PO-CH/NL/0323

PART B

Part. B.

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Begins: 17/11/87.
Ends: 22/2/88.

PO -CH /NL/0323

PART B

Chancellors (Lawson) Papers:

THE CONFEDERATION OF BRITISH INDUSTRY ECONOMIC PROGRESS REPORT

DD's: 25 Years

D Anderson
1/11/95.

PO -CH /NL/0323
PART B

psl/11A

CONFIDENTIAL

p10

NOTE OF A MEETING IN NO.11 DOWNING STREET
AT 6.00PM ON TUESDAY, 17 NOVEMBER

Present

Chancellor	Sir David Nickson Mr John Banham

MEETING WITH SIR D NICKSON AND MR BANHAM

Sir D Nickson reported that industrial confidence seemed to be holding up well. The next CBI monthly trends survey, conducted after the stock market fall, showed buoyant prospects for output and orders; the only area of concern was on prices. CBI members were uneasy about the US economy and the weakness of the dollar, but were showing no signs of putting off their investment decisions. Mr Banham noted that there had been only one speaker in the economic debate at the CBI Conference who had expressed gloom; the others had been very bullish - and had succeeded in presenting this view consistently in spite of many journalists trying to write gloomy stories.

2. The Chancellor welcomed this news. On the exchange rate, he hoped that the G7 could secure a further period of stability for the dollar, but for sterling the policy of stability against the deutschemark was the key. Sir D Nickson said that this was totally supported by his members, who looked for as much stability and certainty as possible. There was also much more understanding of interest rate policy now.

Budget representations etc.

3. Sir D Nickson said that he did not see the need for a formal meeting with the Chancellor to deliver the CBI Budget representations. The Chancellor already knew their views, and informal meetings such as this were much more useful. The CBI had, of course, sent in their technical representations in the usual way. The main message from the CBI Conference had been the need to allow industry to retain as much of its profits as possible to reinvest. This affected policies on taxation, electricity prices and rates.

Reform of local government finance

4. Sir D Nickson said he had discussed with Mr Ridley the CBI's proposals for the reform of local government finance. The CBI's main objective was for businesses to pay via rates only for the services they received, and for other business taxation to be based on profits. They were therefore unhappy at the prospect of the uniform non-domestic rate locking business in to a high poundage, with any efficiency gains in future going to the community charge payer rather than to business. The Chancellor said that he understood the CBI's concerns. But they must recognise that the Government had committed itself to increasing the national non-domestic rate by no more than the rate of inflation, a form of capping which the CBI had long sought. Mr Banham confirmed that the CBI view was that the Government's proposals were certainly better than the status quo.

Electricity prices

5. Mr Banham said that he and Sir David had seen Mr Parkinson, who had explained his proposals and had cleared up some of the misunderstandings. But it would have been much easier if consultation had been arranged before the misunderstandings had arisen. The Chancellor noted this. He pointed out that press

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leaks had forced an announcement rather earlier than the Government had planned.

ACSA

A C S ALLAN

19 November 1987

Circulation

PS/Chief Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Burgner
Mr Hawtin
Mr Peretz
Mr P Gray
Mr Cropper

Confederation of British Industry
Centre Point
103 New Oxford Street
London
WC1A 1DU
Telephone: 01-379 7400

CBI

NEWS RELEASE

EMBARGOED : NOT FOR PUBLICATION BEFORE 1130 HOURS ON TUESDAY 17 NOVEMBER 1987

P.242.87

RATES : THE BUSINESS ALTERNATIVE

CBI PROPOSALS PUT TO GOVERNMENT

The Confederation of British Industry today (Tuesday) publishes its alternative proposals for paying for the services of local government following concern voiced by delegates at its National Conference in Glasgow on 2 November.

The CBI President, Sir David Nickson, and the Director General, John Banham, met the Environment Secretary, Nicholas Ridley, and Local Government Ministers, Michael Howard and Christopher Chope, yesterday (Monday) to discuss the proposals.

In a 58 page report, the result of nationwide membership consultation which included a computer tested series of case studies affecting local authorities in England, the CBI urges that the whole issue of how local government is financed should be given wider discussion before the Government proceeds with its proposals in Parliament.

The CBI report, entitled "Lifting the Burden on Business",* says it welcomes the Government's determination to tackle the question of how local government should be paid for and to abolish the present unfair domestic rating system. It supports the principles of local accountability, flexibility and simplicity outlined in the Conservative election manifesto and the Government's Green Paper. It believes the Government's present proposals represent a substantial improvement on the existing system.

MF

PROBLEMS TO BE SOLVED

But it points out that business rates have risen in real terms by 30 per cent or more in recent years and now cost over £6 billion a year.

Although safeguards against future rate rises have been agreed, the Uniform Business Rate (UBR) is still unsatisfactory from a business point of view, nor does it achieve all the Government's stated objectives.

- Business will be paying £2 billion a year for services it derives no benefit from

- Local links between business and authorities will be further weakened; accountability will remain confused

- current waste and inefficiency will be reflected in the level of the UBR.

ALTERNATIVE APPROACH

In an alternative approach already submitted privately to the Government, the CBI puts forward its proposals as a positive way of meeting these concerns. The Exchequer would make specific grants to cover the costs of national services such as polytechnics, secondary schools, school meals and milk and all child care services. The present block grant to local authorities would be reduced pound for pound to compensate the Exchequer.

MF

Local businesses would contribute, via business rates, towards the local costs of only those services from which they benefit directly. These include non-advanced further education, police, fire, road maintenance, street lighting, refuse collection and disposal, museums and libraries. Overall, under the CBI scheme business would meet 75 per cent of the costs involved for these services.

Council housing and leisure services - for which there is a local market - would be expected to be self-financing. There would be no cross-subsidy for tenants or users, other than that provided by the Social Security system.

The CBI says that its alternative proposals for financing local government could cost £450 million less than the Government's proposals (because they would be simpler to administer) and there would also be far less change following revaluation.

The effect on private domestic households would be neutral between the Government and the CBI schemes, but there would be a smaller increase in the more deprived areas under the CBI proposal than under the Government's scheme and there would be a smaller reduction in the more affluent areas.

BUSINESS NEED FOR INVESTMENT

At yesterday's meeting Sir David told the Secretary of State that the CBI regarded the Government's current proposals as an improvement on the present system. However, it had reservations, in particular on the impact of the proposed Uniform Business Rate. Much concern had been expressed on this subject by members at the recent CBI National Conference. There was particular anxiety at the size of the total rate bill for business at a time when industry needed funds to increase investment in training, plant and equipment and research and development, as well as to finance new initiatives within the inner cities.

MF

Sir David emphasised four priorities for the CBI :

1 So far as possible business should pay only for the local services from which it derives benefit. Rates should not be used as a tax to redistribute wealth between business and the domestic sector.

2 The non-domestic rate should be set at a level to encourage improvements in efficiency and should not consolidate existing inefficiences.

3 Local accountability and market forces should apply to business as well as to residents and there should be an effective mechanism to ensure that local authorities pay due regard to the needs of the business community.

4 Business must be cushioned against sharp increases in rates following revaluation; the transition arrangements must be satisfactory

"The CBI will judge the Government's response by the extent to which these basic requirements are met", said Sir David.

INITIAL GOVERNMENT REACTION

The Secretary of State, for his part, made it clear that in his view the CBI's alternative proposals would not meet the Government's objectives and were not consistent with the Conservative manifesto commitments. Furthermore, the results assumed that the total of businesss rates could be reduced by £1.6 billion.

MF

Nevertheless, in spite of these differences, the Secretary of State agreed to pursue the following CBI concerns:

Accountability - the Secretary of State would discuss with the CBI the involvement of business in those local authority decisions which affect business.

Efficiency gains - the Secretary of State noted that the forthcoming legislation would contain a power for the UBR to be increased by less than the rate of inflation. He would consider whether and how this power could be used in the event of genuine reductions in local government spending levels.

Transition - the Secretary of State emphasised that current discussions on transition to the community charge did not affect the proposals to phase in changes in business rates over a five year period. He said that he was willing to listen to representations about this transition.

The Secretary of State suggested that the question of reducing the overall level of the Uniform Business Rate was a matter to be raised with the Chancellor of the Exchequer.

Commenting on the meeting, Sir David said that the constructive Government response was an encouraging start to discussions which would continue. He emphasised that the CBI report was put forward as a positive contribution to the debate on the future of local government finance. "It shows that we are not caught in a choice between proposals which are unsatisfactory to business and the unacceptable prospect of keeping the existing system," he said.

17 November 1987

* Available from CBI Publication Sales, Centre Point, 103 New Oxford Street, London WC1A 1DU. Price £6 to members and £8.50 to non-members.

MR 1/4

Please type for signature

DRAFT LETTER FROM CHANCELLOR

Nickson

Sir David Nixon KBE DL
President
Confederation of British Industry
Centre Point
103 New Oxford Street
LONDON
WC1A 1DU

Thank you for your letter of 16 November enclosing your report on paying for Local Government. We discussed this when we met on Wednesday.

NIGEL LAWSON

a
OK? – it seems better to shortcircuit longwinded official reply
AA

right. I will go over this ... on Saturday.

Please minute thanks

CONFIDENTIAL

FROM: S D KING
DATE: 18 NOVEMBER 1987

Ch was grateful!

MR ALLAN

cc Sir P Middleton
Mr Sedgwick
Miss O'Mara
Mr Curwen

CBI MONTHLY TRENDS ENQUIRY

You asked for the seasonally adjusted results from the November Enquiry, which is due to be published at 00.30 on Monday 23 November. These are attached.

S D KING
PS/SIR T BURNS

FOR RELEASE FOR MONDAY'S (23/11) PAPERS

CBI Monthly Trends Enquiry

RESULTS November 1987

Manufacturing Industry: 1307 **respondents**

Conducted between 27 October and 11 November 1987

The figures are percentages based on a weighted sample.

Excluding seasonal variations, do you consider that in volume terms:

	Above Normal	Normal	Below Normal	N/A
(1) a. Your present total order book is	30	53	17	+
b. Your present export order book is	29	50	18	3

(firms with no order book are requested to estimate the level of demand)

	More than adequate	Adequate	Less than adequate	N/A
(2) Your present stocks of finished goods are	12	58	17	13

What, excluding seasonal variations, is the expected trend over the next four months with regard to:

	Up	Same	Down	N/A
(3) Volume of output	44	47	8	-
(4) Average prices at which domestic orders are booked.	32	63	4	1

Percentage Balance

	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	S.A
1a Total Order Book	-10	-15	+ 2	+ 4	+ 1	+10	+ 3	+ 6	+11	+ 9	+10	+13	(+10)
b Export Order Book	- 7	-13	- 2	0	- 6	0	+ 9	+10	+ 5	+ 3	+ 1	+11	(+10)
2 Stocks	+ 5	+10	+ 6	+ 7	+ 5	0	- 1	+ 1	- 1	+ 3	- 7	- 5	N/A
3 Volume of Output	+10	+15	+29	+34	+25	+31	+37	+23	+38	+30	+25	+36	(+39)
4 Average Prices	+26	+30	+34	+25	+26	+28	+19	+19	+21	+20	+23	+28	(+30)

COMMENT

The buoyancy of total order books continues. The balance of +13% of firms reporting above normal order books is the highest on record.

After moderating in the third quarter, export orders have returned to the levels of midsummer. A record balance of +11% of firms report export order books to be above normal.

There is little change in the level of stocks of finished goods. A balance of -5% of firms report finished goods stocks to be less than adequate, compared to -7% in October.

Further strong growth is expected in manufacturing output over the next four months. A balance of 36% of firms expect output to rise slightly above the recent trend.

Manufacuturers' average prices are expected to increase at a faster rate over the next four months. A balance of +28% of firms expect an upward trend in the average prices at which domestic orders are booked, up from +23% in October and matching the trend earlier in the year.

TABLE 1A

CBI MONTHLY SURVEY QUESTIONS (OTHER THAN OUTPUT EXPECTATIONS)

	PRESENT LEVEL OF ORDER BOOK (Balance of those responding "Above normal" less those responing "Below normal")				PRICES(Q12A) Expected trend next 4 months. (Balance of those responding "Up" less those responding "Down")	
	TOTAL (Q5A)		EXPORT (Q5B)			
	Reported	Seasonally Adjusted	Reported	Seasonally Adjusted	Reported	Seasonally Adjusted
1986						
May	-16	-21	- 9	-16	+14	+15
Jun	-21	-23	-19	-21	+6	+12
Jly	-25	-22	-25	-21	+11	+15
Aug	-20	-20	-25	-20	+10	+15
Sep	-21	-20	-23	-18	+10	+17
Oct	-23	-17	-22	-16	+14	+17
Nov	- 9	-12	-10	-10	+19	+21
Dec	-10	-12	- 7	- 9	+26	+21
1987						
Jan	-15	-10	-13	-10	+30	+22
Feb	+ 2	- 2	- 2	- 6	+34	+28
Mar	+ 4	0	0	- 7	+25	+21
Apr	+ 1	+ 4	- 6	- 6	+26	+22
May	+10	+ 5	0	- 7	+28	+29
Jun	+ 3	+ 1	+ 9	+ 8	+19	+25
Jul	+ 6	+ 9	+10	+14	+19	+23
Aug	+11	+11	+ 5	+ 9	+21	+26
Sep	+ 9	+10	+ 3	+ 8	+20	+27
Oct	+10	+16	+ 1	+ 7	+23	+26
Nov	+13	+10	+11	+10	+28	+30

NB.1.The monthly question concerning the adequacy of present stock levels is not found to display stable seasonality.

2.The question numbers given are those for the quarterly survey, since there is no ambiguity in monthly survey question titles.

TABLE 1B

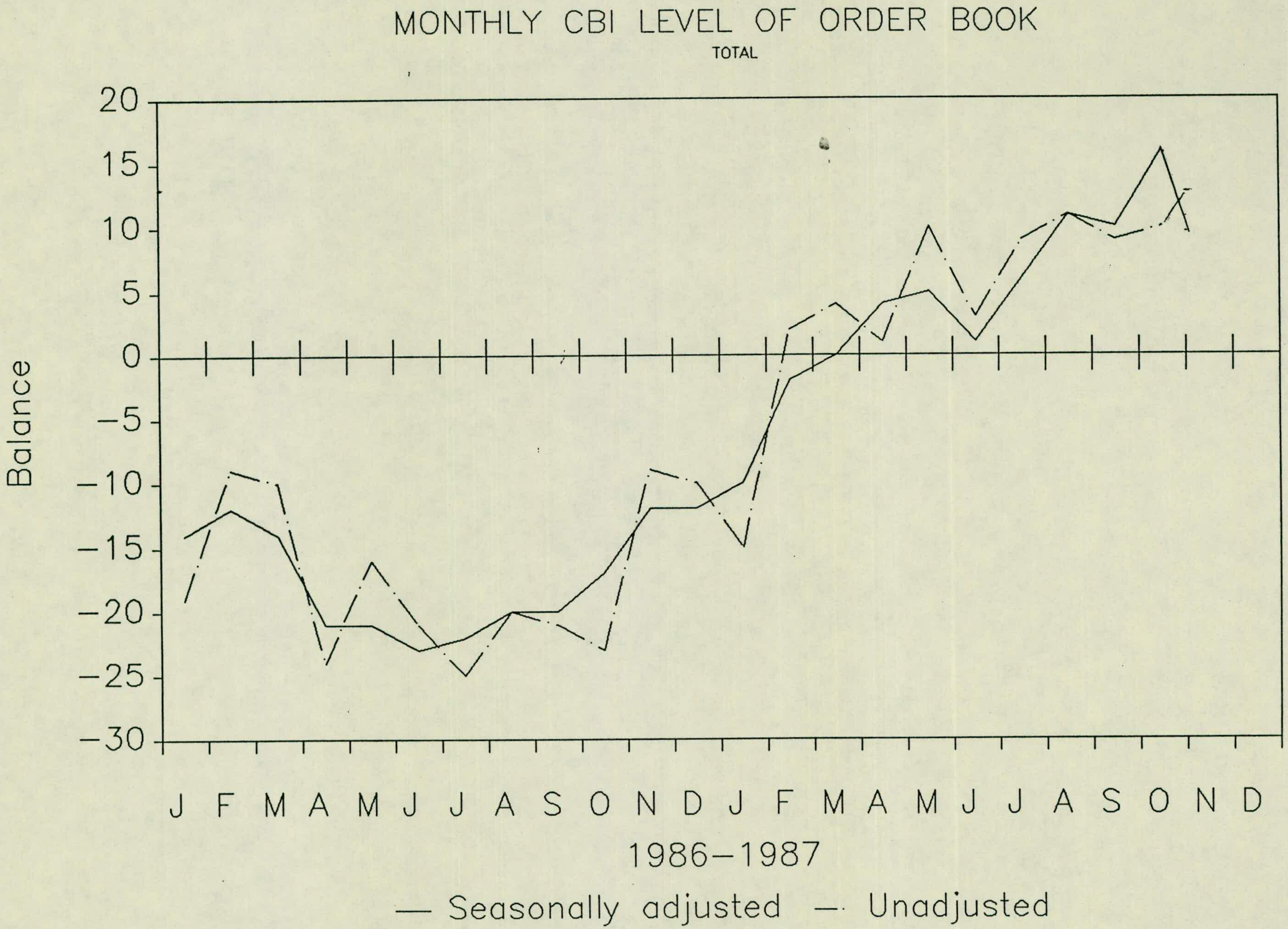
CBI SURVEY QUESTIONS ON OUTPUT: MONTHLY EXPECTATIONS & QUARTERLY OUTTURN

VOLUME OF OUTPUT(Q8)

(Balance of those responding "Up" less those responding "Down")

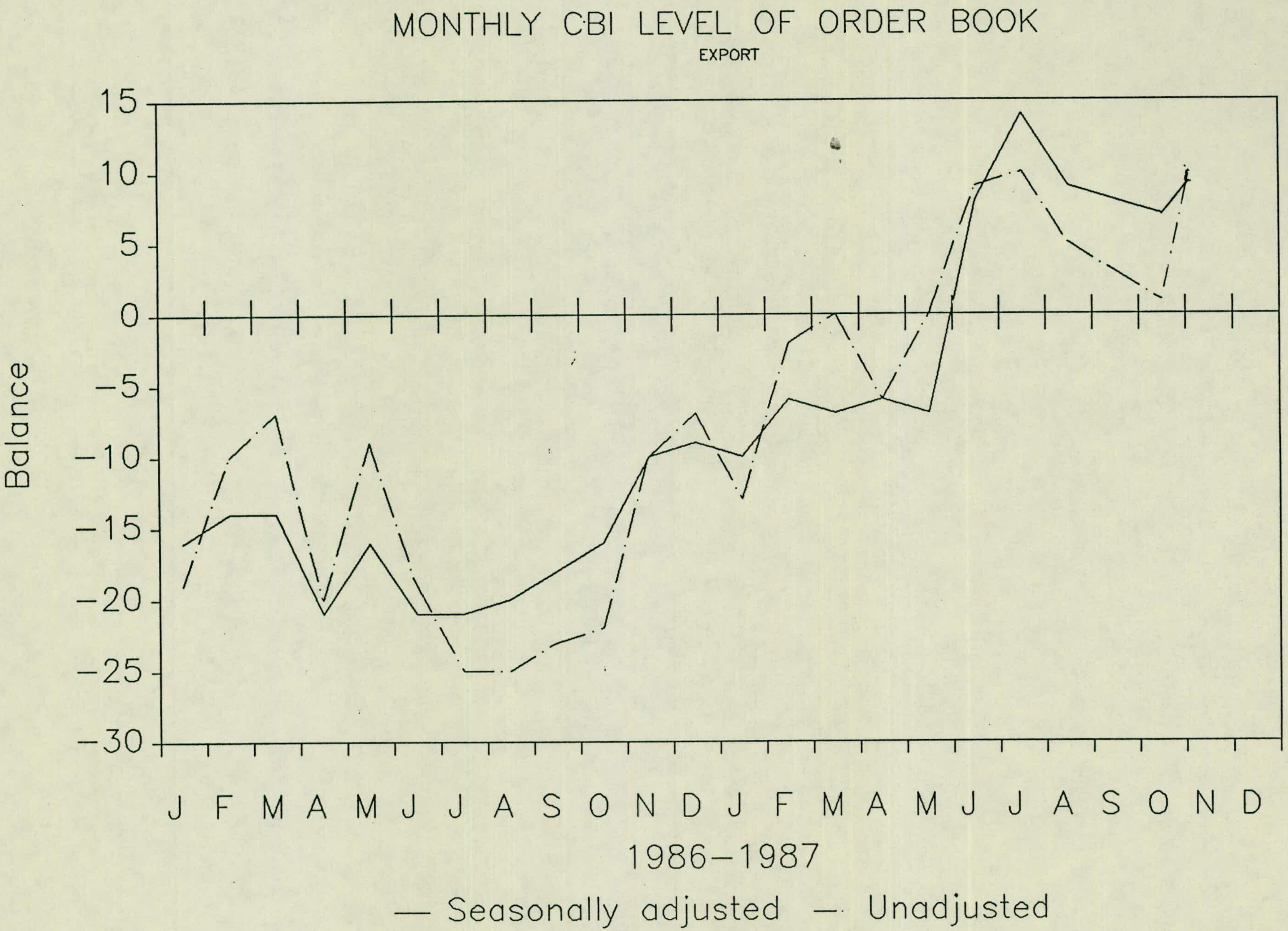
	PAST 4 MONTHS Reported	PAST 4 MONTHS Seasonally Adjusted	EXPECTED TREND OVER NEXT 4 MONTHS Reported	EXPECTED TREND OVER NEXT 4 MONTHS Seasonally Adjusted
1986				
Apr	0	- 5	+14	+ 9
May			+14	+12
Jun			+10	+ 9
Jly	- 2	- 2	+ 5	+10
Aug			+ 7	+11
Sep			+11	+14
Oct	- 1	+ 3	+13	+14
Nov			+13	+16
Dec			+10	+ 9
1987				
Jan	+ 9	+10	+15	+17
Feb			+29	+26
Mar			+34	+27
Apr	+24	+19	+25	+20
May			+31	+29
Jun			+37	+36
Jul	+23	+23	+23	+28
Aug			+38	+42
Sep			+30	+33
Oct	+19	+23	+25	+26
Nov			+36	+39

NB. The results of the expectations question are shown against the month in which the survey was carried out. Therefore, for example, the August result represents the expected trend in output to December.



