain within the 3¼-3½ per cent range. There is likely to be an increase of about 1/3 per cent in the overall level of prices between February and March compared with the increase of 0.2 per cent recorded between the corresponding months last year. Small price increases are likely to be spread across a large range of goods and services.

4. The effects of the 1988 Budget changes will increase the retail prices index by about 0.4 per cent. One quarter of this effect arises from the reduction in the standard rate of personal taxation which will reduce tax relief on mortgage interest payments and therefore increase the amount of interest payable. (This will affect the RPI for April. It is in line with last year's changes and is therefore neutral on the 12-month rate). The remainder of the effect arises from excise duty increases, which were not updated in last year's Budget, and which are likely to be reflected in the RPI over a period.

5. For April the inflation rate is likely to increase to around 3 3/4 per cent. In addition to the Budget effects, there will be increases for LA rates and rents, water charges, electricity (8 - 9 per cent) and gas (6 per cent) most of which are likely to be in excess of the changes last April.

6. The longer term outlook for inflation is improved: the Chancellor's forecast for inflation in Q4 1988 is now 4 per cent - down from the 4½ per cent forecast issued in his Autumn Statement.

Producer Prices

7. These prices continued to increase faster than retail prices in February. The increase in the price index for manufacturing industry output rose by 0.5 per cent between January and February: this was spread across most industries. The 12-month rate rose from 3.8 to 4.0 per cent. This rate has been between 3½ and 4 per cent since March 1987.

8. Prices for materials and fuels purchased by manufacturing industry fell by 0.9 per cent between January and February, largely reflecting a seasonal reduction in industrial electricity costs. Sterling fell against the dollar and

PERSONAL AND CONFIDENTIAL

other currencies in February, leading to increases in the prices for many imported materials'. The corresponding monthly fall in this index in 1987 was 1.6 per cent; consequently the 12-month rate of increase has risen from 3.2 to 3.9 per cent.

Tax and Prices Index

9. The tax and prices index increased by 1.3 per cent in the year to February compared with 1.4 per cent recorded for January. With the reductions in income tax from April the TPI will rise more slowly than the RPI during 1988. The Chancellor's forecast is that the TPI is likely to rise by 1 3/4 per cent over the 12 months to the fourth quarter of this year.

International comparisons

10. The latest 12-month percentage changes in consumer prices in the main OECD countries and the averages for all EEC and OECD countries are as follows:-

	UK	FRANCE	FEDERAL GERMANY	ITALY	NETHER -LANDS	JAPAN	USA	CANADA	OECD Averages	EEC
1987										
Q1	3.9	3.2	-0.5	4.1	-1.2	-1.3	2.2	4.1	2.3	2.2
Q2	4.2	3.4	0.1	4.2	-1.0	-0.2	3.8	4.6	3.9	3.0
Q3	4.3	3.4	0.6	4.9	0.2	0.1	4.2	4.5	3.7	3.3
Q4	4.1	3.2	1.0	5.3	-0.1	0.5	4.5	4.2	4.0	3.3
1987										
August	4.4	3.5	0.8	4.8	0.2	0.1	4.3	4.5	3.9	3.4
September	4.2	3.2	0.4	5.2	0.2	0.5	4.3	4.5	3.9	3.2
October	4.5	3.2	0.9	5.3	0.1	0.4	4.5	4.3	3.9	3.4
November	4.1	3.2	1.0	5.4	-0.1	0.4	4.5	4.2	3.9	3.3
December	3.7	3.1	1.0	5.1	-0.2	0.5	4.4	4.2	4.0	3.2
1988										
January	3.3	2.4	0.7	5.0	0.6	0.7	4.0	4.1	3.5	2.9
February	3.3									



**PRESS
AND
INFORMATION SERVICE**

MR BATTISHILL
12/2
TREASURY

Alex!

CENTRAL STATISTICAL OFFICE

GREAT GEORGE STREET
LONDON
SW1P 3AQ

PRESS CALLS ONLY 01-270 8357
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CSO(88)26
24 March 1988

[Handwritten signature]

**PERSONAL INCOME AND EXPENDITURE
IN THE FOURTH QUARTER AND YEAR, 1987**

Real personal disposable income (RPDI) grew by 1 per cent between the third and fourth quarters of 1987 to reach a level 3½ per cent higher than a year earlier. For 1987 as a whole RPDI was some 3 per cent higher than in 1986. (Percentage changes in the components of personal income are shown in the table on page 3.)

Total personal income, before deductions, rose 3 per cent between the third and fourth quarters of 1987 to a level over 7½ per cent above that in the fourth quarter of 1986. Between 1986 and 1987 total personal income grew 7 per cent. Within the total, wages and salaries rose by about 8½ per cent. Employers' contributions and current grants from general government both increased by about 3½ per cent while other personal income grew over 7½ per cent.