MONTHLY CBI LEVEL OF ORDER BOOK
TOTAL
Balance
20
15
10
5
0
−5
−10
−15
−20
−25
−30
J F M A M J J A S O N D J F M A M J J A S O N D
1986−1987
— Seasonally adjusted —· Unadjusted

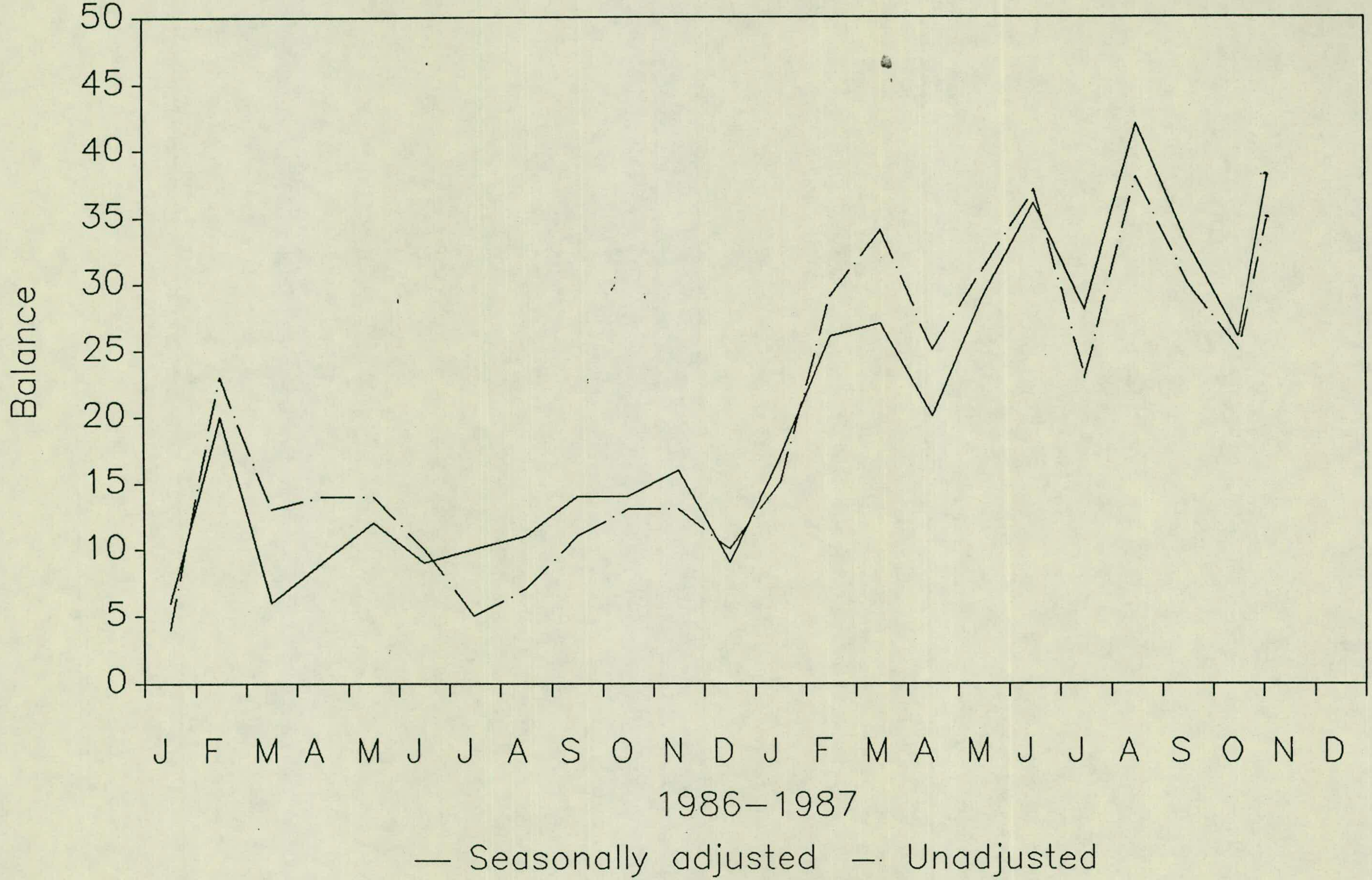
27/10/87



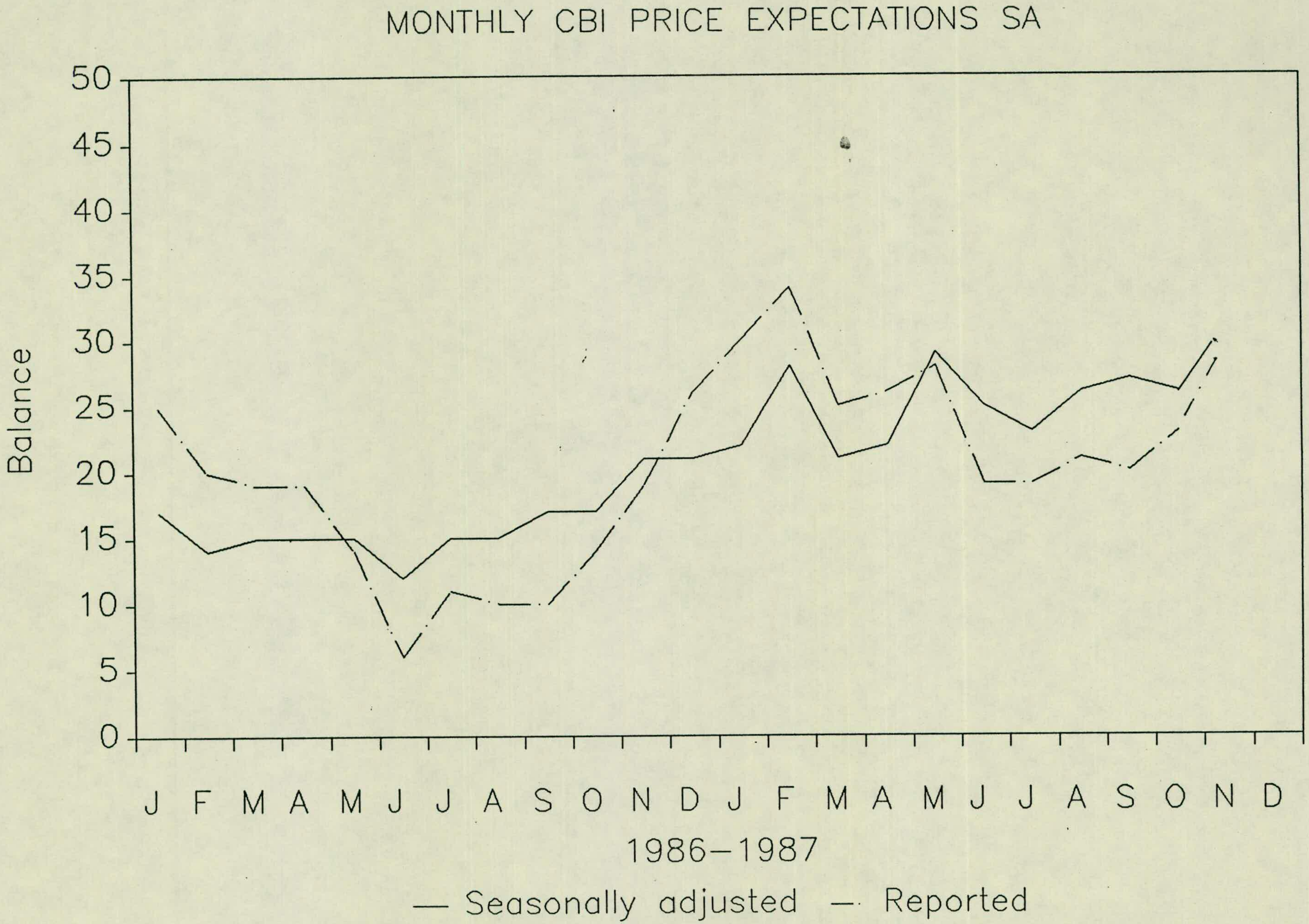
MONTHLY CBI LEVEL OF ORDER BOOK
EXPORT
15
10
5
0
−5
−10
−15
−20
−25
−30
Balance
J F M A M J J A S O N D J F M A M J J A S O N D
1986−1987
— Seasonally adjusted —· Unadjusted

27/10/87

MONTHLY CBI VOLUME OF OUTPUT



27/10/87



MONTHLY CBI PRICE EXPECTATIONS SA
Balance
50
45
40
35
30
25
20
15
10
5
0
J F M A M J J A S O N D J F M A M J J A S O N D
1986–1987
— Seasonally adjusted -·- Reported

27/10/87

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until 00.30 on Monday 23 November 1987
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pmp

FROM: PETER CURWEN

DATE: 20 November 1987

1. MISS O'MARA

2. CHANCELLOR OF THE EXCHEQUER
(+ 1 copy for No.10)

Another upbeat survey, particularly as it is the first produced since the stock market fall. The Paymaster General especially will want to note the findings of the CBI's special investment survey. We will ensure they are incorporated in notes for supplementaries on Mr Vaz' question for Thursday.

Mary 20/11

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Odling-Smee
Mr Scholar
Mr Sedgwick
Mr Bottrill
Mr R I G Allen
Mr Hibberd
Mr Pickford
Mr Allum
Mr Barrell
Mr Brooks
Mr Dyer
Mr Hudson
Mr Price
Mr Cropper
Mr Tyrie
Mr Call
HB/003

CBI MONTHLY TRENDS ENQUIRY AND STAFF FORECASTS: NOVEMBER 1987

The CBI's latest Monthly Enquiry is to be released at 00.30 on Monday 23 November, together with the CBI's latest Staff Forecast and an article summarising the results of a survey designed to investigate how manufacturers' investment intentions have been affected by the stock market fall. The general flavour of the survey seems to have reached the press already following Sir David Nickson's comments on Wednesday.

Enquiry results

2. This is the first survey to be conducted since the stock market fall and is therefore likely to receive more press attention than is usual.

3. The Monthly Enquiry into manufacturing - summarised in the attached table - covers only five of the questions in the quarterly survey: current levels of home and export orders and of stocks, and expected trends in output and domestic prices over the next four months. The Enquiry was conducted between 27 October and 11 November, covering 1,307 respondents.

4. The balances on total order books, export order books and expected trend in output show an improvement between October and November from what were already historically high levels. Stock levels have improved, but on balance still do not seem to be quite adequate to meet demand. The expected rate of growth of output prices has picked up and is back to the levels seen earlier this year. The main results are outlined below, with seasonally adjusted figures (produced by CSO, BUT NOT PUBLISHED) in brackets:

	October	**November**
Total order books	+10(+16)	+13(+10)
Export order books	+ 1(+ 7)	+11(+10)
Stocks	- 7	- 5
Volume of output	+25(+26)	+36(+39)
Average domestic prices	+23(+26)	+28(+30)

Points to note

5. The stock market fall seems to have had little, if any, adverse impact on business confidence. The balances on both total and export order books are at their highest ever levels. (The questions were first asked in their present form in April 1977.) The balance of firms expecting to increase output over the next four months is at its third highest level ever and only slightly below the record levels in June and August of this year. On this basis the CBI expect further stong growth in manufacturing output over the next four months. The CBI also argue that, on inspection of the prices series, 'manufacturers' average prices are expected to rise at a slightly faster rate over the next four months'. The balance has certainly picked up from the levels of June and July, but is now only back to the levels seen earlier this year and is well below the levels seen throughout almost all of the 1970s.

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Staff forecast

	Percentage change on previous year 1987	1988
GDP(O)	4.0	2.0
of which: manufacturing	5.8	4.9
Consumers' expenditure	4.4	2.8
Fixed investment	4.2	6.0
of which: manufacturing	2.0	7.2
Exports	5.6	1.7
Imports	6.7	5.0
Retail price inflation (Q4)	4.2	3.6
Unemployment (Q4, millions)	2.7	2.6
Current account (£bn)	-1.6	-3.2
PSBR (FY, £bn)	0.0	

6. The CBI staff forecast differs in a number of respects from the Autumn Statement. Although forecast GDP growth for 1987 is the same (albeit on a different measure), manufacturing output is expected to account for a larger part of overall growth. For 1988 the CBI are less optimistic, explaining the fall-back in growth (to 2 per cent) on a slowing of world trade and slower growth in disposable income. However, the CBI still note that 'prospects for 1988 are encouraging'. For two other main economic indicators the CBI are, broadly, more optimistic. They are forecasting smaller current account deficits for 1987 and 1988 than the IAF and, although they expect slightly higher inflation than the IAF in the fourth quarter of this year, they expect lower inflation for the fourth quarter of next year.

7. On the likely effects of the stock market falls, the CBI note that while the likelihood of a '1930s style depression is so low as to be of no consequence, the world will not emerge unscathed from the experience'. However, they point out that there should only be a 'limited impact' on the UK economy, while recognising that much depends on the 'policy response in the US'. They conclude that cutting the US budget deficit would be the best response for Europe since

the alternative of a 'free fall in the dollar would deepen further the US slowdown, and, at the same time, disrupt currency markets, reducing confidence in Europe'.

Special Investment Survey

8. In the light of recent developments in world stock markets, the CBI asked a smaller sample (753 respondents) two additional questions on investment intentions, normally only used for the quarterly Industrial Trends Survey.

9. The results suggest the world equity market fall has had little effect on manufacturers' investment intentions. A balance of + 29 per cent of respondents now expects to authorise more capital expenditure on plant and machinery in the next than in the last twelve months, up from a balance of +17 per cent in October, and the highest since April 1977. There was little change since last month in the proportion of respondents expecting to raise capital expenditure on buildings.

10. Manufacturers are continuing to operate at a high level of capacity utilisation. However, some 48 per cent of respondents now expect to increase investment in order to expand capacity, compared with 34 per cent in October. A smaller proportion than in October (13 per cent, as opposed to 25 per cent) consider their level of fixed capacity to be more than adequate to meet expected demand over the next year. The proportion citing uncertainty about demand as a factor likely to limit capital spending over the next twelve months has risen to 43 per cent from 33 per cent a month ago.

Peter. S. Curwen

PETER S CURWEN

CBI INDUSTRIAL TRENDS ENQUIRY

November 1987
Manufacturing industry: 1307 repondents

The figures are percentages based on a weighted sample.

Excluding seasonal variations, do you consider that in volume terms:

	Above Normal	Normal	Below Normal	N/A
(1) a. Your present total order book is	30	53	17	+
b. Your present export order book is	29	50	18	3

(firms with no order book are requested to estimate the level of demand)

	More than adequate	Adequate	Less than adequate	N/A
(2) Your present stocks of finished goods are	12	58	17	13

What, excluding seasonal variations, is the expected trend over the next four months with regard to:

	Up	Same	Down	N/A
(3) Volume of output	44	47	8	-
(4) Average prices at which domestic orders are booked.	32	63	4	1

Percentage Balance

		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
1a	Total Order Book	-10	-15	+ 2	+ 4	+ 1	+10	+ 3	+ 6	+11	+ 9	+10	+13
b	Export Order Book	- 7	-13	- 2	0	- 6	0	+ 9	+10	+ 5	+ 3	+ 1	+11
2	Stocks	+ 5	+10	+ 6	+ 7	+ 5	0	- 1	+ 1	- 1	+ 3	- 7	- 5
3	Volume of Output	+10	+15	+29	+34	+25	+31	+37	+23	+38	+30	+25	+36
4	Average Prices	+26	+30	+34	+25	+26	+28	+19	+19	+21	+20	+23	+28

Pmp

CBI SPECIAL INVESTMENT SURVEY

The Special Investment Survey was carried out in order to assess the extent to which the investment intentions of manufacturing companies have been affected by the recent developments in the equity markets.

The two questions asked were taken from the CBI Industrial Trends Survey, and the results are comparable with the quarterly ITS results.

3. Do you expect to authorise more or less capital expenditure in the next 12 months than you authorised in the past 12 months on:

buildings;

plant and machinery?

16.a) In relation to expected demand over the next 12 months is your present level of fixed capacity more than adequate, adequate or less than adequate?

b) What are the main reasons for any expected capital expenditure authorisations on buildings, plant or machinery over the next 12 months?

c) What factors are likely to limit (wholly or partly) your capital expenditure authorisations over the next 12 months?

The Survey was conducted between 30 October and 15 November, and the total number of respondents was 753.

The recent developments on the world equity markets have had little effect on the investment intentions of manufacturers. The largest balance of respondents since April 1977 now expects to authorise more capital expenditure on plant and machinery over the next 12 months than they had in the previous year. The proportion of respondents expecting to increase their capital expenditure on buildings, meanwhile, has remained at about the same level as was reported in the last Quarterly Survey in October.

Respondents indicate that the main reason for investing in buildings and plant and machinery over the next 12 months is to increase efficiency. However, manufacturers are continuing to operate at a high level of capacity utilisation which is adding to the stimulus to increase investment. A larger proportion of respondents now cites capacity expansion as the main reason for undertaking new investment in the next 12 months.

Although there are few indications that the Stock Market fall has had a detrimental effect on companies' investment plans for 1988, there is an element of caution about next year. A larger proportion of respondents now cites uncertainty about demand as a factor likely to limit their investment over the next 12 months.

- A balance of +29% of respondents now expects to authorise more capital expenditure on plant and machinery in the next 12 months. This is the highest balance since April 1977 and compares with +17% in October and +20% in July.
- A balance of -7% of respondents expect investment in buildings to fall in the coming year. this is similar to the result in October, when a balance of -3% expected a fall. Twenty three per cent of respondents expect to authorise more capital expenditure on buildings in the next year, compared with the

past year. This is relatively unchanged from the balance of 22% reported in October.

- Eighty three per cent of respondents indicate that the main reason for investing in buildings and plant and machinery over the next 12 months is to increase efficiency - compared with 75% in the October Survey.

- Manufacturers are continuing to operate at a high level of capacity utilisation with 48% of participants expecting to increase investment in order to expand capacity. In October, the figure had been lower at 34%.

- A smaller proportion of participants now considers their level of fixed capacity to be more than adequate in relation to expected demand than in October. Thirteen percent of respondents indicate that capacity is more than adequate to cope with the level of demand expected over the next 12 months, compared with 25% in October.

- Forty three percent of respondents cite uncertainty about demand as a factor likely to limit their capital expenditure over the next 12 months, compared with 33% in October. The reflects the greater uncertainty about the outlook following recent developments on world markets.

SPECIAL QUESTIONNAIRE

CBI

In light of recent events in the world stock markets, these two questions taken from the quarterly Industrial Trends Survey are being asked in order to gauge the possible effects on UK manufacturing.

-7

3 Do you expect to authorise more or less capital expenditure in the next twelve months than you authorised in the past twelve months on:

	More	Same	Less	N/A	
a. buildings	23	32	30	14	13
b. plant & machinery	49	30	20	1	14

+29

16 a. In relation to expected demand over the next twelve months is your present fixed capacity:

More than adequate	adequate	less than adequate	
13	65	20	59

b. What are the main reasons for any expected CAPITAL EXPENDITURE AUTHORISATIONS ON BUILDINGS, PLANT OR MACHINERY over the next twelve months. *If you tick more than one factor it would be helpful if you could rank them in order of importance.*

to expand capacity	48	60	other *(please specify)*	10	63
to increase efficiency	83	61	N/A	1	64
for replacement	61	62			

c. What factors are likely to limit (wholly or partly) your capital expenditure authorisations over the next twelve months. *If you tick more than one factor it would be helpful if you could rank them in order of importance.*

Inadequate net return on proposed investment	47	65	Uncertainty about demand	43	69
Shortage of internal finance	21	66	Shortage of labour including Managerial and Technical Staff	11	70
Inability to raise external finance	2	67	Other *(please specify)*	3	71
Cost of finance	7	68	N/A	8	72

MR 1/4

PMP.

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

Sir David Nickson KBE DL
President
Confederation of British Industry
Centre Point
103 New Oxford Street
LONDON
WC1A 1DU

20 November 1987

Dear David

Thank you for your letter of 16 November enclosing your report on paying for Local Government. We discussed this when we met on Wednesday.

Many thanks, too, for your ms letter following our meeting.

Yours
Nigel

NIGEL LAWSON

5 Sell 91.

papers pse PMP.
M

CH/EXCHEQUER
REC. 20 NOV 1987
ACTION CST 23/11
COPIES TO

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

David Norgrove Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

20 November 1987

Dear David,

BUSINESS RATES: CBI PROPOSALS

Thank you for your letter of 17 November. I enclose a draft reply for the Prime Minister to Sir David Nickson's letter of 16 November.

My Secretary of State met Sir David on Monday prior to publication of their report on alternatives to the Uniform Business Rate. He explained that:

(i) The proposals were not consistent with the election manifesto which referred explicitly to a community charge payable by all adults, whereas the CBI want a household charge; and to a Uniform Business Rate, whereas the CBI want a rate locally variable but paid only in respect of certain property related services.

(ii) The proposals would not provide clear signals to local voters about the spending behaviour of their councils. Nor would it extend the numbers paying local taxes. The proposals would not therefore deliver local accountability.

(iii) The CBI proposals produced bizarre results for individual areas.

(iv) Anyway it was far too late to contemplate a radically different scheme.

In response the CBI stressed the high level of anxiety of their members about the proposals and drew attention to a number of factors:

(i) Setting the UBR at the present average level would lock business into paying for present levels of inefficiency for ever, even though efficiency savings had been identified by the Audit Commission.

(ii) They were concerned that the Government's proposals made no provision for business to be involved in the decisions of local authorities which affect business.

(iii) There was a misunderstanding about whether the review of transitional arrangements in relation to the community charge extended also to transitional arrangements for the UBR.

In response my Secretary of State said that the transitional arrangements to UBR which had been announced were not being reconsidered. He indicated that he was willing to discuss further with the CBI the possibility of business involvement in local decisions affecting business. And he undertook to consider further whether and how the proposed power to increase business rates by less than the rate of inflation might be used to give to business an appropriate share of the benefit of any genuine savings in local authority expenditure which are achieved.

So far as Sir David's main point about the absolute size of the rate burden on business is concerned, my Secretary of State merely noted that the rate burden on business was part of a larger question, about the size of the total tax burden on business and its incidence, which were matters for the Chancellor.

I am copying this letter to Alex Allan in the Chancellor's office, Tim Walker in Lord Young's office and Tom Jeffery in Mr Baker's office, since I think they have also received copies of the CBI's proposals.

Yours,

Robin.

R U YOUNG
Private Secretary

D

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO SIR DAVID NICKSON KBE DL, PRESIDENT, THE CBI, CENTRE POINT, 103 NEW OXFORD STREET, LONDON WC1A 1DU

1. Thank you for sending me a copy of the CBI's paper on alternative ways of paying for local government. I was pleased to see that you accept both the need for reform and the fact that our proposals represent a distinct advance on the present unaccountable and unfair rating system.

2. I know that Nicholas Ridley has already explained to you that your proposals would not be consistent with our manifesto promises, which refer explicitly to a Uniform Business Rate. Nor would your proposals provide the clear accountability of local authorities to their local ratepayers which is our principal objective. Nevertheless, I welcome the constructive nature of your discussions and I hope you will follow up those practical points where we understand your concern and where it may be possible to help.

PW716

4308/017

RESTRICTED

30/11

pmp

FROM: S J FLANAGAN

DATE: 25 November 1987

1. MR ~~GRAY~~ FRC6 27/11

2. PPS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
PS/Sir P Middleton
Mr Monck
Mr Burgner
Mr Peretz
Mr Scholar
Mr Turnbull
Mr Kelly
Mr B Potter
Miss O'Mara
Mr Pickford
Miss Sinclair
Mr M Williams
Mrs Diggle
Mr Fellgett
Ms Goodman
Miss Hay
Mrs Ryding
Mr Wynn Owen
Mr A E W White
Mr Call
Mr Cropper
Mr Tyrie

Ch/ This is pretty dreadful stuff, particularly the note on Nickson. Shall we ask Mr Monck to have a go at this? No 10 have now asked for additional briefing (flag A) most of which DTI will cover. And DoE have produced a separate brief on rating reform (flag B).

yes poss

PRIME MINISTER'S DINNER FOR THE CBI, 30 NOVEMBER

MPW 26/11

David Norgrove's letter to you of 10 November requested briefing, which "need not be long", for the Prime Minister's dinner for the CBI, together with a note on Sir David Nickson's main achievements. These are attached. Mr Norgrove asked for them by close tomorrow, 26 November. (He has agreed to delay - mpw)

2. David Norgrove did not copy his letter to DOE or DEn, as no-one from either department is attending the dinner. But since rates and electricity prices are major CBI concerns, you might like to copy them in.

Steve Flanagan

S J FLANAGAN

DRAFT LETTER FROM PPS/CHANCELLOR TO PS/PRIME MINISTER

DINNER FOR THE CBI

I attach the short briefing you requested in your letter of 10 November. I assume that you will already have material on rate reform and electricity prices, so the brief is correspondingly light on those areas. If any updating is necessary we will supply it.

2. I am copying this letter to Tim Walker (Department of Trade and Industry), Peter Smith (Chancellor of the Duchy of Lancaster's Office) [and to S Haddill (Department of Energy) and Robin Young (Department of the Environment].

[A A]

4308/017c3

SIR DAVID NICKSON: ACHIEVEMENTS OF HIS PRESIDENCY

Sir David Nickson will be leaving the post of CBI president early next year, after two years in the job. He will be succeeded by Sir Trevor Holdsworth.

Achievements

- widened the **international horizons** of the CBI. Closely and personally involved in forging closer links with the Japanese. Chaired conference with the Russians.

- personally chaired **City/Industry task force**, whose report (published 14 October) concluded that though "short-termism" is a problem in UK, it does not derive from the City. Potentially a difficult area, given opposing views of many of CBI's industrial and financial members.

- steered CBI through **General Election** (??)

- managed transition to **new Director-General** !

Personal qualities

- genuinely very warm reception (and standing ovation) for **speech at Glasgow** CBI conference (?)

- widely respected for **diplomatic ability** and **personal integrity**

- always puts over CBI views carefully and dispassionately

- all this combined with his job running Scottish and Newcastle Breweries and involvement with Countryside Commission for Scotland and the Atlantic Salmon Trust.

HM TREASURY
November 1987

●NNER FOR THE CBI, MONDAY 30 NOVEMBER 1987

You are dining with Sir David Nickson and other members of the CBI at 7.30pm for 8.00pm. A guest list is attached.

General Line To Take

2. CBI have various **complaints** - about rating reform, electricity prices, interest rates, exchange rates, corporation tax, public sector investment and the employment bill - but they freely admit that these are all **heavily outweighed** by the healthy state of the economy:

- 1988 still (despite stock market and international uncertainties) expected to show **healthy growth** (2½ per cent; 3 per cent for non-oil economy) with **low inflation** (4½ per cent in Q4) for sixth successive year

- note DTI investment intentions survey projects 4 per cent growth in manufacturing investment this year, which is likely to be exceeded; faster growth in 1988, business investment forecast to grow 5½ per cent in 1988.

- **CBI's** own **Economic Situation Report** (Nov 1987) - first Survey since stock market fall - shows business confidence buoyant, prospects for increased business investment and continued growth good. Balance reporting total and export order books above normal are both best since April 1977. CBI Special Survey shows little effect of stock market fall on investment intentions.

"Burdens on business": exchange rates, interest rates, taxes on business

3. CBI has called on Government to:

- maintain a competitive and **stable exchange rate**
- use international confidence in sterling to **lower interest rates**
- continue to **restrain inflation**
- cut **taxes on business** and provide **incentives for investment**

4. **Exchange rates**

- Chancellor made clear in Mansion House Speech, 4 November, that **period of stability** for sterling and other currencies highly desirable. Benefits industry, as CBI have themselves acknowledged, as well as acting as anti-inflationary anchor.

- Sterling has remained stable against **deutschemark,** despite upward pressures. Talk of targets not helpful to market management.

- Position on ERM unchanged. Will join when time is right.

5. Interest rates:

- **½ per cent cuts in interest rates,** 23 October and 4 November, appropriate because sharp falls in share prices throughout world tightened monetary conditions and **reduced inflationary pressures.** Unhelpful to speculate about further cuts, which would in any case have to be considered in international context.

- Over full year, industry has **more than four times as much to gain from 1 per cent off pay rises** as from 1 per cent off interest rates

6. **Tax on business:** (see also "rate reform" ~~above~~ below)

- 1984 **Corporation Tax reform** reduced rate in stages from 52 per cent to 35 per cent, withdrew stock relief and rationalised allowances. Some companies lose out in early, transitional years. But when effects work through, companies should **pay less tax** under new system than they would have under the old.

- UK CT rate now one of **very lowest in industrialised world**

- **Buoyant CT revenues** reflect increasing corporate profits

- Reforms to **capital allowances** will reduce distortions to the market: businesses should be investing for commercial reasons, not to minimise tax bill

- no evident need for **tax incentives for R&D:** substantial reliefs already available. HMT/IR study of other countries tax incentives for R&D suggested such measures rarely helpful

Public Sector Investment

7. CBI have argued, inter alia, for public spending to **decline as proportion of GDP,** but with **switch of resources from current to capital** expenditure.

- Chancellor's **Autumn Statement** shows public expenditure declining as proportion of GDP (41½ per cent in 1990-91: lowest since 1972-73).

Within totals, **capital spending** increased by around £1 billion in 1988-89 and 1990-91 (no allowance made for allocation to capital spending from Reserve) [NOT FOR USE - full details of capital/current split still being worked out, but very likely that plans will continue to show capital spending - excluding allocations from the Reserve - declining as proportion of total spending and GDP.]

- Specific cases decided on their **merits** - no target level or proportion for capital spending - capital not automatically good, current not automatically bad

- need to take into account growing role of private sector: eg new housing, Channel Tunnel.

Rate Reform

8. CBI initially accepted Government proposals. They called for 25 per cent cut in non-domestic rates (c. £2,000 million), but did not press it. Recently they have put forward a scheme similar to one Mr Banham proposed in a personal capacity when he was at the Audit Commission and has revived the call for a 25 per cent cut:

- **25 per cent (£2 billion) cut in non-domestic rates:** But this would have to be paid for either out of higher Community Charges or from higher central government taxes. Businesses will be protected from irresponsible councils by **Uniform Business Rate** (UBR), indexed to RPI (or possibly increased by less), with revaluation (particularly of help to North and manufacturing industry) and 5 year self-financing transition after 1990.

- **"National" services** (eg secondary schools, personal social services) **should be funded by specific grants:** But specific grants discourage local authority efficiency, and encourage higher spending. Proposal would separate management from financial responsibility.

- **Business should pay rates only for services of use to business** (eg refuse collection): But this would lead to Community Charges varying greatly and unfairly between areas or, since Exchequer grants would vary inversly with revenues from the business rate, it could reduce the incentive for authorities to encourage growth of businesses

- **Community Charge set and collected per household, not per-adult:** levying charge on every adult will improve accountability of councils to their residents.

Electricity prices

- Increase in **rate of return** justified by heavy investment needed to meet growing demand for electricity. Still well below average rate of return in private sector.

- **Up to industry** now to deliver. If cost savings can be delivered, price increases could be less than 8-9% industry expects.

- **Prices still low** by international standards even after increase. After real reductions of 15% in last 5 years, real prices still below 1983 levels.

- No reason why industry should get bigger price increases than other consumers and **special schemes for intensive users** should remain.

- **Investment upturn** good news for manufacturers.

Employment Bill

10. CBI oppose creation of **Commissioner for the Rights of Trade Union Members**, as they think this will give help to trade unionists that is not available to others, and also oppose **protection of non-strikers from disciplinary action by union**, even after ballot, for fear this will discourage extension of ballots.

- **Commissioner** will be important aid to individual trade unionists who might not be able to afford to exercise fundamental rights without his support

- **Protection of non-strikers** important to prevent individuals being coerced into breaking contracts of employment by fear of union discipline.

HM TREASURY
25 November 1987

LIST OF GUESTS ATTENDING THE DINNER TO BE GIVEN BY THE PRIME MINISTER AND MR. DENIS THATCHER FOR THE CBI ON MONDAY, 30 NOVEMBER 1987 AT 7.30 PM FOR 8.00 PM LOUNGE SUIT

The Prime Minister and Mr. Denis Thatcher	
Rt. Hon. Nigel Lawson, MP	
Rt. Hon. Lord Young of Graffham	
Rt. Hon. Kenneth Clarke, MP	
Sir David Nickson	President, CBI. Chairman, Scottish & Newcastle Breweries plc
Mr. John Banham	Director General, CBI
Sir Trevor Holdsworth	Deputy President, CBI Chairman, GKN plc
Mr. Ian Butler	Chairman, CBI Companies Committee. Chairman, Cookson Group plc
Mr. Denys Henderson	Member, CBI President's Committee Chairman, ICI
Sir Peter Walters	Member, CBI President's Committee. Chairman, BP
Mr. David Norgrove	

B

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SIR P. MIDDLETON
MR MONCK MR SCHOLAR
MR BURGNER MR GRAY
MR WILLIAMS
MISS SIMPSON
MR FLANAGAN MR CROPPER

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

David Norgrove Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

26 November 1987

Dear David,

Your letter of 10 November to Alex Allan, requesting briefing for the dinner the Prime Minister is giving for the CBI on Monday 30 November, was also copied to me (by DTI), for briefing on rates.

I attach briefing for the Prime Minister on the CBI's views on rating reform with a background note on the 'alternative' reform proposals they recently published.

I am copying this to Alex Allan.

Yours,

Robin.

R U YOUNG
Private Secretary

100%
RECYCLED PAPER

RATING REFORM: CBI VIEWS

Line to take

Very sorry that the CBI has failed to recognise the real benefits to industry -especially in the North and the inner cities - of the uniform business rate and the guarantee that for the future rates will rise by no more than the RPI. Our aim is the same as the CBI's: a fairer system of business tax and protecting business from depredations of profligate local authorities.

CBI's own reccent proposals come very late, and are inconsistent with manifesto commitments to personal community charge and uniform business rate. But in any case we would have had to reject proposals which:

- don't achieve accountability: personal community charges under CBI scheme vary for reasons unrelated to spending;

- don't achieve equity between businesses: rates would rise in some high-spending areas and fall in some low-spending areas;

- rely on finding exaggerated savings of £1.6 billion from unspecified increases in charges.

But pleased to note that CBI had helpful meeting with Nicholas Ridley and he agreed to consider further local business consultation, transitional arrangements, and ways of giving business a share of any future savings.

Sure Nigel Lawson would be prepared to listen carefully if CBI wish to argue for transfer from rates to some other business tax.

DOC1405PS

RATING REFORM: CBI PROPOSALS

Background note

1. On publication of Green Paper, CBI supported Government proposals for community charge and uniform business rate, subject to 25% cut in business rates (costing £2bn). (E(LF) in February 1987 considered proposal for a 5% cut but decided against).

2. CBI have now (17 November) published alternative proposals. These involve:

i. central financing of some services e.g. education;

ii. retaining variable business rate to pay for "property services" e.g. police, fire;

iii. household "community charge" to pay for personal services;

iv. big increase in charging for housing, recreation.

3. The CBI's proposals are:

i. too late;

ii. inconsistent with manifesto (e.g. household rather than personal charge);

iii. don't deliver accountability: charges vary for reasons other than spending;

iv. perverse in their effects on businesses: business rates would fall in the south and rise in many depressed areas: (e.g. under CBI scheme rates in Consett - already high - rise 19%, under UBR they fall 14%);

v. rely for claimed benefits to business on exaggerated savings from increased charging etc.

4. The Secretary of State for the Environment and Mr Howard met Mr Nickson and Mr Banham of the CBI on 16 September. CBI said they had to publish because of concern among members, but made clear Government proposals were much better than status quo. SOSE stressed their lateness and unworkability, but agreed to pursue CBI concerns about local consultation with business, giving business a share of any efficiency savings by authorities, and transitional arrangements. He said that any question of a transfer from business rates to other taxes was for the CBI to approach the Chancellor about.

Department of the Environment

24 November 1987

DOC1405PS

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SIR P. MIDDLETON
MR MONCK SCHOLAR
MR BURGNER
MR GRAY MCWILLIAMS
MISS SIMPSON MR POTTER
MR CROPPER

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

26 November 1987

Mr Allan

DINNER FOR THE CBI

I attach a copy of a letter the Prime Minister has received from Sir David Nickson about the dinner which the Prime Minister is giving for him on Monday evening. I had asked for briefing to reach me by close today but could you consider please whether any changes or additions are needed?

I am sending a copy of this letter to Tim Walker (Department of Trade and Industry) and Peter Smith (Chancellor of the Duchy of Lancaster's Office).

S Morris

pp. **DAVID NORGROVE**

Alex Allan, Esq.,
H M Treasury

Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332
Facsimile 01-240 1578

From
Sir David Nickson KBE DL
President

CBI

A

24th November 1987

Dear Prime Minister

It is extremely kind of you to give a dinner for the CBI next Monday 30th November and my colleagues and I very much look forward to it. I thought it might be helpful for you to have a note of some of the issues on which an exchange of views might be helpful.

(i) Prospects for British business in the wake of recent changes on world stock markets and progress in Washington.

You will have seen, perhaps, the rather encouraging results of our recent trends survey - suggesting that, so far at least, business confidence is holding up very well. However, it is quite fragile: and we would very much welcome the opportunity to discuss with you what more can be done to encourage growth and investment and to prevent any deterioration in the climate for business.

Sold to DTI

(ii) Reviving Inner Cities.

This is a subject of very great interest to our members: and we have, as again I believe you know, set up a Task Force under the leadership of Tom Frost of the National Westminster Bank to determine what more needs to be done to make a reality of the public/private sector partnership that is the key to reviving run-down inner city areas. Your views on the further role that you would like to see business play would be especially welcome.

(iii) Links between Schools and Industry.

As you know, the CBI has warmly welcomed the legislation now being introduced: and we are very keen to see further strengthening of the links between schools and business. You may be interested to hear something of the work that is now under way in this (somewhat overcrowded) field.

(iv) Attracting more of the "brightest and best" into management.

Finally, you might wish to discuss the progress and prospects for the Management Charter which we are now progressing. The early indications are that John Wybrew is making excellent progress towards a public launch of this important initiative next Spring.

/...

(v) Europe.

We have recently had a meeting with David Young to discuss how the CBI can support his crusade to heighten awareness and readiness in British Companies for the creation of the Internal Market. We have of course pledged our full support. There might be an opportunity to touch on this during our conversations.

My colleagues and I are looking forward enormously to what we hope will be as useful and enjoyable an evening for you and Mr Thatcher as I know it will be for us.

Yours sincerely

David

The Rt. Hon. Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1A 2AA

45/B.RJ.2185/027

~~Andrew~~ - retrieved from folder

PMP

no reactions on x I'm afraid. M.

FROM: N MONCK
DATE: 26 November 1987

APS/CHANCELLOR

cc Mr Hudson (without attachment)

PRIME MINISTER'S CBI DINNER

You thought the Chancellor might like to skim the attached copy of the speech given by Sir Trevor Holdsworth before the dinner on Monday. He will of course be Sir David Nickson's successor. The more interesting bit of the speech is on page 6 onwards, which deals with the role of government in an industrial strategy. He gives a very modest definition of this and argues that it is reasonable for industry to ask whether the "unavoidable and necessary and already existing roles of central and local Government" are being exercised in a coherent way.

x 2. The Chancellor might at some point consider answering the Holdsworth question in a speech. A good deal of it would probably turn out to consist of a re-arrangement of familiar points, but it might be a useful statement to refer back to.

NM

N MONCK

~~Mark~~, Moira

Thanks. I did think about this, & I don't think it's worth pursuing, really. As NM says, most, if not all, of it wd be v familiar.

AFH

~~30~~ 1.12.

20/220

Confederation of British Industry
Centre Point
103 New Oxford Street
London
WC1A 1DU
Telephone: 01-379 7400

NEWS RELEASE

CBI

P.235.87

TEXT OF SPEECH BY SIR TREVOR HOLDSWORTH, CHAIRMAN, GKN AND DEPUTY PRESIDENT OF THE CBI OPENING THE DEBATE "A STRATEGY FOR INDUSTRIAL EXCELLENCE" AT THE 11TH NATIONAL CONFERENCE OF THE CONFEDERATION OF BRITISH INDUSTRY, TUESDAY 3RD NOVEMBER 1987

PLEASE CHECK AGAINST DELIVERY

"A STRATEGY FOR INDUSTRIAL EXCELLENCE"

In this first session this morning, we are really addressing only one single question:

"How do we sustain the momentum of growth which Britain is now achieving?"

We have come a long way since the low point we reached some eight years ago: a quite remarkable transformation and I believe a permanent one.

Just where were we at the end of the seventies? From a reasonable position of economic strength and performance in the mid-fifties, all tables of comparative growth of the Gross Domestic Product, Gross Domestic Product per capita and National Output demonstrated clearly our problem over a long period. Expressed another way round: we were using 22 million people at work to do what it would have taken only 12 million Germans or 13 million Americans or 16 million Frenchmen to do.

There could no longer be any doubt that Britain's economic malaise stemmed from our productivity problem which had resisted all attempts, thus far, to change. And productivity in the widest definition - not just the activity on the shop-floor but right through every part of a business - public or private. The indirect support, the office, administration, selling, buying, finance and accounting - and including not just labour productivity but investment and its effective use as well.

We were just not getting enough out of the resources that we had.

On top of this, we had been paying ourselves more than we had been earning - year after year. At first this was possible out of profits which had declined as wages and salaries increased. There was also some redistribution from the higher paid to the lower. But more significantly, we kept going by borrowing, printing money and letting the value of the £ decline. When, finally, a Government put the brakes on, only the standard of living was left to take the strain.

Every Government from the fifties onwards was aware of our problem and made attempts to bring about change.

- In the Macmillan fifties we were so busy 'never having had it so good' that the productivity weakness highlighted by, for example, the Anglo-American productivity council and the 1957 Council on Prices, Productivity and Incomes (known as 'The Three Wise Men') were not heeded. The (Winds of Change') could blow through Africa but not through Britain.

- The Wilson Government tried with 'In Place of Strife'.

- Followed by the Heath Government - with lots of strife.

- The Callaghan Government - with IMF strictures behind them.

Each failed.

The rest of the world talked about the British disease and shook their heads. Perhaps the final comment on us - looking from the outside - was made by the American Brookings Institution which made a long report with a short conclusion - almost an epitaph -

> "Britain's economic malaise stems largely from its productivity problem whose origins lie deep in its social system."

Today. We have come a long way in bringing about the change that we needed. We now have most of our economic indicators pointing in the right and in a favourable direction. (List some of them)

* Growth - could reach 4% this year - the highest of the developed nations

* Inflation - steady and under control

* P.S.B.R. - negligible

* Investment - rising quite strongly

The response to our problems by managers in industry and commerce has been positive and effective.

But it is tempting to relax, to become complacent and to be self-satisfied - which would be a mistake because the real task has just started: the task of achieving above-average growth consistently for a number of years ahead. Staying on the fast track.

Although one should not push the comparison between a company and a country too far, I would compare Britain with a company that has been making substantial losses. A new management gets in and undertakes the necessary restructuring and rationalisation. There is cost-cutting, overheads are slashed and there are many redundancies.

At the end you survive: you are leaner and fitter and you have got back through the break-even barrier and into profit.

However, cost-cutting, rationalisation, restructuring, may save a business but it does not create one.

What you now want is sustained real growth.

So, I believe as a country we are now through that first stage of recovery and just starting on the next.

This next stage requires quite different skills, different approaches and sometimes, different managers: managers who can succeed at contraction and defensive action are not always able to change into risk-taking, entrepreneurial, growth-orientated leaders.

And it is not only those who run businesses directly who have to change gear. It is just as vital that Government also understands the change and adjusts its policies to help in this next phase: as also must investors and the City.

What we need is a concerted, sustained effort by all the main players. What should each be doing?

Industry and Commerce

Firstly, Industry and Commerce who have the primary responsibility for the national wealth-creation. Growth will not be sustained without investment: investment in people and their training, investment in technology and in product development, investment in marketing, investment in tangible and intangible production and distribution facilities.

Only through doing this will we continue the steady improvement in productiveness and enhance competitiveness.

Industry must take the lead so that others - Government, Investors, Financiers - can follow and support.

There are, of course, many other aspects of management which I could talk about which contribute to achieving excellence but none challenges the priority that must be given to investment.

Investors and the City

Next, what do we want the investors and the City to do? In the following session this morning, there is a debate on the report of the City/Industry Task Force. The report is entitled "Investing for Britain's Future". That is almost all that need be said.

Government

And finally, what should Government do?

At last year's Conference, a resolution was passed with an overwhelming majority asking for a coherent Industrial Strategy.

I return to this controversial subject: controversial because the views on it both from Government and those in industry are often polarised. On the one hand - there is the view that Government should keep well away, set the economic framework and that only dire necessity should be the mother of intervention. On the other - there are those who advocate close involvement stopping short perhaps of picking winners but nevertheless being active in even sectoral initiatives.

Clearly, none of us wants the concept of indicative national planning which brings us into the area of the command economies. We know that that does not work. But the distinction between strategy and planning is very great - as we in industry have learnt by experience. I hope that Government is well aware of the very clear difference.

Strategy is knowing what to do when there is nothing to do.

Planning is knowing what to do when there is something to do.

They should not be confused.

When one lists even some of the unavoidable and necessary and already existing roles of central and local Government, the need for coherence is self-evident.

Despite all the actions of this Government, the proportion of the economy which is designated Public Sector remains at just under 40%: there has been little change since 1979.

Modern government, even of a non-interventionist kind, has to take a multitude of decisions which directly or indirectly bear upon the lives of ordinary businessmen. At its most general level, it is the Government's strategy in the field of fiscal and monetary matters which impinge so pervasively on the economy.

The extent to which Government decides to leave a part of its expenditure to be financed by borrowing, not to mention the form of that borrowing, will influence the general state of demand throughout the economy and hence the pressure on both resources and prices. It will affect profits, the condition of the labour market and the external value of the currency. In its management of monetary policy the Government, through its agent, the Bank of England, will affect interest rates and the accessibility of businessmen to sources of credit. Then again, the Government will affect the climate of business by the structure of the taxation it imposes. Taxes which fall directly upon business, like the Corporation Tax, have a different impact on the economy from other taxes like the personal income tax. The Government as a large purchaser, for instance, of supplies for the National Health Service or for the Armed Forces is a major market force for some industries - and any substantial customer and his purchasing manager should be concerned about the health of his suppliers.

As sole proprietor of large public industries like electricity, the railways and the coal mines, the Government also appears directly and indirectly, on the industrial scene. So long as it owns, it will have responsibility for decisions on prices and tariffs and levels of investment. Each of these issues will affect the rest of industry whether as customers or as suppliers.

The Government, too, is the manager of much of our external economic policy; the speed at which barriers to trade are dismantled is only one issue where the Government has power. Others are conditions in such fields as health and safety at work, the protection of the environment and as a watchdog of competition policy.

I have not yet mentioned education or the environment.

Even though the Government has tried to reduce its involvement, most changes have been marginal and still leave it whether it likes it or not, as a dominant player and it is difficult to conceive of a much smaller role in many of its activities.

With such a wide-ranging set of activities, in so many departments of State it is not unreasonable to ask whether the responsibilities are being carried out in a co-ordinated way and whether, more generally, it pursues what Jim McFarlane asked for - a coherent industrial policy. We should neither feel guilty nor deserve condemnation as a corporist for asking the question.

Governments have no money nor create any. Industry and Commerce is responsible for the income of the nation so that Government can equitably destribute and re-distribute it. The strategy of all Government Departments affects the wealth creation. Above all else, they have the democratic responsibility to ensure that the wealth of the nation is maximised.

In some respects, Government is rather like the corporate headquarters of a large business: an overhead which needs constant management attention if it is not to become too detached and remote from the business it serves nor too damaging by interference, second-guessing, bureaucratic, stifling, and expensive.

At this critical time, we would ask that in our drive for growth, for innovation, for enterprise, for investment, for productiveness, for competitiveness and for excellence, Government should demonstrate that its policies, across the whole range of its activities, take full account of the effect that its decisions have on the national wealth creating capability - not just for small firms but for all.

We know that it is not realistic to expect that every one of our demands either collectively or individually is met. Governments have to take decisions which balance conflicting interests: as managers, we have to do this ourselves in our own business.

But Government must work hard to ensure that the opportunities for representations are great and that their decisions are fully explained - as we are exhorted to do within our own organisations.

Maybe we should not be asking Government to have their own Industrial Strategy - but to participate fully in ours by:

- Removing obstacles

- Removing overheads

- Levelling the playing field at home and abroad

- Supporting and Encouraging

('To Spur not to Mould' - the words of Leon Brittan after he left Cabinet).

We know what we must do: continue the radical improvements, achieve international competitiveness in all we do: invest in the future.

That is the 'Strategy for Industrial Excellence'.

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

PS/Secretary of State for Trade and Industry

27 November 1987

David Norgrove Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON
SW1

Dear David

DINNER WITH THE CBI

You copied to us your letter of 26 November to Alex Allan, which enclosed a letter from Sir David Nickson setting out issues which the CBI would like to discuss at dinner on 30 November.

I understand that the general Treasury brief for the dinner will cover the first of the CBI's points. I attach notes covering the other four.

I am copying this letter and attachments, to Alex Allan (HM Treasury) and Peter Smith (Chancellor of the Duchy of Lancaster's office).

Yours sincerely

STEPHEN RATCLIFFE
Private Secretary

DW5CGA

REVIVING INNER CITIES

1 Government's own programme:

- urban programme, Urban Development Grant, Derelict Land Grant and Land Registers to encourage urban improvements and the reclamation of derelict land.

- specific training and employment schemes, and industrial schemes in the Inner City Partnership areas

- regional assistance, help to small firms and tourism, support for innovation and enterprise zones

- City Action Teams, to improve effectiveness of Government programmes and to undertake additional projects from their special budgets, in London, Birmingham, Manchester/Salford, Liverpool, Newcastle/Gateshead and the Cleveland Co-ordinating Team

- the Inner Cities Initiative, recently expanded from 8 to 16 inner city areas, to target Government programmes to the benefit of the most disadvantaged and to try out new ideas and approaches.