Personal disposable income increased by nearly $2\frac{1}{2}$ per cent between the third and fourth quarters of 1987 to reach a level 7 per cent higher than a year earlier. Between 1986 and 1987 personal disposable income rose by some $6\frac{1}{2}$ per cent, rather less than the growth in total personal income, due to a faster increase in taxes on income and social security contributions. With prices, as measured by the consumers' expenditure implied deflator, rising by around $3\frac{1}{2}$ per cent between 1986 and 1987, RPDI grew by some 3 per cent.

Between the third and fourth quarter of 1987 consumers' expenditure, at current prices, increased broadly in line with personal disposable income, and the saving ratio remained at around $4\frac{1}{2}$ per cent. For 1987 as a whole the saving ratio was $5\frac{1}{2}$ per cent, around 2 per cent lower than in 1986.

CHANGES IN PERSONAL INCOME

Seasonally adjusted

	Percentage change					
	Over previous quarter				Over same quarter in previous year	Over previous year
	1987				1987	1987
	Q1	Q2	Q3	Q4	Q4	TOTAL
Total personal income	2	½	2	3	7½	7
of which: Wages, salaries and forces' pay	1½	2½	2	3	9	8½
Employers' contributions	0	1½	1½	1½	4½	3½
Current grants from general government	0	2½	0	½	2½	3½
Other income	6	-6	3½	6	9	7½
UK taxes on income	1	-2	4½	7	10	8
Social security contributions	½	3	3½	2½	10	9½
Total personal disposable income	2	1	1½	2½	7	6½
Consumers' expenditure implied deflator	1	0	1	1½	3½	3½
Real personal disposable income	1	1	½	1	3½	3

NOTES TO EDITORS

While figures contained in this press notice are the best estimates currently available, they are subject to revision. In particular, the early estimates of RPDI have, on occasion, been revised by one per cent or more in either direction as more firmly based information has become available.

RPDI is sometimes interpreted as measuring the living standards of individuals. Since this statistic measures only the current transactions of persons and ignores the level of government intervention, this interpretation must be viewed with caution.

Personal saving is calculated as the difference between two large aggregates and consequently is subject to a wide margin of error. Small revisions in the estimates of personal income or consumers' expenditure may result in large revisions to early estimates of personal saving and the saving ratio.

As usual, the commentary in this press notice is based entirely on seasonally adjusted data, as shown in the attached table. An obelus indicates that the data are new or have been revised. The period so marked is the earliest in the column to have been revised. If the obelus appears against the first figure in the column, this implies that earlier data may have been revised. Figures for these earlier periods can be obtained via the CSO Databank (see below). Quarterly movements are not necessarily a guide to the trend; comparisons over longer time periods are recommended.

The CSO Databank is a collection of macro-economic time-series sold to the public in computer-readable form. Details of the service offered and the schedule of charges may be obtained from the Databank Manager, CSO Branch 9, Room 52A/4, Government Offices, Great George Street, London SW1P 3AQ (Telephone: 01-270 6386 or 6387). CSO does not offer direct on-line access for these data, but a list of host bureaux offering such a facility is available on request from CSO.

Detailed estimates of consumers' expenditure at current and constant prices were released on 18 March 1988 in the CSO press notice "Gross domestic product in the fourth quarter and year, 1987".

PERSONAL INCOME, EXPENDITURE AND SAVING(1)