2 Roles for Business in the Inner Cities:

Training - compacts with schools, customised training, YTS, improving equal opportunities practice (greater targeting of recruitment and training the ethnic minorities)

Assistance to Small Businesses - Consultancy and advice, secondment of staff, provision of share capital, soft loans or equity participation (banks/3i), support of local enterprise agencies, and especially provision of managed workspace ("Adopt a Workshop" mailshot from Chancellor of the Duchy): excellent example, Brixton Enterprise Centre jointly funded by Urban Programme and BAT Industries Ltd (whose Chairman Patrick Sheehy is a member of the CBI Task Force).

Joint Ventures with City Action Teams (CATs) or Inner City Task Forces who can often put together a package comprising contributions from industry, a Government Department, possible the local Authority, and the CAT or Task Force special budget.

CBI Task Force - welcome this contribution from the CBI and hope that the Task Force will work in close co-operation with the CATs and the Inner Cities Initiative and also keep alongside BIC in their efforts (which the Government's Inner Cities Initiative is supporting). Partnership of public and private sector vital in regenerating our inner cities.

Single European Market

The CBI is in close contact with Lord Young on single market matters generally and are being actively involved in the preparation for the Secretary of State for Trade and Industry's awareness campaign.

The Secretary of State announced in October that he will be launching an Awareness Campaign about the single market next spring and the CBI were invited to join a high level group of senior business people to advise him on how to carry this initiative forward.

The first meeting was held on 9 November and the CBI was represented by their Director-General John Banham. (Sir David was originally invited but was unable to attend).

As well as increasing awareness, the initiative is intended to inform and underpin the development of the UK's position in the Community through discussion with companies about their priorities in completing the single market. A series of informal groups of senior businessmen is in preparation for the conference in Lancaster House on 18 April at which both the Prime Minister and Lord Young will speak.

The Department is putting together a regional programme of conferences and events which will take place from May onwards. DTI officials are already in contact with the CBI on how best to ensure an effective CBI contribution, in identifying speakers etc.

THE CHARTER GROUP INITIATIVE

The CBI, with the BIM, has launched the Charter Group Initiative in response to recent reports showing British managers are under educated and trained by comparison with overseas competitors. Work is being overseen by a Council for Management Education and Development chaired by Bob Reid of Shell and including members from industry, the education system and Government. John Wybrew is Executive Director. The aims are to establish a Charter Group of best practice companies subscribing to a code of practice and to set up a ladder of qualifications for managers at all levels.

Points to make

- Climate of enterprise is making industry more attractive to young people. They can be encouraged by the offer of training and development leading to wider responsibilities along a clear career path.

- Welcome the CBI initiative. Important that industry takes the lead in raising its standards and harnessing individual aspirations to strategic goals.

- Understand progress being made and demanding targets being set. Interested Departments fully on board and keen to support. Welcome overview of initiative.

LINKS BETWEEN SCHOOLS AND INDUSTRY

The CBI run Understanding British Industry (UBI), a project sponsored by their education foundation. Its activities include an information service for those involved in school/industry links, and preparing material for use by teachers. Recently UBI published, (with DTI help) a guide for teachers seeking secondments into industry. UBI also ran a conference on 25 November called Collaboration and Change (in education/industry). John Banham was there; DTI sponsored it together with ICL and English China Clays.

Current DTI activities in the field include:

- support for mini-enterprise in schools
- support for industry/education coordinators in LEAs
- grants to charitable/trust link bodies such as Project Trident (work experience), the Industrial Society (conferences in schools), Young Enterprise, Industry Matters campaign etc
- promotion of work "shadowing" (NB originally with IoD)
- development of course material in DTI interest areas - eg Economic Change AS level at LSE/University of Leeds

-work with UBI.

As part of the planned "relaunch" of DTI in January, greater stress will be put on industry/education links. Specific targets will be adopted. These may include a goal to increase secondment of teachers into industry, and to encourage work experience at school. The support of bodies such as the CBI and UBI will be important in achieving these goals. They have not yet formally been approached to help.

Points to make

- industry/education links very important
- CBI/UBI can help employers become more aware/involved
- commend work of UBI
- can CBI/UBI help expand work experience in schools and of teachers?

2185/031(a)

RESTRICTED

FROM: **N MONCK**

DATE: **27 November 1987**

PPS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
PS/Sir P Middleton
Mr Monck
Mr Burgner
Mr Peretz
Mr Scholar
Mr Turnbull
Mr Kelly
Mr B Potter
Miss O'Mara
Mr Pickford
Miss Sinclair
Mr M Williams
Mrs Diggle
Mr Fellgett
Ms Goodman
Miss Hay
Mrs Ryding
Mr Wynn Owen
Mr A E W White
Mr Call
Mr Cropper
Mr Tyrie

PRIME MINISTER'S DINNER FOR THE CBI, 30 NOVEMBER

I have revised the draft submitted by Mr Flanagan in the light of the Chancellor's comments, his Parliamentary answers yesterday on interest rates, exchange rates, G7 etc, and Sir David Nickson's letter of the 24 November.

Steve Flanagan

pp **N MONCK**

185/031

Dawid Noravona

DRAFT LETTER FROM PPS/CHANCELLOR TO PS/PRIME MINISTER

DINNER FOR THE CBI

I attach the short briefing you requested in your letter of 10 November. I assume that you will already have material on rate reform and electricity prices, so the brief is correspondingly light on those areas. If any updating is necessary we will supply it.

2. I am copying this letter to Alison Brimelow ~~Angela~~ ~~Tim Walker~~ (Department of Trade and Industry), Peter Smith (Chancellor of the Duchy of Lancaster's Office), ~~[and to~~ S Haddill (Department of Energy) and Robin Young (Department of the Environment)~~]~~.

~~[A A]~~

MM

mjd 3/15m

pmp

cc: PS/CST
PS/FST
PS/PMG
PS/EST
PS/Sir P Middleton
Mr Monck
Mr Burgner
Mr Peretz
Mr Scholar
Mr Turnbull
Mr Kelly
Mr B Potter
Miss O'Mara
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Miss Sinclai
Mr M William
Mrs Diggle
Mr Fellgett
Ms Goodman
Miss Hay
Mrs Ryding
Mr Wynn Owen
Mr A E White
Mr Call
Mr Cropper
Mr Tyrie

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

David Norgrove, Esq
PS/Prime Minister
10 Downing Street
LONDON SW1

27 November 1987

Dear David

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I am copying this letter to Alison Brimelow (Department of Trade and Industry), Peter Smith (Chancellor of the Duchy of Lancaster's Office), S Haddrill (Department of Energy) and Robin Young (Department of the Environment).

Yours,

Moira.

MOIRA WALLACE

2185/031

SIR DAVID NICKSON: ACHIEVEMENTS OF HIS PRESIDENCY

Sir David Nickson will be leaving the post of CBI president early next year, after two years in the job. He will be succeeded by Sir Trevor Holdsworth.

Achievements

- accepted, welcomed and forcefully expressed the primary responsibility of management for improving business performance

- steered CBI skillfully through General Election

- managed transition to new Director-General

- widened the international horizons of the CBI. Closely and personally involved in forging closer links with the Japanese. Chaired conference with the Russians.

- personally set up and chaired City/Industry Task Force. Report (published 14 October) concluded that "short-termism" is a problem in British business, but does not derive from the City. Potentially a difficult area, given opposing views of many of CBI's industrial and financial members. But not just diplomatic. Gave a valuable push to better communication by companies about strategic intentions, in particular by more disclosure about spending on Research and Development.

Personal qualities

- widely respected for diplomatic ability and personal integrity

- always puts over CBI views carefully and dispassionately. Of course more comfortable for Government than overstatement, but also better chance of CBI success in influencing Government.

- strength to bear heavy burden of work. CBI combined with his job running Scottish and Newcastle Breweries and involvement with Countryside Commission for Scotland and the Atlantic Salmon Trust.

- very warm reception (and standing ovation) after speech at Glasgow CBI conference recognised all these achievements and qualities.

HM TREASURY

November 1987

DINNER FOR THE CBI, MONDAY 30 NOVEMBER 1987

You are dining with Sir David Nickson and other members of the CBI at 7.30pm for 8.00pm. A guest list is attached (Annex A).

2. Sir David Nickson's letter of 24 November suggested five issues for discussion (Annex B). Items (ii)-(v) are covered in briefing from other departments. The first, "Prospects for British business in the wake of recent changes on world stock markets and progress in Washington" is covered in paras 3 to 4 below. The letter mentions the "rather encouraging results" of the CBI's recent survey, suggesting that so far business confidence is holding up well. But the CBI say it is quite fragile.

General Line To Take on Economic Prospects

3. Several encouraging features:

- 1988 still (despite stock market and international uncertainties) expected to show **healthy growth** (2½ per cent; 3 per cent for non-oil economy) with **low inflation** (4½ per cent in Q4) for sixth successive year

- note DTI investment intentions survey projects 4 per cent growth in manufacturing investment this year, which is likely to be exceeded; faster growth in 1988, business investment forecast to grow 5½ per cent in 1988.

- **CBI's** own **Economic Situation Report** (Nov 1987) - first Survey since stock market fall - shows business confidence buoyant, prospects for increased business investment and continued growth good. Balance reporting total and export order books above normal are both best since April 1977. CBI Special Survey shows little effect of stock market fall on investment intentions.

4. Business has good grounds for confidence, but I certainly share concern to maintain it:

- two cuts of ½ per cent in interest rates on 23 October and 4 November. Chancellor said last week that no further reduction was called for at present time. But he will consider whether a further reduction would be appropriate, keeping in mind both recessionary influences of the stock market collapse and that there are still inflationary forces in the UK economy that have to be kept under control.

- Hope for G7 before Christmas. But before any meeting, want to make sure that Congress will support package for reducing US deficit and that proper preparations are made so that conditions are right for all parties to agree to a stabilisation of the dollar. Stability for sterling and other currencies highly desirable. Benefits industry, as CBI have themselves acknowledged, as well as acting as anti-inflationary anchor.

- Sterling has remained stable against Deutschemark, despite upward pressure. Talk of targets not helpful to market management.

- Position on ERM unchanged. Will join when time is right.

<u>Reducing cost Burdens on business" - taxes on business</u>

5. In their recent policy document on "Maintaining the Momentum of the Economic Recovery" the CBI say they want the present economic framework to be maintained but also ask for the cost burdens or uncertainties arising from interest and exchange rates, from taxes of all kinds and from public sector pricing to be no greater than in competitive countries and for a switch towards capital spending within public expenditure.

6. **Tax on business**

- **1984 Corporation Tax reform** reduced rate in stages from 52 per cent to 35 per cent, withdrew stock relief and rationalised allowances. Some companies lose out in early, transitional years. But when effects work through, companies should **pay less tax** under new system than they would have under the old.

- UK CT rate now one of **very lowest in industrialised world**

- **Buoyant CT revenues** reflect increasing corporate profits

- Reforms to **capital allowances** will reduce distortions to the market: businesses should be investing for commercial reasons, not to minimise tax bill

- no evident need for **tax incentives for R&D**: substantial reliefs already available. HMT/IR study of other countries tax incentives for R&D suggested such measures rarely helpful

Rates reform is covered in DOE briefing.

Electricity prices

7. - **Increase in rate of return** justified by heavy investment needed to meet growing demand for electricity. Still well below average rate of return in private sector.

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   - **Prices still low** - by international standards even after increase. After real reductions of 15% in last 5 years, real prices still below 1983 levels.

   - No reason why industry should get bigger price increases than other consumers and **special schemes for intensive users** should remain.

   - **Investment upturn** good news for manufacturers.

Public Sector Investment

8. CBI have argued for public spending to **decline as proportion of GDP**, but with **switch to capital** expenditure.

   - Chancellor's **Autumn Statement** shows public expenditure declining as proportion of GDP (41½ per cent in 1990-91: lowest since 1972-73).

     Within totals, **capital spending** increased by around £1 billion in 1988-89 and 1990-91 (no allowance made for allocation to capital spending from Reserve) [NOT FOR USE - full details of capital/current split still being worked out, but very likely that plans will continue to show capital spending - excluding allocations from the Reserve - declining as proportion of total spending and GDP.]

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9. CBI oppose creation of Commissioner for the Rights of Trade Union Members, as they think this will give help to trade unionists that is not available to others, and also oppose protection of non-strikers from disciplinary action by union, even after ballot, for fear this will discourage extension of ballots.

- Commissioner will be important aid to individual trade unionists who might not be able to afford to exercise fundamental rights without his support

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HM TREASURY
27 November 1987

ANNEX A

LIST OF GUESTS ATTENDING THE DINNER TO BE GIVEN BY THE PRIME MINISTE AND MR. DENIS THATCHER FOR THE CBI ON MONDAY, 30 NOVEMBER 1987 AT 7.30 PM FOR 8.00 PM LOUNGE SUIT

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Rt. Hon. Lord Young of Graffham	
Rt. Hon. Kenneth Clarke, MP	
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Mr. John Banham	Director General, CBI
Sir Trevor Holdsworth	Deputy President, CBI Chairman, GKN plc
Mr. Ian Butler	Chairman, CBI Companies Committee. Chairman, Cookson Group
Mr. Denys Henderson	Member, CBI President's Committee Chairman, ICI
Sir Peter Walters	Member, CBI President's Committee. Chairman, BP
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2185/031

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27 November 1987

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Sir Peter Walters	Member, CBI President's Committee. Chairman, BP
Mr. David Norgrove	

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:
Your ref:

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

CHIEF SECRETARY
29 NOV 1988
Mr Fox.
Mr Anson
Mr Robson, Mr Edwards
Mr Turnbull, Mr Gill

29 November 1988

Dear John

I have seen George Younger's letter to you dated 31 October about the proposal to relocate the Ministry of Defence's Directorate General of Defence Quality Assurance (DGDQA) to Teesside.

I am delighted to see that the investment appraisal indicates that a move to Teesside would be the most cost-effective option. As you know, I strongly support the relocation proposal both as a response to Teesside's economic problems and as a demonstration of the Government's commitment to the movement of staff from London. Such a major relocation would also be seen as another success involving the Teesside Development Corporation.

George mentions that the Corporation have offered to do the job for £95m. I think it is important to emphasise that the Corporation's liability is restricted to the cost of reclaiming the site (which is outside the £95m) and any over-run on their estimate of £6m for the costs of servicing the site. So far as the main contract is concerned the risks rest with the contractor except insofar as there are changes in the brief, for which MOD have made a separate allowance in their addition for contingencies.

Clearly, MOD have resource difficulties which will need to be cleared. However, I hope it will be possible for you to agree to the solution proposed in the penultimate paragraph of George Younger's letter.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Trade and Industry, Defence and Employment, the Chancellor of the Duchy of Lancaster and the Paymaster General and to the Secretary of the Cabinet.

Yours ever
Nicholas

NICHOLAS RIDLEY

CONFIDENTIAL

prp

From: S D KING

11th December 1987

MR A C S ALLAN

cc Sir P Middleton
Mr Pickford
Mr Curwen

CBI MONTHLY TRENDS ENQUIRY

I attach the results of the December Enquiry, together with our seasonally adjusted figures. The Enquiry is due to be published at 00.30 am, Monday, 14th December.

SK

S D KING
PS/ Sir Terence Burns

a
Good on total order books.
Less good on exports & prices.

AA

CBI INDUSTRIAL TRENDS ENQUIRY

~~November~~ December 1987
Manufacturing industry: 1307 repondents

The figures are percentages based on a weighted sample.

Excluding seasonal variations, do you consider that in volume terms:

	Above Normal	Normal	Below Normal	N/A
(1) a. Your present total order book is	30	53	17	+
b. Your present export order book is	29	50	18	3

(firms with no order book are requested to estimate the level of demand)

	More than adequate	Adequate	Less than adequate	N/A
(2) Your present stocks of finished goods are	12	58	17	13

What, excluding seasonal variations, is the expected trend over the next four months with regard to:

	Up	Same	Down	N/A
(3) Volume of output	44	47	8	-
(4) Average prices at which domestic orders are booked.	32	63	4	1

Percentage Balance

		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1a	Total Order Book	-10	-15	+ 2	+ 4	+ 1	+10	+ 3	+ 6	+11	+ 9	+10	+13	+18
b	Export Order Book	- 7	-13	- 2	0	- 6	0	+ 9	+10	+ 5	+ 3	+ 1	+11	+3
2	Stocks	+ 5	+10	+ 6	+ 7	+ 5	0	- 1	+ 1	- 1	+ 3	- 7	- 5	+2
3	Volume of Output	+10	+15	+29	+34	+25	+31	+37	+23	+38	+30	+25	+36	+31
4	Average Prices	+26	+30	+34	+25	+26	+28	+19	+19	+21	+20	+23	+28	+31

CBI MONTHLY SURVEY QUESTIONS (OTHER THAN OUTPUT EXPECTATIONS)

	PRESENT LEVEL OF ORDER BOOK (Balance of those responding "Above normal" less those responing "Below normal")				PRICES(Q12A) Expected trend next 4 months. (Balance of those responding "Up" less those responding "Down")	
	TOTAL (Q5A)		EXPORT (Q5B)			
	Reported	Seasonally Adjusted	Reported	Seasonally Adjusted	Reported	Seasonally Adjusted
1986						
May	-16	-21	- 9	-16	+14	+15
Jun	-21	-23	-19	-21	+6	+12
Jly	-25	-22	-25	-21	+11	+15
Aug	-20	-20	-25	-20	+10	+15
Sep	-21	-20	-23	-18	+10	+17
Oct	-23	-17	-22	-16	+14	+17
Nov	- 9	-12	-10	-10	+19	+21
Dec	-10	-12	- 7	- 9	+26	+21
1987						
Jan	-15	-10	-13	-10	+30	+22
Feb	+ 2	- 2	- 2	- 6	+34	+28
Mar	+ 4	0	0	- 7	+25	+21
Apr	+ 1	+ 4	- 6	- 6	+26	+22
May	+10	+ 5	0	- 7	+28	+29
Jun	+ 3	+ 1	+ 9	+ 8	+19	+25
Jul	+ 6	+ 9	+10	+14	+19	+23
Aug	+11	+11	+ 5	+ 9	+21	+26
Sep	+ 9	+10	+ 3	+ 8	+20	+27
Oct	+10	+16	+ 1	+ 7	+23	+26
Nov	+13	+10	+11	+10	+28	+30
Dec	+18	+16	+3	+1	+31	+26

NB.1. The monthly question concerning the adequacy of present stock levels is not found to display stable seasonality.

2. The question numbers given are those for the quarterly survey, since there is no ambiguity in monthly survey question titles.

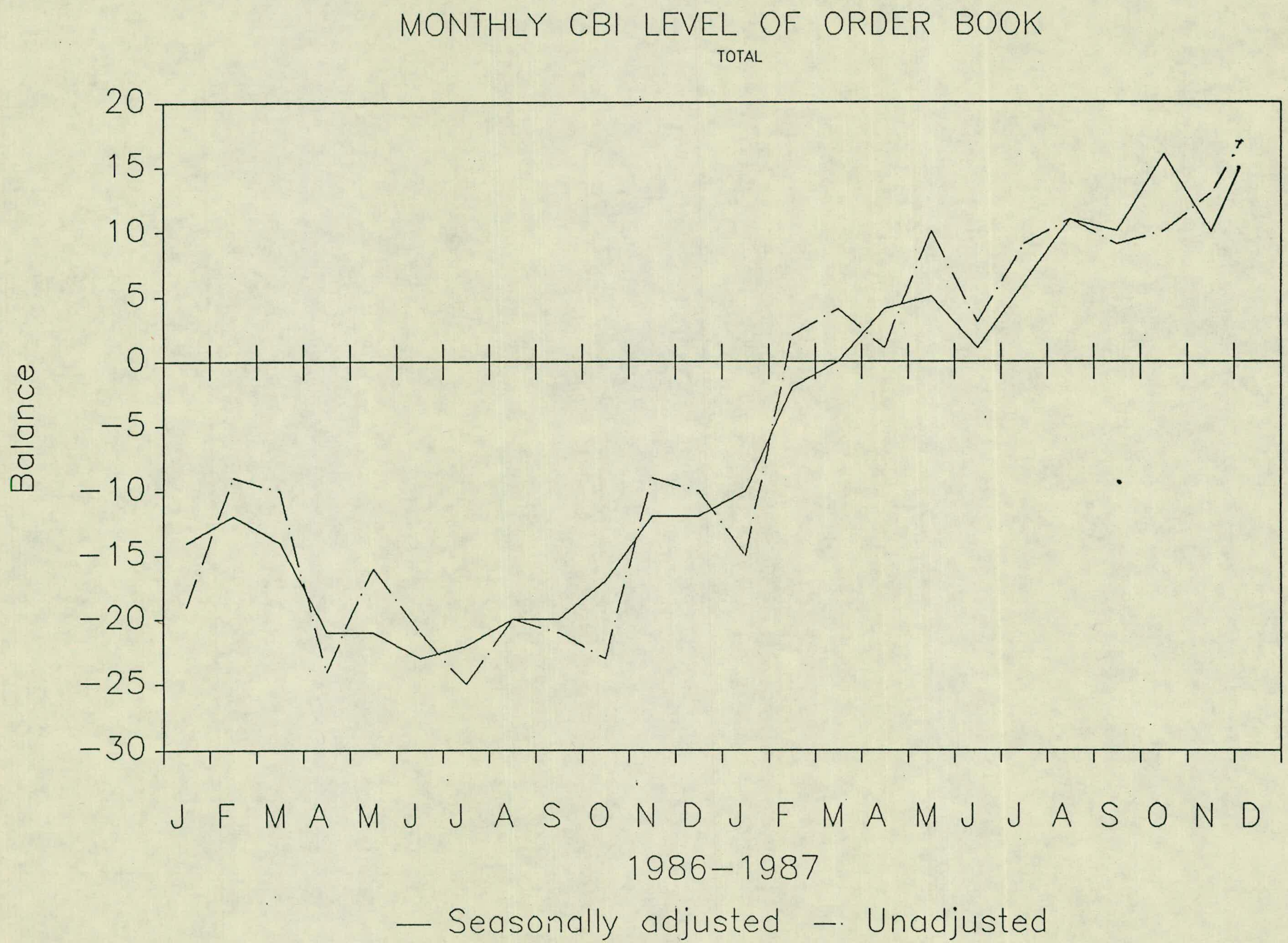
CBI SURVEY QUESTIONS ON OUTPUT: MONTHLY EXPECTATIONS & QUARTERLY OUTTURN

VOLUME OF OUTPUT(Q8)

(Balance of those responding "Up" less those responding "Down")

	PAST 4 MONTHS		EXPECTED TREND OVER NEXT 4 MONTHS	
	Reported	Seasonally Adjusted	Reported	Seasonally Adjusted
1986				
Apr	0	- 5	+14	+ 9
May			+14	+12
Jun			+10	+ 9
Jly	- 2	- 2	+ 5	+10
Aug			+ 7	+11
Sep			+11	+14
Oct	- 1	+ 3	+13	+14
Nov			+13	+16
Dec			+10	+ 9
1987				
Jan	+ 9	+10	+15	+17
Feb			+29	+26
Mar			+34	+27
Apr	+24	+19	+25	+20
May			+31	+29
Jun			+37	+36
Jul	+23	+23	+23	+28
Aug			+38	+42
Sep			+30	+33
Oct	+19	+23	+25	+26
Nov			+36	+39
			+31	+30

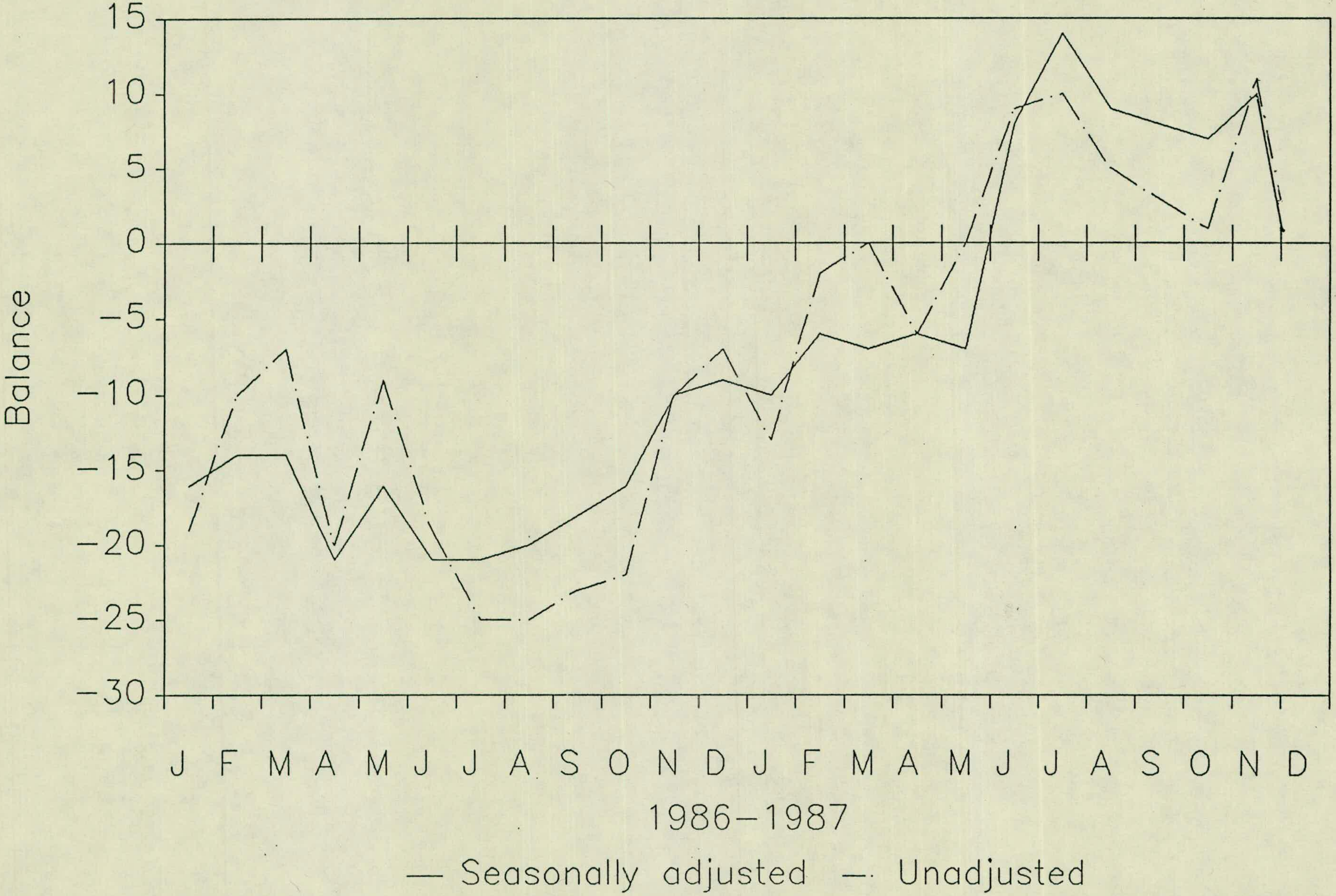
NB. The results of the expectations question are shown against the month in which the survey was carried out. Therefore, for example, the August result represents the expected trend in output to December.


MONTHLY CBI LEVEL OF ORDER BOOK
TOTAL
Balance
20
15
10
5
0
−5
−10
−15
−20
−25
−30
J F M A M J J A S O N D J F M A M J J A S O N D
1986−1987
— Seasonally adjusted —· Unadjusted

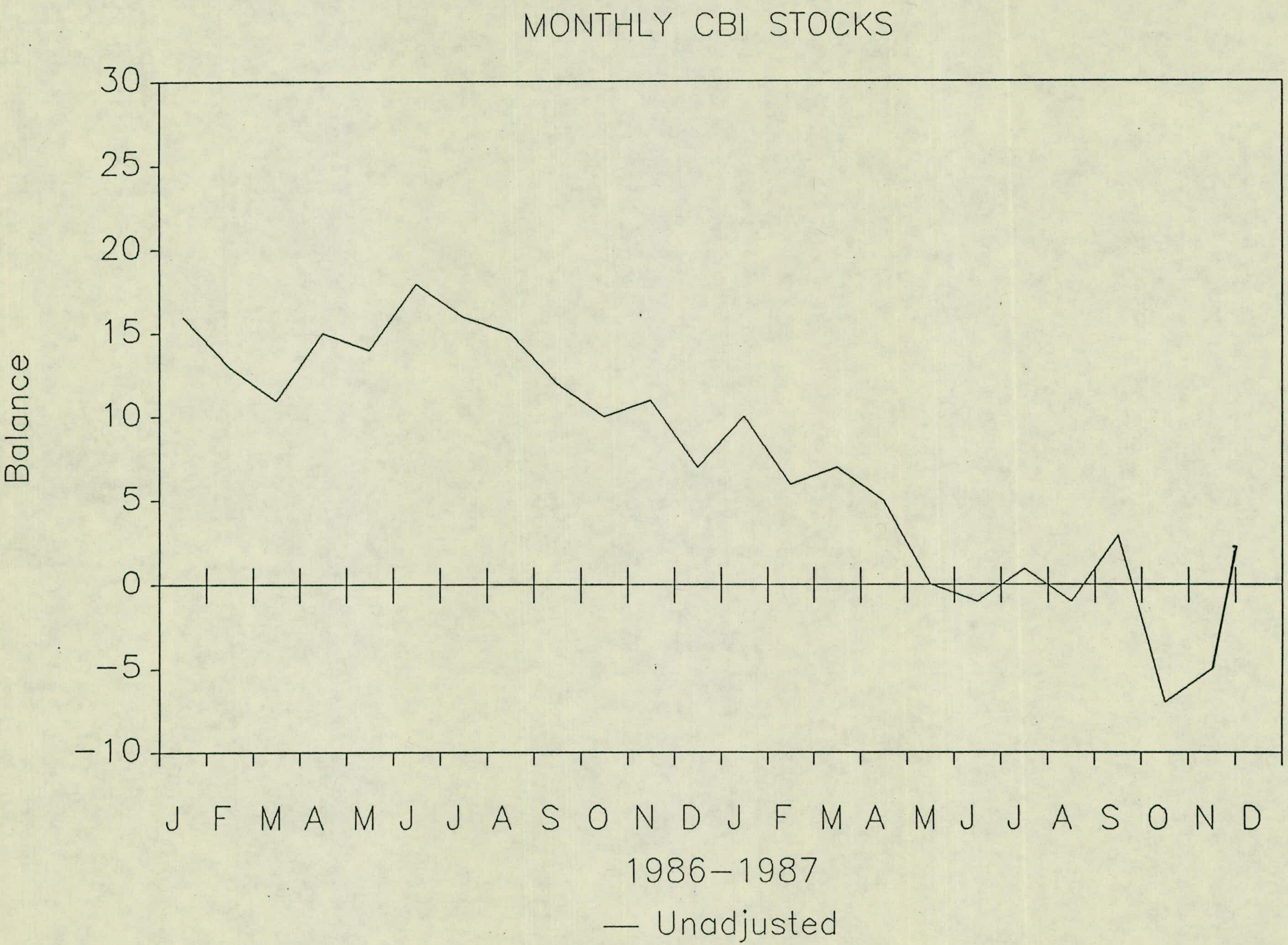
23/11/87

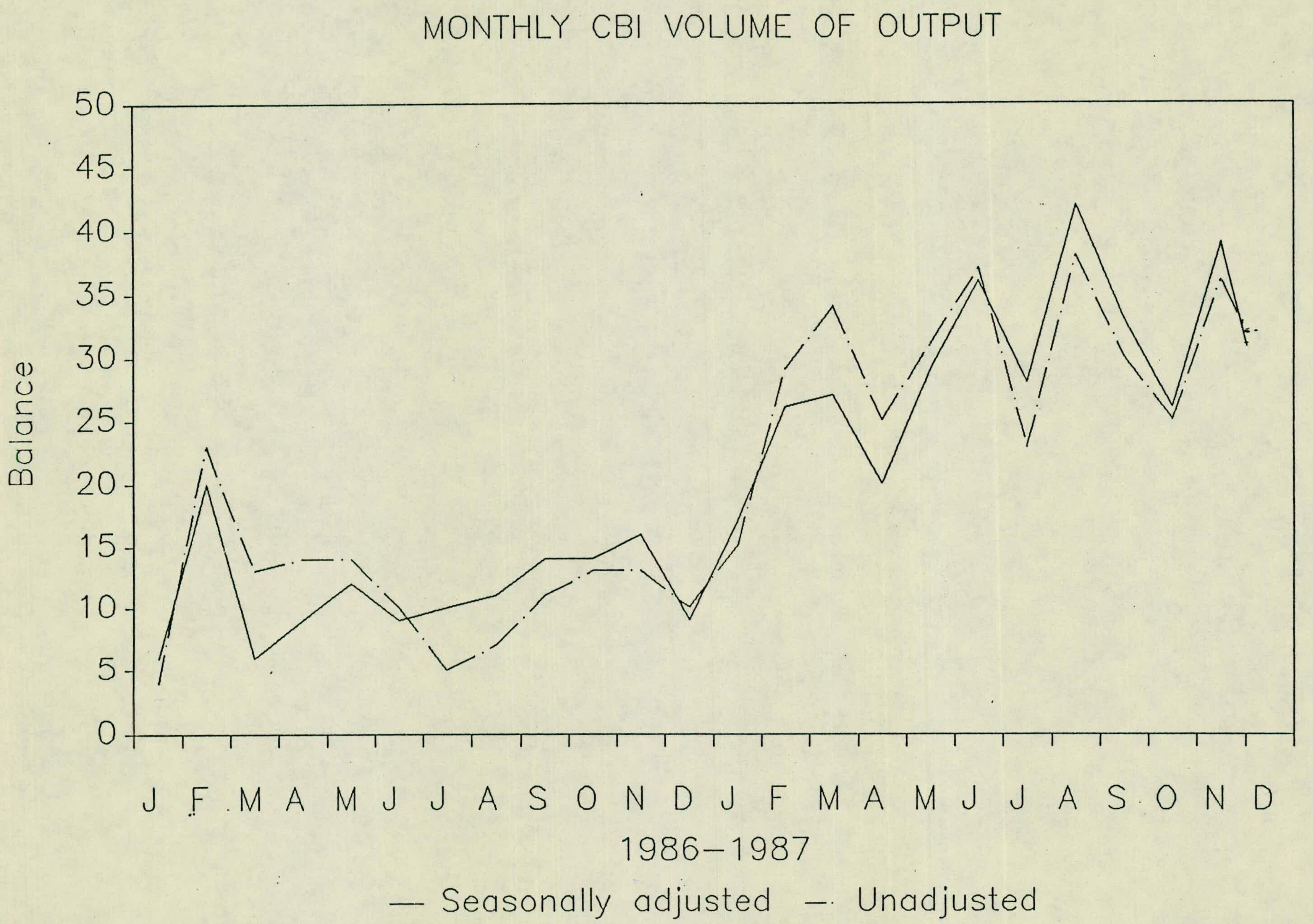
MONTHLY CBI LEVEL OF ORDER BOOK

EXPORT

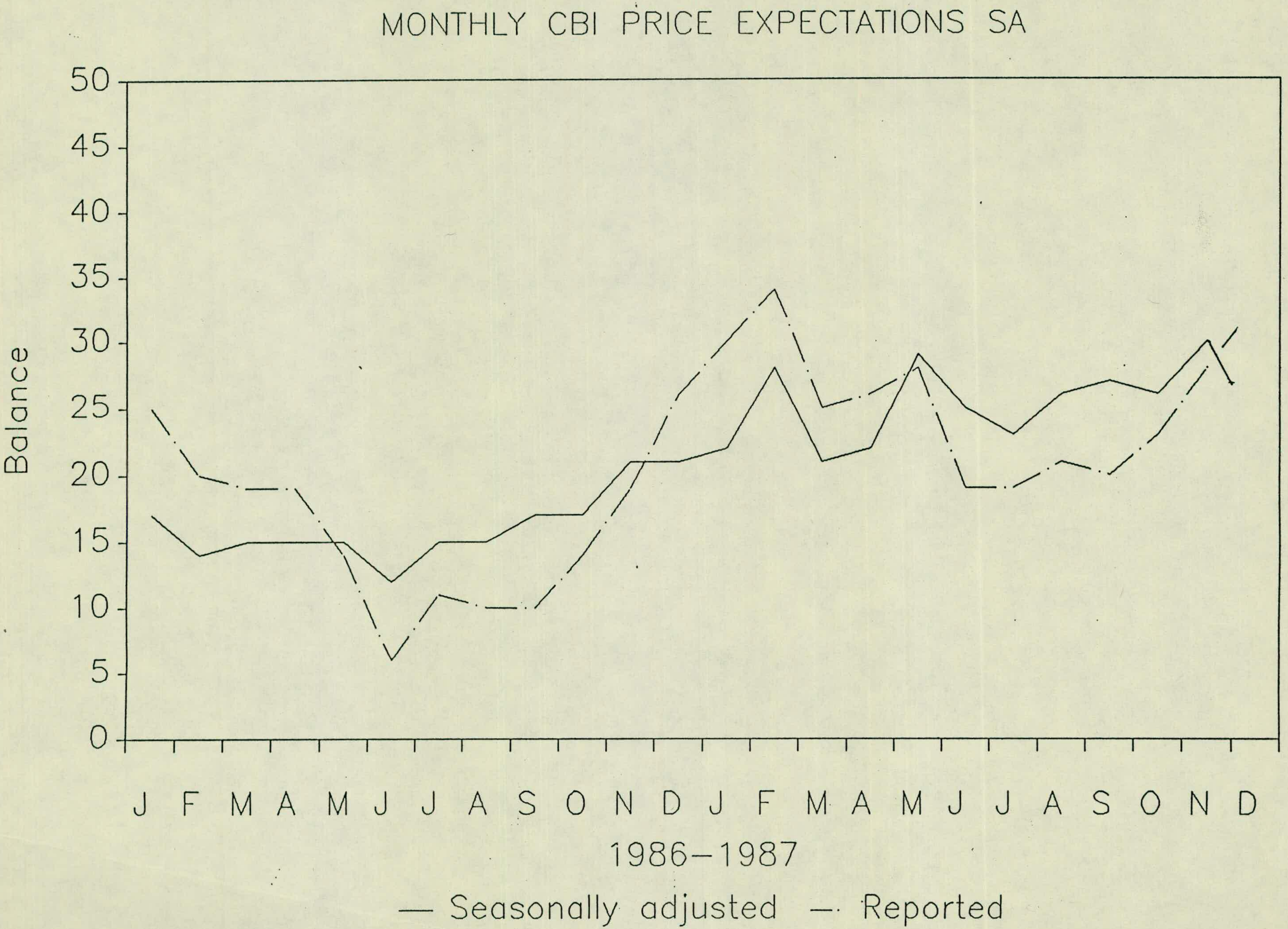


23/11/87


MONTHLY CBI STOCKS
30
25
20
15
10
5
0
−5
−10
Balance
J F M A M J J A S O N D J F M A M J J A S O N D
1986−1987
— Unadjusted
23/11/87


MONTHLY CBI VOLUME OF OUTPUT
Balance
50
45
40
35
30
25
20
15
10
5
0
J F M A M J J A S O N D J F M A M J J A S O N D
1986–1987
— Seasonally adjusted —· Unadjusted

23/11/87


MONTHLY CBI PRICE EXPECTATIONS SA
Balance
50
45
40
35
30
25
20
15
10
5
0
J F M A M J J A S O N D J F M A M J J A S O N D
1986–1987
— Seasonally adjusted —· Reported

23/11/87

41a/3

CONFIDENTIAL
until 00.30 am Monday 14 December 1987
then UNCLASSIFIED

FROM: **PETER CURWEN**
DATE: 11 December 1987

More good news from a survey conducted post - stock market fall.

1. **MR PICKFORD** Stcllp 11/12

2. **CHANCELLOR OF THE EXCHEQUER**

(+1 for No 10)

Tony

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Odling-Smee
Mr Scholar
Mr Sedgwick
Mr R I G Allen
Mr Bottrill
Mr Hibberd
Mr Bush
Mr Allum
Mr Brooks
Mr Hudson
Mr Price
Mr Young
Mr Dyer
Mr Call
Mr Cropper
Mr Tyrie
HB/003

CBI MONTHLY TRENDS ENQUIRY: DECEMBER 1987

The CBI's latest Monthly Enquiry is to be released at <u>00.30 on Monday 14 December</u>.

<u>Enquiry results</u>

2. The Monthly Enquiry into manufacturing - summarised in the attached table - covers only five of the questions in the quarterly survey: current levels of home and export orders and of stocks, and expected trend in output and domestic prices over the next four months. The Enquiry was conducted between 23 November and 9 December, covering 1,366 respondents.

3. The balance on total order books showed still further improvement between November and December. Although the balances on export order books and expected trend in output did fall back, both these series remain at historically high levels. Stock levels have improved and are now adequate to meet demand. The expected rate of growth of output prices has risen again. The main results are outlined below, with seasonally adjusted figures (produced by CSO, BUT NOT PUBLISHED) in brackets:

	November	**December**
Total order books	+13 (+10)	+18 (+16)
Export order books	+11 (+10)	+3 (+1)
Stocks	-5	+2
Volume of output	+36 (+39)	+31 (+30)
Average domestic prices	+28 (+30)	+31 (+26)

Points to note

4. Once again the survey provides much encouragement and shows that business confidence remains at a high level despite the falls in world stock markets. However in interpreting the results it should be noted that the high balances for the total order book, export order book and expected trend in output series are partly attributable to seasonal influences. The balance on total order books rose still further in December from what was already its highest ever level and, even on a seasonally adjusted basis, is now at a record level. The balance on export order books has fallen back from the record level of November but it remains positive and has been bettered on only 6 occasions since the question was first asked in its present form (April 1977). Although the balance of firms expecting to increase output over the next four months has fallen back the CBI still expect 'further strong growth ... in coming months'. The CBI also argue that the balance of respondents expecting to increase prices shows that manufacturers' average prices are expected to 'rise at a slightly faster rate over the next four months'. This balance has certainly picked up since the middle of the year but is now only back to the levels seen at the beginning of 1987. However the upward trend is much less apparent on a seasonally adjusted basis.

Peter. S. Curwen

PETER S CURWEN

CBI Monthly Trends Enquiry

RESULTS DECEMBER 1987

Manufacturing Industry: 1366 **respondents**

Conducted between 23 November and 9 December 1987

The figures are percentages based on a weighted sample.

Excluding seasonal variations, do you consider that in volume terms:

	Above Normal	Normal	Below Normal	N/A
(1) a. Your present total order book is	33	51	15	1
b. Your present export order book is	25	52	21	3

(firms with no order book are requested to estimate the level of demand)

	More than adequate	Adequate	Less than adequate	N/A
(2) Your present stocks of finished goods are	15	57	13	15

What, excluding seasonal variations, is the expected trend over the next four months with regard to:

	Up	Same	Down	N/A
(3) Volume of output	40	51	9	-
(4) Average prices at which domestic orders are booked.	35	60	4	1

Percentage Balance

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1a	Total Order Book	-15	+ 2	+ 4	+ 1	+10	+ 3	+ 6	+11	+ 9	+10	+13	+18
b	Export Order Book	-13	- 2	0	- 6	0	+ 9	+10	+ 5	+ 3	+ 1	+11	+ 3
2	Stocks	+10	+ 6	+ 7	+ 5	0	- 1	+ 1	- 1	+ 3	- 7	- 5	+ 2
3	Volume of Output	+15	+29	+34	+25	+31	+37	+23	+38	+30	+25	+36	+31
4	Average Prices	+30	+34	+25	+26	+28	+19	+19	+21	+20	+23	+28	+31

COMMENT

Total order books continue to be buoyant. A balance of +18% report order books above normal, the highest balance since the question was first asked in 1977.

After the sharp improvement in November, export order books have returned to the levels of September and October. A balance of +3% of respondents report order books above normal.

Stock levels have improved. After two months in which stocks of finished goods were reported to be less than adequate to meet expected demand, a balance of +2% now reports that stocks are adequate.

Further strong growth in manufactured output is expected in coming months, continuing the recent trend. A balance of +31% of firms expect to increase their output in the next few months.

Manufacturer's average prices are expected to rise at a slightly faster rate over the next few months. A balance of +31% of respondents expect to increase prices, up from the levels of the summer, and matching the balances at the beginning of the year.

RJ5.99

UNCLASSIFIED

pmp

FROM: A A DIGHT

DATE: 14 December 1987

MR P CURWEN

CBI MONTHLY TRENDS ENQUIRY: DECEMBER 1987

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

A A Dight

A A DIGHT

4315/005

CONFIDENTIAL

FROM: P WYNN OWEN

DATE: 8 January 1988

1. MR MONCK NM 8 Jan.
2. CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Burgner
Mr Culpin
Mr H P Evans
Mr Odling-Smee
Mr Peretz
Miss Peirson
Mr R I G Allan
Mr S J Davies
Mr MacAuslan
Mr S Matthews
Miss O'Mara
Mr Pickford
Ms Roberts
Mr Flanagan
Mr Fray
Mr Call

NEDC, 13 JANUARY: STEERING BRIEF

The meeting will start at 2.30pm. Sir John Cassels letter of 22 December to Council Members suggests a schedule that means a finish by 5pm. You might begin by congratulating Sir John on his knighthood on behalf of the whole Council. The three items are:

1. <u>Outlook for the economy</u> - Sir John suggests the discussion is split into ¾ of an hour for macro discussion (which you might further split into international and domestic), followed by ½ an hour for other aspects. You have tabled the Autumn Statement, both oral and written, and a paper on "The World Economy and the UK" you sent NEDO today. Also relevant is the short Treasury note you circulated on comparative investment. The CBI and TUC have each put in papers. The TUC actually released their Budget rep' earlier this week. Sir John Cassels note of 22 December to Council members largely dwells on this item.

This should be your only appearance at NEDC this year. So resist any suggestion the Budget be taken at the April NEDC, or that macro issues should feature on any of the next three agendas. If necessary, remit to Steering Group. Also probably leave open whether January or April would be best for a macro discussion in 1989.

Unless the meeting goes wrong, I think you could leave January as the presumption.
NM

2. <u>Knitting Sector Group</u> - Sir Ronald Halstead will press hard on importers' details. You agreed a simple "listen and take note" line with Alan Clark for NEDC, since we are in policy disagreement with DTI. Let Lord Young lead on this and other knitting issues. We will be trying to obtain his brief early next week. The brief below has been cleared with DTI officials and simply contains three obvious supplementaries on importers' details. If necessary, we will provide supplementary briefing to you early next week. In particular, it will be

as would be desirable
interesting to see whether, Sir Ronald Halstead says at NEDC that a limited measure, involving simple disclosure of names and addresses, would be worth having. The CBI line may be ambivalent on importers' details, while the TUC will support Sir Ronald.

3. International Competitiveness, R&D and action by EDCs - papers from Sir John Cassels (actually by Walter Eltis) and the CBI. The time for this item may be squeezed, but try to allow enough for it not to have to be retabled for a further meeting. Emphasise that the onus for increasing R&D investment now lies with industry. Lord Young should lead on this item, but you may wish to pick up tax and macro points. (The CBI paper is feeble on disclosure of R+D spending)

OTHER MATTERS

4. Lord Young's White Paper - on 12 January could well disrupt NEDC. He will be present to lead, but we will offer a little supplementary briefing, particularly on RDG, early next week.

5. CBI Dinner, 12 January - Mr Flanagan is submitting today a short separate brief for this private bilateral dinner on the eve of NEDC.

6. Press Handling - you gathered from Sir John Cassels yesterday that he is hoping to be able to present the five points in his briefing note for NEDC members as agreed. Presumably he would do this at his press conference after the meeting. The TUC have already released their Budget rep'. Your paper on the world economy and the UK should be made available, along with other Council papers, after the meeting. At your meeting earlier this week, you decided to introduce it to the Council with a few ad hoc remarks. So this brief does not offer a speaking note as a basis for any press hand-out.

7. The briefs were prepared by IAE2 and IAE3, with substantial input from several other Treasury divisions. I apologise for the length, but on item 1, in particular, the papers (especially the TUC's) range so widely that there were many points to cover. Copies of the briefing, without this cover note, are being sent outside to NEDC Ministers, plus those responsible in departments for briefing.

Philip Wynn Owen

P WYNN OWEN

3901/014

NATIONAL ECONOMIC DEVELOPMENT COUNCIL

WEDNESDAY 13 JANUARY: 2.30PM

Agenda Item		Suggested Timing
1.	Outlook for the Economy -	Macro - ¾ hr (international, then domestic) Other issues - ½ hr
2.	Sectoral: Knitting Sector Group	½ hour
3.	International Competitiveness, R&D and action by the EDCs	¾ hour

MEMBERS

Lord Young, Mr Fowler and Mr Parkinson will be attending.