Seasonally adjusted

£ MILLION

	Personal income before tax					Deductions from personal income							Consumers' expenditure implied deflator (1980=100)	Real personal disposable income: at 1980 prices(4)	Index of real personal disposable income (1980=100)			
	Total	Wages, salaries and forces' pay	Employers' contributions	Current grants from general government	Other personal income	UK taxes on income (payments)	Social security contributions	Other current transfers	Total personal disposable income(2)	Consumers' expenditure	Balance: personal saving	Saving ratio(3)				CAOX	CFAH	CFAF
1981	222 548†	127 805	21 720	31 242†	41 781†	28 969	15 916	1 339	176 324†	153 491†	22 833†	12.9†	111.4	158 216†	98.7			
1982	242 398	136 188	22 380	36 586	47 244	31 396	18 095	1 475	191 432	168 164	23 268	12.2	121.1	158 019	98.6			
1983	261 056	145 433	24 121	39 769	51 733	33 232	20 780	1 464	205 580	183 839	21 741	10.6	127.3†	161 543	100.8†			
1984	279 038	155 052	25 006†	43 061	55 919	34 677	22 312†	1 583	220 466	196 944	23 522	10.7	133.4	165 287	103.1			
1985	300 643	168 254†	26 122	46 732	59 535	37 482†	24 191	1 706†	237 264	215 161	22 103	9.3	140.3	169 137	105.5			
1986	324 176	182 765	26 971	50 775	63 665	40 863	26 033	1 901	255 379	236 527	18 852	7.4	145.5	175 526	109.5			
1987	346 983	198 053	27 895	52 498	68 537	44 104	28 476	2 081	272 322	257 110	15 212	5.6	150.3	181 151	113.0			
1984	1	68 062†	37 778	6 197	10 452	13 635†	8 466	5 406	381†	53 809†	47 847†	5 962†	11.1†	131.1†	41 047†	102.4†		
	2	69 020	38 236	6 217†	10 661†	13 906	8 598	5 534†	392	54 496	49 137	5 359	9.8	132.7	41 076	102.5		
	3	69 887	38 871	6 239	10 843	13 934	8 672	5 608	403	55 204	49 283	5 921	10.7	134.1	41 179	102.7		
	4	72 069	40 167	6 353	11 105	14 444	8 941	5 764	407	56 957	50 677	6 280	11.0	135.7	41 985	104.7		
1985	1	72 868	40 778†	6 392	11 236	14 462	9 074†	5 817	410	57 567	52 126	5 441	9.5	137.9	41 735	104.1		
	2	74 432	41 594	6 511	11 564	14 763	9 038	6 039	426	58 929	52 848	6 081	10.3	139.5	42 229	105.4		
	3	75 875	42 588	6 581	11 880	14 826	9 670	6 148	429	59 628	54 538	5 090	8.5	140.9	42 310	105.6		
	4	77 468	43 294	6 638	12 052	15 484	9 700	6 187	441	61 140	55 649	5 491	9.0	142.6	42 863	106.9		
1986	1	78 855	44 257	6 674	12 346	15 578	9 905	6 257	464	62 229	57 223	5 006	8.0	144.0	43 224	107.8		
	2	80 507	45 336	6 731	12 667	15 773	10 084	6 459	466	63 498	58 550	4 948	7.8	144.6	43 926	109.6		
	3	81 582	46 080	6 752	12 842	15 908	10 190	6 574	481	64 337	59 776	4 561	7.1	145.9	44 106	110.0		
	4	83 232	47 092	6 814	12 920	16 406	10 684	6 743	490	65 315	60 978	4 337	6.6	147.5	44 270	110.4		
1987	1	84 823	47 736	6 823	12 892	17 372	10 784	6 793	509	66 737	61 926	4 811	7.2	149.1	44 758	111.7		
	2	85 443	49 008	6 914	13 193	16 328	10 546	7 008	507	67 382	63 006	4 376	6.5	149.0	45 209	112.8		
	3	87 078	49 941	7 028	13 183	16 926	11 009	7 246	519	68 304	65 269	3 035	4.4	150.5	45 383	113.2		
	4	89 639	51 368	7 130	13 230	17 911	11 765	7 429	546	69 899	66 909	2 990	4.3	152.6	45 801	114.3		
Percentage change, latest quarter on previous quarter (5)																		
1987	4	2.9	2.9	1.5	0.4	5.8	6.9	2.5	5.2	2.3	2.5		1.4	0.9	0.9			
Percentage change, latest quarter on corresponding quarter in previous year (5)																		
1987	4	7.7	9.1	4.6	2.4	9.2	10.1	10.2	11.4	7.0	9.7		3.5	3.5	3.5			

- (1) An obelus in the table indicates that the data are new or have been revised. The period marked is the earliest in the table to have been revised.
(2) Equals total personal income before tax LESS taxes on income, social security contributions and other current transfers.
(3) Personal saving as a percentage of total personal disposable income.
(4) Personal disposable income revalued by the implied consumers' expenditure deflator (1980 = 100).
(5) These estimates are given to one decimal place but they cannot be regarded as any more accurate than the rounded figures given in the text.

PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM on
25 MARCH 1988

25/88

March 25, 1988

GENERAL INDEX OF RETAIL PRICES
FEBRUARY 1988

The general index of retail prices for all items for February 16, 1988 was 103.7 (January 13, 1987 = 100). This represents an increase of 0.4 per cent on January 1988 (103.3) and an increase of 3.3 per cent on February 1987.

The rise in the index between January and February was mainly the result of higher prices for fresh fruit and vegetables and, with the end of the winter sales, prices for clothing, footwear and household goods were all higher. There were lower prices for motor vehicles and petrol.

The movements for the main groups in the index are shown in Table 2.

Table 1.