Mr Ridley is attending, but must leave at 4.00pm

Mr Baker will not attend. Mrs Rumbold takes his place.

The CBI and TUC expect to field full teams.

GUESTS

Sir Ronald (Ron) Halstead, Kt 1985, CBE 1976; b. 17 May 1927, Deputy Chairman, British Steel Corporation since 1986; Non-Exec Director: BSC 1979-; The Burmah Oil PLC 1983; Chairman, Knitting EDC; on EDC since 1978 ; CBI Council, 1970-86; BIM Council, 1972-77; Council, Univ. of Reading 1978-, Council, Univ. of Buckingham, 1973-; Newspaper Panel, MMC, 1980-; Dir and Hon. Treas., Centre for Policy Studies, 1984-; Trustee, Inst. of Economic Affairs, 1980-; Hon fellow, Queen's Coll., Cambridge,

ITEM 1: OUTLOOK FOR THE ECONOMY

Handling

1.1 You have agreed to Sir John Cassels' suggestion to spend 45 minutes on macro-economic issues and 30 minutes on other points. Macro-economic: Start by introducing your own paper "The World Economy And The UK" and the Autumn Statement. Invite CBI and TUC to introduce macro aspects of their papers. Start with world economy, then turn to domestic issues. Other points: Ask CBI and TUC for Budget suggestions and any other points. Lord Young will handle the DTI White Paper (published 12 January). Mr Baker, Mr Fowler, Mr Parkinson, Mr Ridley will handle points raised by the TUC and CBI papers in their own areas. You will have to handle any TUC criticisms of benfits and the health service:- hence the length of supplementary briefing.

Your Objectives

1.2 (a) Emphasise **strength of UK economy** in international context, making particular use of international comparions in you papers on the world economy and international comparisons of investment.

(b) Allow plenty of time for TUC and also CBI (who may say less) to make **Budget representations.** They have given up separate meetings with you in return for you chairing this meeting instead of April's.

(c) Steer the meeting away from discussion of **side issues** such as the DTI White Paper and if possible also from TUC lobbying for extra £7 billion public spending - not a side issue for the TUC.

(d) Ensure consideration of **future subjects** or papers is remitted to Steering Group.

The Papers

1.3 You are tabling your **Autumn Statement** and a paper on the **World Economy** And the UK. Treasury paper on **International Comparisons of Investment** may also be raised.

1.4 CBI paper skips quite rapidly over outlook for economy (forecast 2 per cent growth in 1988). Quickly moves on to **shopping list** for Government. All familiar stuff: lower interest rates, more international co-operation on exchange rates, CBI scheme for rate reform, restraining electricity price rises, and either lower corporate taxes or more allowances.

1.5 TUC paper covers formal Budget representation released to press on Tuesday 6 January. Notes independent forecasts expecting slower growth next year. Calls for **co-ordinated economic growth strategy** thrashed out at world economic summit (with EC representation). Extensive shopping list for Government, largely aimed at helping those who've "**missed out**" on prosperity: more competitive exchange rates; lower interest rates: more aid to exporters; more favourable CT allowances for investment and R&D; either higher personal allowances for income tax or a new lower tax band; and **higher public expenditure** (£7 billion) on regional aid (£300 million); the urban programme and inner cities (£300 million); infrastructure investment (£150 million); local enterprise initiatives (£100 million); education (uncosted); the NHS (£750 million); old age pensions (£2,600 million); child benefit (£2,000 million) and benefits for the long-term unemployed (£750 million) [costings are derived from earlier version of TUC Budget rep].

1.6 Sir John Cassels' briefing note to Council members usefully put the CBI and TUC on the spot over effects of rising **unit labour costs**. He also asks whether the CBI would prefer increased capital allowances to lower **CT** rates; and whether the TUC feel that no **new jobs** would be preferable to new low-paid, part time jobs. You may wish to dissociate yourself from the implication of the question to the CBI that there might be further cuts in CT rates, given the proximity of the Budget. Sir John will be seeking agreement on the "five points" in his paper relating to (i) international co-operation; (ii) the PSBR; (iii) competitiveness of the UK industry; (iv) investment and (v) public spending.

Views of the CBI/TUC

1.7 How the CBI play the meeting may be affected by the dinner you and your NEDC Cabinet colleagues, plus Mr Channon, are having with them the night before. Sir David Nickson is likely to present the CBI paper. Emphasis may be on CBI calls for lower real interest rates. Not clear whether CBI expect substantive discussion of what they term "burdens on business" (tax, rates, overheads) or whether will treat these as Budget representations.

1.8 The TUC may concentrate on the world economy, laying emphasis on a co-operative growth strategy - particularly the need to expand the German economy and measures to raise EC output fast enough to reduce unemployment. Domestically, they may stress the "North/South divide". May simply put forward their tax and public expenditure proposals in the manner of a Budget representation, not expecting substantive comment from you.

Follow-up

1.9 No specific proposals for follow-up have been put forward. If any are raised, avoid making any commitment, and if necessary remit to Steering Group to consider as usual.

1.10 Resist any suggestion that your Budget should be discussed by April NEDC, which would risk your having to return. Mr Fowler will chair, once date agreed, and Steering Group already has suitable agenda in mind. In any case, it was understood you would attend in January in place of April.

Conclusions

1.11 (a) Wide measure of agreement on usefulness of **international co-operation on exchange rates** - G7 statement 23 December. Recent events reinforce need for managed system of floating exchange rates.

(b) Also useful international co-ordination on **interest rates.**

(c) Even so, countries must take responsibility for own economies (eg US budget deficit, German and Japanese domestic demand), in line with commitments in G7 communique.

(d) **UK doing well** in international context - GNP growth well above other European Countries, as are rates of productivity and employment growth. Fixed investment above, and budget deficit below, G7 average. Some commentators concerned about overheating, but inflation under control and will remain so.

(e) Some **slow down in world economic growth** expected by all parties next year: but indications are now that this will not be as great as previously expected.

(f) If possible, note agreement on some or all of **Sir John Cassels' five points.** Note that **point 2** (PSBR) is not ideally worded: it emphasises growth rather than money GDP, but as it does include an inflation proviso it would be hard for you to object. Note also that **point 5** looks for public spending declining as percentage of GDP, but the **TUC** £7 billion package would <u>increase</u> public spending as a proportion of GDP.

(g) Note **Budget representations.**

RESTRICTED

SUPPLEMENTARY POINTS TO MAKE

(A) MACRO ECONOMIC ISSUES

Factual

1.12 See your papers on **World Economy** and **International Comparisons of Investment** for extensive international comparisons.

1.13 Real and Nominal Interest Rates.

	US	Japan	Germany	France	UK	Italy	Canada
3 month rate (8 January)	7.2	3.9	3.5	8.5	9.1	10.9	8.7
Latest consumer price increase	4.7	0.5	1.0	3.2	4.1	5.2	4.3*
"Real" rate	2.3	3.4	2.4	5.1	4.8	5.4	4.2
10 year bond yield (6-8 January)	8.8	4.6	6.5	10.0	9.8	10.2+	9.9

* October price increase. (All other increases November)
\+ 31 December rate.

Positive

1.14 UK now in 7th year of **steady growth,** fifth combined with **low inflation.**

1.15 UK grown **faster than all other major EC countries** since 1980 - contrast with previous two decades when UK bottom of league. Growth in real GNP 1983-87 at 3¼ per cent has matched G7 average.

1.16 Growth of about 4 per cent in 1987 **fastest** in any year **since**

1968 apart from 1973.

1.17 Despite stock market fall, expect 3 per cent **growth** in non-oil economy in 1988: achieved only once in 1970s. Latest CBI Surveys indicate high business confidence.

1.18 Adult unemployment (seasonally adjusted) **fallen for seventeen months in succession,** by over ½ million in total, largest sustained fall on record. Fall in **long-term unemployment** over past year also largest on record.

1.19 Since 1983, **more** new jobs in UK **than in rest of EC** put together.

1.20 Since 1980, **manufacturing productivity growth** faster than in all other major industrial countries - previous 2 decades at bottom of league. Productivity in whole economy grown over 2½ per cent a year since 1980 - similar to Japan and well above other G7 countries.

1.21 **Profitability** for non-North Sea companies **risen every year** since 1981 and in 1986 at **highest level since 1973.** Also true for manufacturing.

1.22 Net **overseas assets** at end-1986 highest level since WW2, second only to Japan. Annual earnings on these assets of around £5 billion in 1986.

1.23 UK manufacturers broadly maintained **share of total world trade** since 1981 after decades of decline.

1.24 **Inflation** rate never above 7 per cent over last 5 years.

1.25 **Real take home pay** of married man with two children on male average earnings up 22½ per cent 1978-79 to 1987-88 (up only ½ per cent 1973-74 to 1978-79).

1.26 Base **interest rates** cut three times (by total 1½ per cent) since stock-market fall. CBI right to recognise (para 1 of their paper) that Government's decisions must be grounded in financial prudence.

1.27 **G7 statement**, 23 December, reaffirmed basic objectives and economic policy directions of Louvre accord. Re-emphasised common interest in more stable exchange rates and agreed to continue close co-operation.

Defensive

1.28 Concern over pay settlements should not be overstated (CBI)

Productivity gains alone do not justify matching pay increases. Part of strong productivity growth cyclical: cannot be relied upon to provide continued downward pressure on unit labout costs. Lower increases in average real pay would mean more real jobs in long term. 1 per cent off wage increases worth four times as much as 1 per cent of interest rates, in a full year.

1.29 UK real interest rates too high (CBI and TUC)

No. Using CBI's method of deflating short rates by latest consumer price indices, UK currently lower than Italy and France. But no uniquely correct method of calculating real interest rates: depends on status of borrower and lender and expectations of future inflations. Government will not keep interest rates any higher than necessary to maintain downward pressure on inflation. But not in industry's interest to see prices spiral upwards. Special CBI survey, summer 1987, showed most companies preferred stable exchange rates to lower interest rates.

1.30 Need greater exchange rate stability (CBI and TUC)

G7 agreed either excessive fluctuation of exchange rates, further decline of dollar or rise in dollar if destabilising to adjustment process could be counter productive to growth prospect for world economy.

1.31 Output growth to fall sharply in 1988 - insufficient to cut unemployment in EC (TUC)

No direct link between growth and falling unemployment. In any case, growth of 3 per cent in UK non-oil economy expected in 1988 - achieved only once in whole of 1970s. Autumn Statement predicts falling unemployment.

1.32 <u>Growth in 1987 due to pre-election boom (TUC)</u>

No. Strong growth reflects supply-side improvements to economy, sustained non-inflationary growth and rising confidence in industry. Exports and investment growth at similar rate to consumers' expenditure.

1.33 <u>Monetary policy discredited (TUC)</u>

Objective of monetary policy was and is to maintain downward pressure on inflation. Record shows inflation down to levels not seen for 20 years, despite necessary once-and-for-all depreciation of sterling following fall in oil price and strong sustained economic growth.

1.34 <u>Industrial investment has faltered (TUC)</u>

Industrial investment up 3½ per cent in year to 1987. Q3 - including over 6 per cent rise in manufacturing investment DTI's Investment Intentions Survey, December 1987, indicated 11 per cent rise in manufacturing investment in 1988, and 8 per cent in industrial investment. Special CBI Survey in November showed investment intentions little affected by stock market fall.

1.35 <u>Most new jobs in "North" only part-time (TUC)</u>

<u>Mr Fowler</u> will deal. Unemployment rate fallen fastest in West Midlands, Wales and North West. Nothing wrong with part-time jobs: benefit both employees and employers. Indicates increasing flexibility of labour market and long-term shift away from manufacturing towards service industries.

1.36 <u>Poorest have lost most from tax policies (TUC)</u>

Married man with 2 children, in lowest earnings decile has seen real take home pay up 10.7 per cent 1978-79 to 1987-88 (up only 4 per cent 1973-74 to 1978-79). Real value of married man's allowance highest since war.

SUPPLEMENTARY POINTS TO MAKE

(B) OTHER ASPECTS - "BURDENS ON BUSINESS" (CBI)

Local Authority Rates

1.37 In general, Mr Ridley will deal.

1.38 Why does Treasury Paper on International Comparisons of Investment ignore property taxes?

Figures not available for France, Italy and Japan. In any case, should be considered in conjunction with property prices, making international comparisons more difficult.

Electricity Prices

1.39 Mr Parkinson will deal.

Taxes On Profits - Factual

1.40 See tables 4 and 5 of paper on International Comparisons of Investment.

1.41 EMPLOYERS' SOCIAL SECURITY CONTRIBUTIONS AS PERCENTAGE OF TOTAL TAXATION

	1978	1979	1980	1981	1982	1983	1984	1985	1986
Canada	7.3	6.8	6.6	7.4	7.6	8.5	8.2	8.5	8.3
France	29.8	29.2	28.9	28.9	28.9	29.1	28.3	28.2	27.8
Germany	18.1	18.2	18.5	19.1	19.4	19.1	19.1	19.0	19.1
Italy	30.2	23.4	28.4	27.3	26.3	24.9	24.3	24.8	24.6
Japan	14.9	14.8	14.8	15.3	15.4	15.3	15.2	15.4	N/A
UK	10.8	10.3	9.8	9.1	8.9	9.1	9.1	8.8	9.3
US	15.0	15.2	15.5	15.7	16.2	17.1	17.5	17.3	N/A

Source: OECD (1986 figures provisional)

1.42 EMPLOYERS' SOCIAL SECURITY CONTRIBUTIONS AS PERCENTAGE OF GDP

	1978	1979	1980	1981	1982	1983	1984	1985	1986
Canada	2.2	2.1	2.1	2.5	2.5	2.8	2.7	2.8	2.8
France	11.8	12.0	12.3	12.4	12.6	13.0	12.9	12.9	12.5
Germany	6.9	6.9	7.0	7.2	7.3	7.1	7.2	7.2	7.1
Italy	8.2	6.2	8.5	8.5	8.9	9.0	8.5	8.6	8.9
Japan	3.6	3.6	3.8	4.0	4.1	4.2	4.2	4.3	N/A
UK	3.6	3.4	3.5	3.3	3.5	3.4	3.5	3.4	3.6
US	4.3	4.4	4.6	4.7	4.8	4.9	5.0	5.1	N/A

Source: OECD (1986 figures provisional)

Taxes on Profits - Positive

1.43 UK CT rate now one of lowest in industrialised world.

1.44 When transitional effects work through, companies should pay lower effective tax rate for any given level of profit and investment.

1.45 More investment will now be profit-motivated, rather than tax-motivated. Should have lead to higher quality, higher return investment. And no longer such a bias against investment in labour which TUC should welcome.

Taxes on Profits - Defensive

1.46 Higher effective CT rate on retined profits?
Effective tax rate rose after 1983, but peaked 1986. CBI and IFS agree it is now declining. On IFS figures, effective tax rate in 1988 and after will be lower under new system than under old. Not meaningful to look at rate on retained profits - that depends on companies' dividend policies CT charged on profits before dividends paid. [NOT FOR USE: We do not recognise the figure in paragraph 38 of the CBI paper, which suggests a 50-60 per cent marginal rate: real figure closer to 40 per cent].

1.47 <u>Rise in effective tax rate deterring investment?</u>

Rise in effective rate mainly due to strong growth in profits. Effects of CT reforms likely to be temporary. In any case companies not pressed for cash: respectable pace of investment, markedly higher dividends and buoyancy of pay settlements all indicate ample corporate liquidity.

1.48 <u>Since capital allowances spread over several years, they should be indexed</u> (CBI - especially McFarlane).

Case for indexation reduced with low inflation. Complex and expensive for employers and Inland Revenue. Better to use resources to cut tax rates when prudent.

1.49 <u>Government has made windfall gain from change in CT regime</u>

1984 reforms designed to be broadly revenue-neutral over transition period (still under way) for corporate sector as a whole).

SUPPLEMENTARY POINTS TO MAKE

(C) OTHER ASPECTS - TUC PACKAGE

Aid for Exporters, Higher Public Spending in various areas

1.50 Appropriate Ministers will deal (except benefits and DHSS - see 1.53-1.66 below)

Allowances for Investment R&D

1.51 Aim should be for investment to be for profit motives not tax motives. Treasury/Inland Revenue study published July 1987 suggested that treatment of R&D in UK not out of line with most major countries, and that fiscal subsidies for R&D are poor value for money.

Income Tax

1.52 Increased allowances better than basic rate cut
Note Budget representation. (Since 1979, main tax allowances increased by 22 per cent more than inflation, resulting in 1½ million fewer taxpayers compared with indexed 1978-79 regime. Real value of married man's allowance highest since war).

1.53 Introduce lower tax band
Note Budget representation.

National Health Service

Factual

1.54 Spending on NHS up over 32 per cent in real terms between 1978-79 and 1987-88 in England. The NHS cash increase for 1988-89 of £706 million is the largest ever.

Positive

1.55 Record numbers of patients treated - 19 per cent more in-patient cases 1986 over 1978, 87 per cent more day cases, 11 per cent more out-patient attendances.

1.56 80,000 more "front line staff", providing direct patient care, in 1987 compared with 1978.

1.57 Death rates fallen throughout Great Britain for all age groups.

Defensive

1.58 Increase NHS spending rather than cut taxes?
Note Budget rep. Net NHS spending up 30 per cent in real terms under this Government (up 10 per cent real terms relative to Health Services index - but higher costs go to buy improved services: fallacy that NHS needs more than RPI to stand still). Lower taxes improve incentives and so contribute to imporved economic performance - vital for public services.

1.59 Is Government reviewing NHS funding?
Always looking for value for money.

1.60 NUPE (Bickerstaffe) nurses strike in Manchester shows crisis in NHS?
Always tragic to see nurses on strike. Their primary responsibility must be to patients. Understand Royal College of Nursing has expressed regret at this strike.

BENEFITS

Factual

1.61 Total Social Security 1987-88: £46.4 billion (40 per cent up on 1978-79). Only about a third because of increased unemployment: two-thirds from increased expenditure on elderly and long-term sick and disabled.

Positive

1.62 Expenditure planned to increase by 4 per cent in real terms 1986-87 to 1990-91

1.63 New schemes target help where needed - eg 65 per cent of sick and disabled gain from reformed scheme.

1.64 Transitional protection means no-one on supplementary benefit will get less weekly cash benefit on income support.

Defensive

1.65 New Income Support rates conceal cuts?

Expect to spend £200 million more in 1988-89 on weekly support for income support than if supplementary benefit rates had been uprated [USE PRECISE FORM OF WORDS].

1.66 Increase Child Benefit?

Note Budget rep. But inefficient way of helping those in need: approaching half of child benefit expenditure goes to those with above average earnings. But new Family Credit and Family Premium will aid families with children.

1.67 Increase Pensions?

Note Budget rep. But 1979-85 total average net incomes of pensioners up 2.7 per cent a year above inflation (more than double increase for population as a whole) 1974-79 rate only 0.6 per cent a year. Government has honoured commitment to increase pensions in line with RPI - generally above Pensioner Price Indices (PPIs) - eg year to September 1987 one person PPI up 1.9 per cent, 2 person PPI up 2.2 per cent, but RPI up 4.2 per cent.

1.68 Long-term unemployed premium?

Note Budget rep. But premium would worsen the unemployment trap. New Income Support scheme will have a higher earnings disregard (£15) for the long-term unemployed.

INFRASTRUCTURE

Positive

1.69 Increases over 1987 White Paper in plans for public sector capital spending now put at £1.5 billion in 1988-89 and £1.7 billion in 1989-90.

1.70 Public sector capital spending maintained in real terms: 1987-88 broadly level with 1978-79.

1.71 Important to take account of private sector continuation to infrastructure - eg Channel Tunnel, London City Airport, Dartford crossing.

1.72 Sector bull points attached at annex. Other Ministers will deal as appropriate, though all may have to field points on Transport.

Defensive

1.73 January 1987 NEDC asked for progress reports from Government Departments for this meeting. Where are they?

Steering Group did not discuss or request them for this meeting, though (most) Ministers concerned stand ready here to deal with any points you have. [IF PRESSED - Can ask Steering Group to consider possible future discussion of progress in **management** of infrastructure ock, against other priorities for agenda, without commitment].

1.74. When will PEWP be available?

This month. Expect to announce exact date shortly.

ANNEX

NB All figures in cash except where stated.

CAPITAL SPENDING AND INFRASTRUCTURE: SPECIFIC SECTOR BULL POINTS

Roads: Between 1978-79 and 1987-88, cpaital spending (including structural maintenance) on motorways and trunk roads in England estimated to increase by over 30 per cent in real terms. Provision for 1987-88 is £893 million. Will be 3 per cent higher in 1988-89, 5 per cent in 1989-90 and 9 per cent in 1990-91. Since 1979, over £3 billion invested in new construction and improvements to notional road system; current programme provides for further investment of £650 million in 1987-88. Between 1978-79 and end October 1987 over 720 miles of new motorway and trunk roads completed. In 1987-88 work planned to start on 30 new schemes worth nearly £500 million. 25 bypasses now being built and over 160 bypass schemes in preparation. Backlog of motorway and trunk road repairs planned to be eliminated by 1992. On average, 6 miles of motorway and trunk road for price of 5 (in real terms) in 1978-79.

Water and sewerage (England and Wales): Between 1978-79 and 1987-88 estimated to be public investment of over £7 billion. Further increse in investment planned in 1988-89, to over £1.1 billion.

Rail: Between 1978-79 and 1987-88 estimated over £3½ billion investment in railways with further £3 billion planned over next 5 years. Biggest railway renewal programme since switch from steam to diesel in 1950s.

Electricity: Capital expenditure on fixed assets (including Scottish electricity) rose from £810 million in 1978-79 to estimated £1.6 billion in 1987-88. Torness and Heysham 2 AGR power stations planned to be completed in 1987-88 at estiamted cost of £3.5 billion. 2 gigawatt Cross Channel Link with France completed in 1986-87 at cost of £399 million. Planning permission for construction Sizewell B announced 12 March. Public expenditure plans include provision for new wave of construction of generating capacity.

NHS: Between 1978-79 and 1987-88 gross capital spending on NHS in England estimated to increase by 36 per cent in real terms. Gross NHS capital programmes now running at over £1 billion a year. In England, about 470 more schemes, each costing over £1 million with total value of almost £3 billion at various stages of planning, design and construction; of these, over 100 planned for completion over next 3 years.

Educational buildings: In 1987-88 13 universities will have major building projects in progress, at total estimated cost to public funds of £95 million. £250 million programme of improvements to LA and voluntary school buildings allowed for in 1988-89, start of significant contribution over 3 years to reducing backlog of improvement needs identified by school buildings' survey.

Housing (England): Capital spending on LA housing renovation forecast to increase from £479 million in 1978-79 to expected level of £1.6 billion in 1987-88 - 64 per cent increase in real terms. Gross expenditure on housing over next 3 years planned at about £3¾ billion a year.

Prisons (England & Wales): Between 1978-79 and 1987-88, capital spending on new prison building estimated to increase by 140 per cent in real terms. Prison building programme incxludes 20 new prisons at estimated cost of £698 million at 1987-88 prices. 4 of those already open; one further will open before end of 1987. 4,200 additional places to be provided by 1993.

WPU

CHANCELLOR OF THE EXCHEQUER

Thanks -

Ch/

You might like to be aware that Mr Clark's office called up to ask who from the CBI will be at NEDC. Some pre-meeting nobbling on importers' details, perhaps? I don't think so.

On NEDC attendance, Mr Trippier will take over when Mr Ridley has to leave. And Baroness Hooper, rather than Mrs Rumbold will be standing in for Mr Baker. This OK, I take it? OK -

CBI exchange rate/interest rate survey, and tax incentives for R&D survey behind, should you wish to look at them tonight.

MPW 11/1

4308/009

FROM: S J FLANAGAN

DATE: 8 January 198~~7~~8

b/f for folder PNP 11/1

1. MR MACAUSLAN ✓ DM 8/1

2. CHANCELLOR -2

cc
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Monck
Mr Burgner
Mr Fellgett
Mr Wynn Owen
Mr A E W White
Mr Call

DINNER WITH THE CBI TUESDAY 12 JANUARY

You are ~~Your~~ attending a dinner party held for you by Sir David Nickson on Tuesday 12 January at Boodle's club. Also attending will be Lord Young, Mr Baker, Mr Channon, Mr Fowler, Mr Parkinson, and Mr Ridley. A full guest list is attached. You will notice that the CBI list is dominated by past, present, and future CBI Presidents. This suggests that Sir David Nickson may regard this as some sort of farewell dinner for himself. In his letter to you of 6 January he suggests that discussion will be about "areas in which the Government and industry can work more closely together across the whole range of Government policies." We expect the discussion to be very wide ranging. The steering brief for item 1 of the NEDC meeting on 13 January is therefore relevant.

2. The CBI are likely to play up their familiar themes: exchange rates stability, lower interest rates, and business overheads. These are all covered in the NEDC brief. Mr Ridley and Mr Parkinson will be present, and can handle questions relating to rate reform or electricity prices, but I also attach short summary briefing prepared for the Chief Secretary's dinner with the CBI on 24 November in these two areas. Other topics may possibly arise - such as employment and pay, or the internal market - but it is hard to predict precisely what. Given the range of Ministers present, it is unlikely that the CBI will come up with anything that is not the responsibility of one of the Ministers there.

3. The DTI White Paper will also be published on 12 January. Sir David Nickson and John Banham will both have been briefed by Lord Young the day before, and will presumably have spoken to the other CBI guests about it. Lord Young will, of course, be present to handle this issue.

4. We are not aware of any new CBI publications due out within the next week.

Steve Flanagan

S J FLANAGAN

Rating reform

- **welcome Sir David Nickson's** statement that CBI not opposed in principle to rating reform. CBI fully consulted and have been discussing with Nicholas Ridley.

- **Uniform Business Rate makes** business' contribution to local government fairer and more consistent. Choice of business location no longer distorted by rates bill. Winners and losers of course, but business in North, especially manufacturing, will find rates decrease

- **CBI proposals** (business pay only for services that benefit them directly) would increase tax burden on rest of community or reduce provision of local services.

Electricity prices

- understand CBI have discussed with **Cecil Parkinson** - especially on intensive user rates. Understand special rates will remain

- Recently announced **price rise** necessary to allow an adequate return on taxpayers' investment in new power stations

- not unusual for business (even public enterprise) to aim for **positive cash flow)** during periods of low investment.

- Industrial electricity **prices fallen by over 15 per cent** in real terms over last 5 years: will still be in lower range of world prices.

DINNER PARTY GIVEN FOR THE RT. HON. NIGEL LAWSON MP, CHANCELLOR OF THE EXCHEQUER AND OTHER MEMBERS OF THE CABINET BY SIR DAVID NICKSON KBE, DL, PRESIDENT OF THE CONFEDERATION OF BRITISH INDUSTRY ON TUESDAY 12TH JANUARY 1988 AT BOODLE'S CLUB, ST JAMES'S AT 7.45/8.00PM.

GUESTS

The Rt. Hon. Nigel Lawson MP	Chancellor of the Exchequer
The Rt. Hon. The Lord Young	Secretary of State: Department of Trade & Industry
The Rt. Hon. Kenneth Baker MP	Secretary of State: Department of Education & Science
The Rt. Hon. Paul Channon MP	Secretary of State: Department of Transport
The Rt. Hon. Norman Fowler MP	Secretary of State: Department of Employment
The Rt. Hon. Cecil Parkinson MP	Secretary of State: Department of Energy
The Rt. Hon. Nicholas Ridley MP	Secretary of State: Department of the Environment

HOSTS

Sir Daivd Nickson KBE, DL	President, CBI Chairman, Scottish & Newcastle Breweries
Sir Trevor Holdsworth	Chairman, GKN Plc Deputy President, CBI
Sir James Cleminson MC, DL	Chairman, British Overseas Trade Board Past President, CBI
The Rt. Hon. The Lord Pennock	Director Morgan Grenfell Company plc Past President, CBI
Sir John Hedley Greenborough KBE LLD	Chairman, Newarthill plc Deputy Chairman, Lloyds Bank plc Past President, CBI
Mr. John Quinton	Chairman, Barclays Bank plc Chairman, CBI Economic & Financial Policy Committee
Mr. John M.M. Banham	Director-General, CBI

ph/11

CONFIDENTIAL

pmp

FROM: MISS M P WALLACE
DATE: 20 JANUARY 1988

SIR T BURNS

CBI QUARTERLY INDUSTRIAL TRENDS SURVEY

... I attach an advance copy of the CBI's Quarterly Industrial Trends Survey, given to the Chancellor by Sir D Nickson and Mr Banham this evening.

2. The Chancellor would be grateful for your assessment of the survey. In particular, he has noted that some pick-up in costs and prices is typical of January surveys: he would be grateful for an indication of how these figures would look "seasonally adjusted".

MPW.

MOIRA WALLACE

To BE RELEASED BY CBI
1100 on TUESDAY 26th JAN

SURVEY REPORTS

JANUARY 1988 QUARTERLY INDUSTRIAL TRENDS SURVEY

No. 107

Total Response:1373 Trade Response:925

Conducted between 21 December 1987 and 13 January 1988

The January Industrial Trends Survey shows that business confidence remains good and the prospects for sustainable economic growth are satisfactory. Demand growth is expected to decelerate along with manufacturing output. There are few signs of overheating and investment intentions remain strong. Although price rises are expected to pick up, in line with costs, the employment situation is good with further increases in manufacturing jobs expected.

During the Survey period the pound averaged $1.83 and DM2.978, compared with $1.639 and DM2.994 over the October Survey period. Sterling's effective exchange rate rose by 3.3% between the Survey periods.

Summary

- Business confidence remains buoyant, with a balance of +11% of respondents indicating that they are more optimistic than in October.
- The strong growth in demand has been maintained and order books are now reported, at +20%, to be more above normal than at any time since the question was first asked. Demand is now more broadly based, with capital goods industries also reporting above normal order books. The rate of growth in orders is expected to slow down over the next four months for most industrial sectors.
- The rate of growth in manufacturing output has accelerated. A balance of +31% recorded a rise in output over the past four months, with +26% anticipating output to grow over the coming months. The slow down in output growth is expected in virtually all industries, although the largest firms continue to expect strong growth.
- The proportion of firms operating below capacity has fallen to 35%, the lowest since the question was first asked in June 1958. However, there are still few signs of overheating, and fixed capacity as a constraint to output has eased. The proportion of firms whose output is constrained by shortages of plant capacity has fallen from 24% in October 1987 to 21% now. Investment intentions remain strong and 87% of firms report their capacity is at least adequate to meet expected demand.
- For the second Survey in succession, an upturn in employment is indicated. A balance of +9% reported an increase in numbers employed over the past four months. The most rapid employment growth remains among small firms, and the largest firms now also expect some gains in the future.
- Unit costs have risen more slowly in the past four months and this has been reflected in output price inflation, which has remained modest. As in the January results of previous years, an acceleration in factory gate prices is expected in the next four months, in line with the expected pick-up in costs.
- Optimism about exports has declined sharply. A balance of -7% in the current survey compares with +14% recorded in October, although the rate of growth in export orders has picked up in the past four months. Export prices have also acclerated, at a rate less then expected but are now expected to pick up further over the next four months.

THE RESULTS

General Business Situation

	Oct 1987	Jan 1988
More optimistic (%)	31	23
Less optimistic (%)	8	12
Balance (%)	+23	+11

The outlook for industry remains buoyant, with a balance of +11% of respondents indicating that they are more optimistic about the general business situation than in October. Amongst the broad industrial sectors, an upward trend in optimism in 'food, drink and tobacco' and 'electrical and instrumental engineering', contrasts with lower levels of confidence in 'chemicals' and 'textiles'.

Individual industries more optimistic than previously include 'heavy industrial plant', 'metal working machine tools' and 'hosiery and knitwear'. 'Non-ferrous metals', 'glass and ceramics', 'wool textiles', 'industrial chemicals', 'office machinery and data processing equipment' are, however, less optimistic than in October. The capital goods industries report growing optimism, while intermediate and consumer goods industries are less optimistic than in the last Survey.

Orders, Output and Stocks

● **Total New Orders**

	Jan 1988 Past 4 mths	Jan 1988 Next 4 mths
Up (%)	40	30
Down (%)	14	14
Balance (%)	+26	+16

The rate of growth in demand observed since the April 1987 Survey has been maintained. A balance of +26% of firms reported an upward trend in the volume of total new orders over the past four months, consistent with their expectations in October. This is reflected in the continued strengthening of total order books. A balance of +20% of respondents reported total new order books to be above normal, up from +10% in October. This is the highest quarterly balance since this question was first in April 1977. The forward looking balance shows a fall to +16%, suggesting that the growth in new orders will slacken in the first quarter of 1988.

The growth in orders is broadly based with high positive balances being recorded by 'food, drink and tobacco', 'other manufacturing', mechanical engineering' sectors of industry, and by firms with under 5,000 employees. For individual industries, the strongest balances are recorded by 'office machinery and data processing equipment', 'engineers' small tools', 'drink and tobacco', 'glass and ceramics' and 'heating, ventilating and refrigerating equipment'. Order books are substantially above normal for the broad industrial sectors particularly 'chemicals', motor vehicles and other transport equipment' and for the largest firms with over 5,000 employees. The capital goods industries now report above normal order books, contrasting with the position in October, and in line with the more rapid growth in demand experienced over the past four months.

Looking ahead, the trend in demand growth is expected to turn down in the first quarter of 1988 for many, but not all main sectors of industry. 'Chemicals', 'electrical and instrument engineering', 'mechanical engineering' expect demand growth to weaken while 'electrical and instrument engineering' and the capital goods industries anticipate a fall in the volume of total new orders. 'Metal manufacture', 'food, drink and tobacco' and 'paper, printing and publishing' envisage a continuation in the trend growth of demand over the next four months. Individual industries expecting a weakening in demand for their products in the first quarter of 1988 include 'electrical industrial goods', 'other mechanical engineering', 'plastics products', 'man-made fibres' and 'heating, ventilating and refrigerating equipment'. Demand is expected to remain strong for 'drink and tobacco', 'textile consumer goods', 'furniture, upholstery and bedding' industries, and 'non-ferrous metals'.

● **Volume of output**

	Jan 1988 Past 4 mths	Jan 1988 Next 4 mths
Up (%)	40	32
Down (%)	9	6
Balance (%)	+31	+26

The rate of growth in the volume of output has accelerated, exceeding the expectations in October that the rate of increase would remain steady. A balance of +31% of respondents report an increase in output over the past four months, compared with +19% in October. The forward looking balance of +26% suggests that manufacturing output will revert to the rate of growth observed in the April and July 1987 Surveys. These results are consistent with the trends in new orders and total order books. According to the CSO, manufacturing output is currently expanding at an annual rate of 6.0% and this rate of increase may be expected to slacken on a quarter-on-quarter basis in the first quarter of 1988.

The increase in output encompasses most industrial sectors, with the rate of growth being particularly rapid for capital goods industries and the largest firms. Growth in output has resumed in 'food, drink and tobacco', after the negative balance reported in the October Survey. For individual industries, output growth has accelerated strongly in 'extraction of minerals and metalliferous ores', 'non-ferrous metals', 'hand tools and implements' and 'electrical consumer goods'. Output has also picked up in 'heavy industrial plant', 'agricultural machinery' and 'man-made fibres', after the sharp falls reported in October. Significant declines are, however, reported by 'shipbuilding', 'coal and petroleum products' and 'wool textiles'.

Over the next four months, output growth is expected to slow down in most industrial sectors, medium sized firms and the capital and intermediate goods industries. The trends for a few individual industries indicate a pick-up in output in 'motor vehicles', 'shipbuilding' and 'pharmaceuticals and consumer chemicals'. The largest firms with over 5,000 employees also expect strong growth in the first quarter of 1988.

• Stocks of finished goods

	Jan 1988 Past 4 mths	Jan 1988 Next 4 mths
Up (%)	12	15
Down (%)	20	17
Balance (%)	-8	-2

Over the past four months, the downward trend in the volume of stocks of finished goods has continued at the rate prevailing since October 1986. The balance of respondents expecting the downward trend to continue is, at -2%, a little less than the balance reporting a downward trend over the last four months. Some restocking is expected amongst the small and medium sized firms with under 500 employees.

The faster rate of growth in output has led to some reduction in stocks of raw materials and brought-in supplies, with a balance of -1% being reported for the past four months. The forward looking balance of -1% indicates that respondents anticipate modest destocking to continue in the coming months. The trend in the volume of work in progress has continued to be upward since July, in line with the strong growth in output. Looking ahead, however, a balance of -3% of respondents expect these stocks to fall in the first quarter of 1988 and follow output expectations.

• Constraints on Output

A shortage of orders or sales, although remaining the most-cited constraint to output is cited by only 67% of respondents in the present Survey, compared with 65% in October 1987, itself the lowest since before the 1980 recession.

Plant capacity remains the second most frequently cited constraint to output over the next four months. The percentage of respondents citing this factor has, however, fallen from 24% in October to 21% in the current Survey. The easing of this constraint is especially significant in 'food, drink and tobacco', 'metal products', and 'chemicals' sectors.

The shortage of skilled labour is cited by 20% of respondents as the third most important factor limiting output, compared with 19% in the October Survey. The overall picture, does, however, hide a deteriorating position for medium sized firms with 500 to under 5000 employees. Individual sectors experiencing significant skilled labour shortages include the engineering industries and textiles.

Fixed Capacity

	Oct 1988 Past 4 mths	Jan 1988 Next 4 mths
More than adequate(%)	25	23
Less than adequate(%)	15	13
Balance (%)	+10	+10

Fixed capacity remains adequate to meet expected demand, but the degree of spare capacity has fallen further since the October

Survey. The balance of respondents reporting fixed capacity to be more than adequate has remained steady since October at +10%, itself the lowest balance since the question was first asked in October 1979. However, 87% of respondents indicate fixed capacity to be at least adequate or to meet future demand, compared with 85% in the October Survey.

Problems with fixed capacity constraints are more important for the largest firms which have seen rapid output growth. In the 'chemicals' sector a balance of only -3% report fixed capacity to be less than adequate, compared with -17% in October. 'Textiles', however, report a balance of -10% indicating inadequate capacity in the current Survey.

The proportion of respondents reporting their present level of output to be below capacity has fallen to 35%, the lowest since the question was first asked in June 1958. The upward trend in the proportion of firms operating at capacity, particularly marked since January 1987, when taken with the sustained increase in demand and output, indicates the need for investment in industrial capacity. Individual industries reporting high levels of capacity utilisation include 'industrial chemicals', 'pharmaceutical and consumer chemicals', 'electronic industrial goods', 'drink and tobacco' and 'pulp, paper and board'.

Capital Expenditure - Plant and Machinery

	Oct 1987 Pst 12 mths	Jan 1988 Nxt 12 mths
More (%)	37	38
Less (%)	20	18
Balance (%)	+17	+20

Investment intentions in plant and machinery twelve months ahead remain strong, indicating a slight pick-up in the rate of growth in manufacturing investment. A balance of +20% of respondents expects to authorise more capital expenditure over the next twelve months than in the past twelve months. All sectors of industry, apart from 'motor vehicles and other transport equipment' show positive balances. Investment is expected to increase most rapidly in 'food, drink and tobacco' and 'paper, printing and publishing' sectors. Investment intentions in buildings indicate a small positive balance reverting to the position in the July Survey and suggest some capital spending for expansion purposes in the next twelve months.

Increasing efficiency continues to be the most frequently cited reason for authorisation of capital expenditure. It is cited by 78% of all firms in the current Survey, compared with 75% in October, while for 'capital goods industries' the proportion has risen from 66% to 78% between the two Surveys. The increased importance of providing adequate capacity to underpin the sustained growth of output is evident in this Survey. The percentage of respondents citing the expansion of capacity as a main reason for capital expenditure has risen to 42% compared with 34% in October, and is the highest since this question was first asked in October 1979. For 'consumer goods industries', this proportion has increased from 31% in October to 54% in the current Survey. Replacement is cited as the main reason by 52% of respondents.

An inadequate net return on the proposed investment remains the most important factor likely to limit capital expenditure authorisation, cited by 46% of respondents. Uncertainty about demand is cited by 39% compared with 33% in October and 41% a year ago. The modest increase between the two Surveys provides evidence of continued business confidence in the sustainability of the growth in demand despite lower equity prices and currency instability. A shortage of internal finance is the third most important constraint on investment, cited by 20% of respondents. With the fall in interest rates to 8.5% in early December 1987, the proportion of firms citing the cost of finance as a major constraint has fallen to only 6%. A shortage of labour continues to remain unimportant, cited by 6%.

Employment

	Jan 1988 Past 4 mths	Jan 1988 Next 4 mths
Up (%)	27	26
Down (%)	18	18
Balance (%)	+9	+8

The trend in manufacturing employment for the moment is upward. The balance of +9% of firms reporting a rising trend in employment over the past four months compares with +4% in October and represents the highest positive balance since January 1974. The smallest firms, employing under 200 employees, continue to show the strongest growth in employment. The largest firms, employing more than 5,000 employees continue to shed jobs, although at a much reduced rate.

The improvement in employment is indicated for all sectors of industry. The capital goods industries have now registered a strong positive balance of +10%, although significant reductions, albeit at a slower rate, are still occurring in the 'food, drink and tobacco' and 'metal manufacture' sectors. Strong growth in numbers employed is reported by 'heating, ventilating amd refrigerating equipment', 'leather and leather goods', 'spinning and weaving' and by 'hand tools and implements' and 'industrial engines, pumps and compressors'. 'Timber, wooden products other than furniture', 'textile consumer goods' and 'motor vehicles' continue to show high and stable jobs growth.

Looking ahead, further increases in employment are expected for a balance of +8% of respondents, with the smallest firms leading the way. Firms with over 5,000 employees now expect job gains over the next four months, while capital goods industries expect the last four months' growth to continue. Falls in numbers employed are expected in intermediate goods industries and in the 'chemicals' and 'metal manufacture' sectors.

Costs and Prices

- **Costs**

	Jan 1988 Past 4 mths	Jan 1988T Next 4 mths
Up (%)	27	39
Down (%)	11	6
Balance (%)	+16	+33

Average costs per unit of output have increased more slowly in the fourth quarter of 1987. The balance of firms reporting an upward trend over the past four months has fallen to +16%, compared with +22% in October. This outturn is lower than expected and reflects the fall on a seasonally adjusted basis in the cost of materials and fuels purchased by manufacturing industry in October and November. Unit labour costs increased marginally, helped by a rise of nearly 7.5% in productivity in the three months ended in October, compared with a year earlier. The slow down in costs is broadly based with absolute falls being reported by capital goods industries and the 'electrical and instrument engineering' sector. Consumer goods industries and the 'food, drink and tobacco' sector report, however, an upward trend in costs, as do individual industries including 'man-made fibres' and 'heavy industrial plant'.

The outlook for early 1988 is for a significant acceleration in costs, with firms having 500 to 5,000 employees and intermediate goods industries expecting notable increases. Costs are now expected to pick up sharply for capital goods industries and the 'electrical and instrument engineering' sector. The upward trend in costs is widely based in the main industrial sectors, with above average increases anticipated in 'paper, printing and publishing' and 'metal products', balanced by moderate increases in 'food, drink and tobacco' and 'chemicals'.

- **Prices**

	Jan 1988 Past 4 mths	Jan 1988 Next 4 mths
Up (%)	24	43
Down (%)	6	4
Balance (%)	+18	+39

Average prices at which domestic orders are booked have risen a little slower than expected, in line with the less than expected increase in costs over the past four months. A balance of +18% of respondents report an upward trend in prices, the same as in the October Survey. Main sectors reporting a lower rate of price increase include 'food, drink and tobacco', 'paper, printing and publishing' and 'all other manufacturing', while price reductions are indicated by 'electrical and instrument engineering'. More rapid increases in average prices, however, are recorded by 'metal manufacture' and 'motor vehicles other transport equipment' sectors. Official statistics indicate that output prices rose by under 4% on a year-on-year basis in the fourth quarter, a modest increase on the 3.5% annual rate in the third quarter.

The balance of +39% of respondents expecting prices to rise over the next four months, in line with the upward trend in costs, indicates that a pick-up in factory gate prices can be expected over the coming months.

Exports

• Export Prospects

	Oct 1987	Jan 1988
More optimistic (%)	26	15
Less optimistic (%)	12	22
Balance (%)	+14	-7

Business optimism about export prospects has declined sharply since the October Survey, with a negative balance of -7% indicated by the current Survey. This compares with +14% in the October Survey and is similar to the turn-round experienced between April and July 1986. The fall in optimism is reported by all main industrial sectors with particularly sharp falls in business confidence being reported by 'paper, printing and publishing' and 'other manufacturing' sectors.

• New Export Orders

	Jan 1988 Past 4 mths	Jan 1988 Next 4 mths
Up (%)	28	20
Down (%)	14	13
Balance (%)	+14	+7

The rate of increase in new export orders has risen strongly in the fourth quarter after the slow down in the previous quarter. Growth has been notable for the largest firms, capital goods industries and the 'chemicals' and 'mechanical engineering' sectors. The balance of respondents expecting an upward trend in the volume of new orders over the next four months, at only +7%, indicates a slower rate of growth in the first quarter of 1988. Medium sized firms expect a sharp slackening in export orders, while the smallest firms anticipate a stable growth and the largest firms a pick-up in the rate of increase. The downward trend in the growth of orders is expected to be significant for consumer goods industries and 'food, drink and tobacco'.

• Export Prices

	Jan 1988 Past 4 mths	Jan 1988 Next 4 mths
Up (%)	19	34
Down (%)	8	8
Balance (%)	+11	+26

The rate of increase in the average prices at which export orders are booked, picked up in the fourth quarter, with the balance of respondents reporting an upward trend rising from +6% in the October Survey to +11%. This acceleration was less marked than had been expected, and primarily affected the larger firms, the intermediate and capital goods industries as well as the 'chemicals' and 'metal manufacture' sectors. A further acceleration is now anticipated in the first quarter of 1988, with the forward looking balance standing at +26%. This increase is expected throughout the main industrial sectors, with only 'metal manufacture' not expecting to raise its prices in export markets.

Prices remain the most important factor limiting the ability to obtain export orders, being cited by 56% of respondents, the same as in October. Delivery dates are cited by 17% of respondents, compared with 15% in the October Survey. Political and economic conditions abroad remain, however, a more important factor cited by 29% of respondents, 1 percentage point higher than in October.

NOTES

Respondents directly account for over half of manufacturing employment and approaching half the country's manufactured exports. The replies are weighted to take account of the firm's industry, net output and employment size; amd separate information is used for the questions relating to exports.

The Industrial Trends Survey, introduced in 1958, is conducted quarterly. In addition, the CBI carries out an abbreviated Enquiry in the intervening months, which also represents part of the harmonised EEC Business Survey. The questions are qualitative and most refer to changes rather than levels and to the immediate past or future. Our own disaggregation now provides results for 50 individual industries, which have been defined to reflect the 1980 SIC classification, and disaggregated results are available on subscription.

The 1980 SIC changed the total coverage of manufacturing to include non-energy extraction (which was previously outside manufacturing) and to exclude all energy based manufacturing activities, such as oil refining, which used to be within manufacturing. The Survey has therefore been extended to include non-energy extraction and results are available for both the old and new bases of manufacturing. No significant differences seem apparent between the results for these two definitions for total manufacturing. New weights were obtained from, and with the assistance of, the Government's Business Statistics Offfice and are based on the 1980 Annual Census of Production.

Please contact the CBI's Economic Trends Department (01-379-7400) for more details.