	All items			All items except seasonal food			
	Index Jan 13 1987 = 100	Percentage change over			Index Jan 13 1987 = 100	Percentage change over	
		1 month	6 months	12 months		1 month	6 months
1987							
September	102.4	+0.3	+1.8	+4.2	102.6	+0.4	+2.0
October	102.9	+0.5	+1.1	+4.5	103.1	+0.5	+1.5
November	103.4	+0.5	+1.5	+4.1	103.6	+0.5	+1.9
December	103.3	-0.1	+1.4	+3.7	103.3	-0.3	+1.5
1988							
January	103.3	0.0	+1.5	+3.3	103.3	0.0	+1.4
February	103.7	+0.4	+1.6	+3.3	103.6	+0.3	+1.4

TABLE 2

Indices (13 January 1987 = 100)

	January 12, 1987	February 16, 1988	Percentage change over the month
All items	103.3	103.7	+0.4
All items excluding Food	103.4	103.8	+0.4
All items excluding Housing	103.2	103.6	+0.4
<hr/>			
Food	102.9	103.6	+0.7
Seasonal Food	103.7	106.9	+3.1
Non seasonal Food	102.7	103.0	+0.3
Catering	106.4	107.1	+0.7
Alcoholic Drink	103.7	104.2	+0.5
Tobacco	101.4	101.6	+0.2
Housing	103.9	104.3	+0.4
Fuel and Light	98.3	98.0	-0.3
Household Goods	103.3	103.9	+0.6
Household Services	105.0	105.3	+0.3
Clothing and Footwear	101.1	101.9	+0.8
Personal Goods and Services	104.3	104.7	+0.4
Motoring Expenditure	105.1	105.0	-0.1
Fares and Other Travel Costs	105.1	105.7	+0.6
Leisure Goods	102.8	103.3	+0.5
Leisure Services	103.6	103.7	+0.1

NOTES TO EDITORS

1 As reported by the Secretary of State for Employment on December 11, 1987, it has been discovered that from February 1986 to October 1987 a computer program error affected the monthly index. The official figures are always stated to one decimal place and the extent of the understatement of index levels will depend on rounding. The all items index figures for February 1986 to January 1987 will be understated by about 0.06 per cent; the index figure for January 1987 taking January 1974 as 100 was 394.5. The index figures for February to October 1987 were affected by an error about 0.09 per cent. In most months this will have resulted, with rounding, to an understatement of 0.1 points in the published figures which take January 1987 as 100. However, because the January index link, 394.5, was understated the understatements relative to January 1986 may have rounded to 0.1 or 0.2 per cent.

2 The General Index of Retail Prices (RP1) measures the average change from month to month in the prices of goods and services purchased by most households in the United Kingdom. The expenditure pattern on which the index is based is revised each year using information from the Family Expenditure Survey. The expenditure of certain higher income households and pensioner households, mainly dependent on state pensions and benefits, is excluded.

3 The index is compiled using a large and representative selection of more than 600 separate goods and services for which price movements are regularly measured in about 180 towns throughout the country. Approximately 130,000 separate price quotations are used each month in compiling the index.

4 The prices of some items of food show significant seasonal variation. A separate price index is compiled for these "seasonal foods", the expenditure on which accounts for around $2\frac{1}{2}$ per cent of household expenditure. The variation caused by these items is removed from the series of indices for 'all items except seasonal food'.

5 Rates of change of indices can be calculated over periods of any length. Rates calculated over long periods are slow to detect changes in trend while calculations over very short periods give rather volatile results. To help in assessing what is happening to prices, rates of changes in the all items index and the index for all items except seasonal food are shown in Table 1 over successive periods of one month, six months and twelve months.

6 Following the recommendations which the Retail Prices Index Advisory Committee made in its report submitted to the Secretary of State for Employment in July 1986, the index has been re-referenced to make January 1987 = 100. Calculations of movements in the index over periods of time which span January 1987 are made as follows:-

For example, to find the percentage change in the Index for all items between June 1986 and October 1987. Take the index for October 1987 (102.9), multiply it by the January 1987 index on the 1974 base (394.5), then divide by the June 1986 index (385.8). Subtract 100 from the result and this will show that the index increased by 5.2 per cent between those months.

7 Other changes made to the index in 1987 are given in an article in the April edition of Employment Gazette.

8 The Retail Prices Index Advisory Committee was first established in 1946 and advises on the methodology used for compiling the RPI. Committee members include representatives of consumers, employees, employers, retailing organisations, academic experts, government departments and other official bodies. The Committee's latest report - 'Methodological Issues Affecting The Retail Prices Index' Cmnd 9848 HMSO £6.50 - was published on 15 July 1986. The Government announced at the same time that all its recommendations were to be accepted.

9 The housing costs of owner-occupiers are reflected in the index using an indicator which represents mortgage interest payments. A weighted average of building societies base mortgage interest rates is used in the calculation.

10 The index is given in full in the Employment Gazette.



FROM: A A DIGHT

DATE: 25 March 1988

MR S PRICE

THE FEBRUARY RPI (to be published at 11.30am on Friday 25 March)

The Chancellor has seen and was grateful for your minute of 24 March.

A handwritten signature in black ink, appearing to read "A A Dight".

A A DIGHT