CBI INDUSTRIAL TRENDS SURVEY: SUMMARY OF RESULTS FROM OCTOBER 1986 TO JANUARY 1988

(All figures are percentage balances * except where otherwise stated)

TOTAL TRADE		Oct 86	Jan 87	Apr 87	Jul 87	Oct 87	Jan 88
1 Optimism re business situation		0	+12	+29	+25	+23	+11
3 12 month forecast of capital expenditure authorisations compared with previous 12 months on:							
a buildings		-13	-10	- 3	+ 1	- 3	+ 1
b plant and machinery		+ 8	+10	+13	+20	+17	+20
4 Firms working below capacity[1]		49	50	49	45	41	35
6 Numbers employed	- past 4 months	-17	-16	-10	- 7	+ 4	+ 9
	- next 4 months	-19	- 9	- 4	- 3	+ 2	+ 8
7 Volume of new orders	- past 4 months	0	+14	+26	+24	+25	+26
	- next 4 months	+18	+20	+25	+25	+25	+16
8 Volume of output	- past 4 months	- 1	+ 9	+24	+23	+19	+31
	- next 4 months	+13	+15	+25	+23	+25	+26
10a Stocks of raw materials	- past 4 months	- 4	- 8	- 6	+ 3	0	- 1
	- next 4 months	-19	- 6	- 6	- 3	- 8	- 1
b Stocks of work in progress	- past 4 months	- 2	- 8	- 5	+ 6	+ 7	+ 7
	- next 4 months	-12	- 5	- 6	+ 1	+ 1	- 3
c Stocks of finished goods	- past 4 months	- 7	- 6	- 7	- 4	- 7	- 8
	- next 4 months	-14	- 5	- 8	- 5	- 8	- 2
11 Average unit costs	- past 4 months	+ 6	+15	+25	+10	+22	+16
	- next 4 months	+11	+29	+18	+11	+19	+33
12a Average domestic prices	- past 4 months	+ 3	+13	+20	+16	+18	+18
	- next 4 months	+14	+30	+26	+19	+23	+39
14 Four month forecast of factors likely to limit output[1]							
Orders or sales		75	82	72	69	65	67
Skilled labour		12	9	12	18	19	20
Other labour		1	1	2	3	5	4
Plant capacity		13	15	25	22	24	21
Credit or finance		4	3	4	3	3	3
Materials/components		6	5	4	6	8	8
Other		3	2	2	4	2	3

EXPORT TRADE		Oct 86	Jan 87	Apr 87	Jul 87	Oct 87	Jan 88
2 Optimism re export prospects		+11	+20	+24	+24	+14	- 7
7b Volume of new export orders	- past 4 months	-11	+ 7	+15	+23	+ 9	+14
	- next 4 months	+15	+21	+20	+17	+17	+ 7
9b Volume of export deliveries	- past 4 months	- 5	+ 7	+15	+23	+13	+22
	- next 4 months	+11	+21	+22	+21	+21	+11
12b Average export prices	- past 4 months	0	+ 9	+18	+ 9	+ 6	+11
	- next 4 months	+20	+29	+15	+13	+21	+26
15 Four month forecast of factors likely to limit export orders[1]							
Prices		61	61	59	60	56	56
Delivery dates		13	13	15	12	15	17
Credit or finance		12	9	9	13	6	11
Quota and licence		13	11	10	13	11	12
Political/economic conditions abroad		29	26	25	28	28	29
Other		11	10	10	9	13	10

1 Percentage Figures

CBI Monthly Trends Enquiry: Time Series of results from February 1987 to January 1988

In the intervening months between the main quarterly Industrial Trends Surveys the CBI carries out a much abbreviated monthly Trends Enquiry. In the latter participants are only asked to answer five questions. These five questions are also included in the main quarterly Survey and the table below sets out the time series of results for the past year.

		Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
1a Total Order Book	(Q.5a)*	+ 2	+ 4	+ 1	+10	+ 3	+ 6	+11	+ 9	+10	+13	+18	+20
1b Export Order Book	(Q.5b)	- 2	0	- 6	0	+ 9	+10	+ 5	+ 3	+ 1	+11	+ 4	+ 5
2 Stocks	(Q.5c)	+ 6	+ 7	+ 5	0	- 1	+ 1	- 1	+ 3	- 7	- 5	+ 2	- 1
3 Volume of Output	(Q.8)	+29	+34	+25	+31	+37	+23	+38	+30	+25	+36	+31	+26
4 Average Prices	(Q.12a)	+34	+25	+26	+28	+19	+19	+21	+20	+23	+28	+31	+39

* question number in quarterly survey

* The 'balance' is the difference between those replying 'more', 'up', 'above normal' or 'more than adequate' and those replying 'less', 'down', 'below normal' or 'less than adequate'.

EDTRENDS 1P

Industrial Trends Survey:
summary of results
January 1988

CBI CONFEDERATION OF BRITISH INDUSTRY

Number of RESPONDENTS: Total Trade Questions **1373**

Export Trade Questions **925**

Number of RESPONDENTS in each employment size group:

(a) 0–199 **753** (b) 200–499 **335** (c) 500–4,999 **263** (d) 5,000 and over **22**

		More	Same	Less	N/A
1	Are you more, or less, optimistic than you were four months ago about the general business situation in your industry	23	65	12	
2	Are you more, or less, optimistic about your export prospects for the ~~next twelve~~ months than you were four months ago	15	62	22	1
3	Do you expect to authorise more or less capital expenditure in the next twelve months than you authorised in the past twelve months on: a. buildings	21	43	20	16
	b. plant and machinery	38	40	18	3

		Yes	No	N/A
4	Is your present level of output below capacity (i.e. are you working below a satisfactory full rate of operation)	35	63	1

5 Excluding seasonal variations, do you consider that in volume terms:

	Above Normal	Normal	Below Normal	N/A
a. Your present total order book is	33	54	13	1
b. Your present export order book is ***(firms with no order book are requested to estimate the level of demand)***	26	51	21	2

	More than Adequate	Adequate	Less than Adequate	N/A
c. Your present stocks of finished goods are	10	64	11	14

Excluding seasonal variations, what has been the trend over the PAST FOUR MONTHS, and what are the expected trends for the NEXT FOUR MONTHS, with regard to:

	Trend over PAST FOUR MONTHS				Expected trend over NEXT FOUR MONTHS			
	Up	Same	Down	N/A	Up	Same	Down	N/A
6 Numbers employed	27	55	18	+	26	55	18	+
7 Volume of total new orders	40	43	14	3	30	53	14	3
of which: a. domestic orders	42	44	12	3	30	56	11	3
b. export orders	28	56	14	2	20	65	13	2
8 Volume of output	40	50	9	+	32	61	6	1
9 Volume of: a. domestic deliveries	46	43	10	1	35	57	6	1
b. export deliveries	31	58	9	2	22	65	11	2
10 Volume of stocks of: a. raw materials and brought in supplies	17	63	18	2	13	70	14	2
b. work in progress	23	57	16	4	13	67	16	4
c. finished goods	12	54	20	14	15	55	17	14

UK

Excluding seasonal variations, what has been the trend over the LAST FOUR MONTHS, and what are the expected trends for the NEXT FOUR MONTHS, with regard to:

	Trend over PAST FOUR MONTHS				Expected trend over NEXT FOUR MONTHS			
	Up	Same	Down	N/A	Up	Same	Down	N/A
11 Average costs per unit of output	27	61	11	1	39	54	6	1
12 Average prices at which: a. domestic orders are booked	24	70	6	1	43	53	4	1
b. export orders are booked	19	71	8	3	34	55	8	3

13 Approximately how many months' production is accounted for by your present order book or production schedule.

Less than 1	1-3	4-6	7-9	10-12	13-18	More than 18	N/A
16	46	14	2	5	1	3	13

14 What factors are likely to limit your output over the next four months. Please tick the most important factor or factors.

Orders or Sales	Skilled Labour	Other Labour	Plant Capacity	Credit or Finance	Materials or Components	Other
67	20	4	21	3	8	3

15 What factors are likely to limit your ability to obtain export orders over the next four months. Please tick the most important factor or factors.

Prices (compared with overseas competition)	Delivery Dates (compared with overseas competition)	Credit or Finance	Quota & Import Licence Restrictions	Political or Economic Conditions Abroad	Other
56	17	11	12	29	10

16 a. In relation to expected demand over the next twelve months is your present fixed capacity :

More than adequate	adequate	less than adequate
23	64	13

b. What are the main reasons for any expected CAPITAL EXPENDITURE AUTHORISATIONS ON BUILDINGS, PLANT OR MACHINERY over the next twelve months

to expand capacity	42	other *(please specify)*	7
to increase efficiency	78	N/A	5
for replacement	52		

c. What factors are likely to limit (wholly or partly) your capital expenditure authorisations over the next twelve months

Inadequate net return on proposed investment	46	Uncertainty about demand	39
Shortage of internal finance	20	Shortage of labour including Managerial and Technical Staff	6
Inability to raise external finance	1	Other *(please specify)*	2
Cost of finance	6	N/A	12

INDIVIDUAL INDUSTRIES IN THE CBI INDUSTRIAL TRENDS SURVEY

FOOD, DRINK AND TOBACCO
Food; drink and tobacco.

CHEMICALS, COAL AND PETROLEUM PRODUCTS
Industrial and agricultural products; consumer chemicals; synthetic resins and plastics.

METAL MANUFACTURE
Ferrous metals; non-ferrous metals.

MECHANICAL AND INSTRUMENT ENGINEERING
Agricultural machinery; machine tools; industrial engines; textile machinery; contractors' plant; industrial and office machinery; heating, refrigerating and ventilating equipment; heavy industrial plant; construction steelwork; other mechanical engineering; instrument engineering.

ELECTRICAL ENGINEERING
Power and industrial electric goods; electronic goods; electric consumer goods.

SHIPBUILDING, MARINE ENGINEERING AND VEHICLES
Shipbuilding and marine engineering; motor vehicles; other vehicles.

METAL GOODS NOT ELSEWHERE SPECIFIED
Engineers' small tools and gauges; hand tools and implements; fabricated metal goods.

TEXTILES
Man-made fibres; spinning and weaving; wool textiles; hosiery and knitwear; other textiles; clothing and fur; leather and leather goods; footwear.

OTHER MANUFACTURING
Building materials; timber and wooden products; furniture etc.; glass and ceramics; paper and paper products; printing and publishing; rubber; miscellaneous manufacturing.

The full analysis of the results is available on a subscription basis. The annual subscription is £75 (CBI members £30) and can

CONFIDENTIAL

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FROM: SIR T BURNS
DATE: 21 JANUARY 1988

CHANCELLOR

cc Sir P Middleton
Mr Sedgwick
Mr Pickford

CBI ECONOMIC TRENDS SURVEY

You asked me to comment on the results of the latest CBI Survey, which was handed to you by Sir David Nickson last night. At first sight, the Survey (to be published on Tuesday) seems to be a mixed bag; a number of the indicators are giving contradictory messages. I attach some tables with my own estimates of seasonally adjusted figures; and charts showing both adjusted and unadjusted balances.

2. The questions directly relating to output and orders point to continued strong output growth:

- the total order book seems to be very strong; the balance has been rising steadily since mid-1986 and the latest observation is very high;

- export orders also seem to be high; the seasonally adjusted balance has not changed much over the past 8 months;

- output seems to have grown rapidly over the past 4 months and the balance expecting continued output growth over the next 4 months has also not changed much over the past year. Nevertheless CBI interpret the answers as implying some easing of growth in the next 4 months.

3. In contrast the optimism/pessimism and new orders indicators are showing some signs of weakness:

- taken literally the answers on business optimism point to a further increase but the balance is much smaller than in the second half of 1987;

- the turn-round on exports optimism is even more striking;

- expectations of total and export new orders show some weakening.

This suggests to me that confidence has been affected over the past three months but that so far there are no signs of this having shown up in order books - although the expected rise in the volume of new orders over the next few months is less than in recent quarters. One obvious explanation is the stronger exchange rate - particularly against the dollar. Another is the stock market crash and general doubts about the outlook that were being expressed in December. The balance on business optimism has tended to lead the cycle and may be a sign of slowdown to come - but the outcome will clearly depend on whether worries about future orders are realised. I expect the CSO's longer leading indicators to continue to show a sharp decline.

4. The answers on capacity utilisation appear to be inconsistent. The balance of the number of firms working below capacity is the lowest since the question was first asked in 1958. But there is no increase in numbers of firms being constrained by plant capacity - and although more are quoting skilled labour shortages? the figure remains low by past standards. This suggests that there are no current capacity worries. One possible explanation is that investment will pick up to increase capacity; and the investment intentions question points in this direction. However, the squeeze on capacity is clearly tightening.

5. The inflation indicators have deteriorated; but after seasonal adjustment only slightly. The chart for price expectations shows a small but gradual deterioration over the past 12 months - seasonally adjusted, the balance is now at its highest level for three years. Cost figures are difficult to interpret. The figures for January are higher than a year ago but the difference is small.

pp T BURNS

To BE RELEASED BY CBI
1100 on TUESDAY 26th JAN

SURVEY REPORTS

JANUARY 1988 QUARTERLY INDUSTRIAL TRENDS SURVEY

No. 107

Total Response:1373 Trade Response:925

Conducted between 21 December 1987 and 13 January 1988

The January Industrial Trends Survey shows that business confidence remains good and the prospects for sustainable economic growth are satisfactory. Demand growth is expected to decelerate along with manufacturing output. There are few signs of overheating and investment intentions remain strong. Although price rises are expected to pick up, in line with costs, the employment situation is good with further increases in manufacturing jobs expected.

During the Survey period the pound averaged \$1.83 and DM2.978, compared with \$1.639 and DM2.994 over the October Survey period. Sterling's effective exchange rate rose by 3.3% between the Survey periods.

Summary

- Business confidence remains buoyant, with a balance of +11% of respondents indicating that they are more optimistic than in October.
- The strong growth in demand has been maintained and order books are now reported, at +20%, to be more above normal than at any time since the question was first asked. Demand is now more broadly based, with capital goods industries also reporting above normal order books. The rate of growth in orders is expected to slow down over the next four months for most industrial sectors.
- The rate of growth in manufacturing output has accelerated. A balance of +31% recorded a rise in output over the past four months, with +26% anticipating output to grow over the coming months. The slow down in output growth is expected in virtually all industries, although the largest firms continue to expect strong growth.
- The proportion of firms operating below capacity has fallen to 35%, the lowest since the question was first asked in June 1958. However, there are still few signs of overheating, and fixed capacity as a constraint to output has eased. The proportion of firms whose output is constrained by shortages of plant capacity has fallen from 24% in October 1987 to 21% now. Investment intentions remain strong and 87% of firms report their capacity is at least adequate to meet expected demand.
- For the second Survey in succession, an upturn in employment is indicated. A balance of +9% reported an increase in numbers employed over the past four months. The most rapid employment growth remains among small firms, and the largest firms now also expect some gains in the future.
- Unit costs have risen more slowly in the past four months and this has been reflected in output price inflation, which has remained modest. As in the January results of previous years, an acceleration in factory gate prices is expected in the next four months, in line with the expected pick-up in costs.
- Optimism about exports has declined sharply. A balance of -7% in the current survey compares with +14% recorded in October, although the rate of growth in export orders has picked up in the past four months. Export prices have also acclerated, at a rate less then expected but are now expected to pick up further over the next four months.

THE RESULTS

General Business Situation

	Oct 1987	Jan 1988
More optimistic (%)	31	23
Less optimistic (%)	8	12
Balance (%)	+23	+11

The outlook for industry remains buoyant, with a balance of +11% of respondents indicating that they are more optimistic about the general business situation than in October. Amongst the broad industrial sectors, an upward trend in optimism in 'food, drink and tobacco' and 'electrical and instrumental engineering', contrasts with lower levels of confidence in 'chemicals' and 'textiles'.

Individual industries more optimistic than previously include 'heavy industrial plant', 'metal working machine tools' and 'hosiery and knitwear'. 'Non-ferrous metals', 'glass and ceramics', 'wool textiles', 'industrial chemicals', 'office machinery and data processing equipment' are, however, less optimistic than in October. The capital goods industries report growing optimism, while intermediate and consumer goods industries are less optimistic than in the last Survey.

Orders, Output and Stocks

● **Total New Orders**

	Jan 1988 Past 4 mths	Jan 1988 Next 4 mths
Up (%)	40	30
Down (%)	14	14
Balance (%)	+26	+16

The rate of growth in demand observed since the April 1987 Survey has been maintained. A balance of +26% of firms reported an upward trend in the volume of total new orders over the past four months, consistent with their expectations in October. This is reflected in the continued strengthening of total order books. A balance of +20% of respondents reported total new order books to be above normal, up from +10% in October. This is the highest quarterly balance since this question was first in April 1977. The forward looking balance shows a fall to +16%, suggesting that the growth in new orders will slacken in the first quarter of 1988.

The growth in orders is broadly based with high positive balances being recorded by 'food, drink and tobacco', 'other manufacturing', mechanical engineering' sectors of industry, and by firms with under 5,000 employees. For individual industries, the strongest balances are recorded by 'office machinery and data processing equipment', 'engineers' small tools', 'drink and tobacco', 'glass and ceramics' and 'heating, ventilating and refrigerating equipment'. Order books are substantially above normal for the broad industrial sectors particularly 'chemicals', motor vehicles and other transport equipment' and for the largest firms with over 5,000 employees. The capital goods industries now report above normal order books, contrasting with the position in October, and in line with the more rapid growth in demand experienced over the past four months.

Looking ahead, the trend in demand growth is expected to turn down in the first quarter of 1988 for many, but not all main sectors of industry. 'Chemicals', 'electrical and instrument engineering', 'mechanical engineering' expect demand growth to weaken while 'electrical and instrument engineering' and the capital goods industries anticipate a fall in the volume of total new orders. 'Metal manufacture', 'food, drink and tobacco' and 'paper, printing and publishing' envisage a continuation in the trend growth of demand over the next four months. Individual industries expecting a weakening in demand for their products in the first quarter of 1988 include 'electrical industrial goods', 'other mechanical engineering', 'plastics products', 'man-made fibres' and 'heating, ventilating and refrigerating equipment'. Demand is expected to remain strong for 'drink and tobacco', 'textile consumer goods', 'furniture, upholstery and bedding' industries, and 'non-ferrous metals'.

● **Volume of output**

	Jan 1988 Past 4 mths	Jan 1988 Next 4 mths
Up (%)	40	32
Down (%)	9	6
Balance (%)	+31	+26

The rate of growth in the volume of output has accelerated, exceeding the expectations in October that the rate of increase would remain steady. A balance of +31% of respondents report an increase in output over the past four months, compared with +19% in October. The forward looking balance of +26% suggests that manufacturing output will revert to the rate of growth observed in the April and July 1987 Surveys. These results are consistent with the trends in new orders and total order books. According to the CSO, manufacturing output is currently expanding at an annual rate of 6.0% and this rate of increase may be expected to slacken on a quarter-on-quarter basis in the first quarter of 1988.

The increase in output encompasses most industrial sectors, with the rate of growth being particularly rapid for capital goods industries and the largest firms. Growth in output has resumed in 'food, drink and tobacco', after the negative balance reported in the October Survey. For individual industries, output growth has accelerated strongly in 'extraction of minerals and metalliferous ores', 'non-ferrous metals', 'hand tools and implements' and 'electrical consumer goods'. Output has also picked up in 'heavy industrial plant', 'agricultural machinery' and 'man-made fibres', after the sharp falls reported in October. Significant declines are, however, reported by 'shipbuilding', 'coal and petroleum products' and 'wool textiles'.

Over the next four months, output growth is expected to slow down in most industrial sectors, medium sized firms and the capital and intermediate goods industries. The trends for a few individual industries indicate a pick-up in output in 'motor vehicles', 'shipbuilding' and 'pharmaceuticals and consumer chemicals'. The largest firms with over 5,000 employees also expect strong growth in the first quarter of 1988.

• Stocks of finished goods

	Jan 1988 Past 4 mths	Jan 1988 Next 4 mths
Up (%)	12	15
Down (%)	20	17
Balance (%)	-8	-2

Over the past four months, the downward trend in the volume of stocks of finished goods has continued at the rate prevailing since October 1986. The balance of respondents expecting the downward trend to continue is, at -2%, a little less than the balance reporting a downward trend over the last four months. Some restocking is expected amongst the small and medium sized firms with under 500 employees.

The faster rate of growth in output has led to some reduction in stocks of raw materials and brought-in supplies, with a balance of -1% being reported for the past four months. The forward looking balance of -1% indicates that respondents anticipate modest destocking to continue in the coming months. The trend in the volume of work in progress has continued to be upward since July, in line with the strong growth in output. Looking ahead, however, a balance of -3% of respondents expect these stocks to fall in the first quarter of 1988 and follow output expectations.

• Constraints on Output

A shortage of orders or sales, although remaining the most-cited constraint to output is cited by only 67% of respondents in the present Survey, compared with 65% in October 1987, itself the lowest since before the 1980 recession.

Plant capacity remains the second most frequently cited constraint to output over the next four months. The percentage of respondents citing this factor has, however, fallen from 24% in October to 21% in the current Survey. The easing of this constraint is especially significant in 'food, drink and tobacco', 'metal products', and 'chemicals' sectors.

The shortage of skilled labour is cited by 20% of respondents as the third most important factor limiting output, compared with 19% in the October Survey. The overall picture, does, however, hide a deteriorating position for medium sized firms with 500 to under 5000 employees. Individual sectors experiencing significant skilled labour shortages include the engineering industries and textiles.

Fixed Capacity

	Oct 1988 Past 4 mths	Jan 1988 Next 4 mths
More than adequate(%)	25	23
Less than adequate(%)	15	13
Balance (%)	+10	+10

Fixed capacity remains adequate to meet expected demand, but the degree of spare capacity has fallen further since the October

Survey. The balance of respondents reporting fixed capacity to be more than adequate has remained steady since October at +10%, itself the lowest balance since the question was first asked in October 1979. However, 87% of respondents indicate fixed capacity to be at least adequate or to meet future demand, compared with 85% in the October Survey.

Problems with fixed capacity constraints are more important for the largest firms which have seen rapid output growth. In the 'chemicals' sector a balance of only -3% report fixed capacity to be less than adequate, compared with -17% in October. 'Textiles', however, report a balance of -10% indicating inadequate capacity in the current Survey.

The proportion of respondents reporting their present level of output to be below capacity has fallen to 35%, the lowest since the question was first asked in June 1958. The upward trend in the proportion of firms operating at capacity, particularly marked since January 1987, when taken with the sustained increase in demand and output, indicates the need for investment in industrial capacity. Individual industries reporting high levels of capacity utilisation include 'industrial chemicals', 'pharmaceutical and consumer chemicals', 'electronic industrial goods', 'drink and tobacco' and 'pulp, paper and board'.

Capital Expenditure - Plant and Machinery

	Oct 1987 Pst 12 mths	Jan 1988 Nxt 12 mths
More (%)	37	38
Less (%)	20	18
Balance (%)	+17	+20

Investment intentions in plant and machinery twelve months ahead remain strong, indicating a slight pick-up in the rate of growth in manufacturing investment. A balance of +20% of respondents expects to authorise more capital expenditure over the next twelve months than in the past twelve months. All sectors of industry, apart from 'motor vehicles and other transport equipment' show positive balances. Investment is expected to increase most rapidly in 'food, drink and tobacco' and 'paper, printing and publishing' sectors. Investment intentions in buildings indicate a small positive balance reverting to the position in the July Survey and suggest some capital spending for expansion purposes in the next twelve months.

Increasing efficiency continues to be the most frequently cited reason for authorisation of capital expenditure. It is cited by 78% of all firms in the current Survey, compared with 75% in October, while for 'capital goods industries' the proportion has risen from 66% to 78% between the two Surveys. The increased importance of providing adequate capacity to underpin the sustained growth of output is evident in this Survey. The percentage of respondents citing the expansion of capacity as a main reason for capital expenditure has risen to 42% compared with 34% in October, and is the highest since this question was first asked in October 1979. For 'consumer goods industries', this proportion has increased from 31% in October to 54% in the current Survey. Replacement is cited as the main reason by 52% of respondents.

An inadequate net return on the proposed investment remains the most important factor likely to limit capital expenditure authorisation, cited by 46% of respondents. Uncertainty about demand is cited by 39% compared with 33% in October and 41% a year ago. The modest increase between the two Surveys provides evidence of continued business confidence in the sustainability of the growth in demand despite lower equity prices and currency instability. A shortage of internal finance is the third most important constraint on investment, cited by 20% of respondents. With the fall in interest rates to 8.5% in early December 1987, the proportion of firms citing the cost of finance as a major constraint has fallen to only 6%. A shortage of labour continues to remain unimportant, cited by 6%.

Employment

	Jan 1988 Past 4 mths	Jan 1988 Next 4 mths
Up (%)	27	26
Down (%)	18	18
Balance (%)	+9	+8

The trend in manufacturing employment for the moment is upward. The balance of +9% of firms reporting a rising trend in employment over the past four months compares with +4% in October and represents the highest positive balance since January 1974. The smallest firms, employing under 200 employees, continue to show the strongest growth in employment. The largest firms, employing more than 5,000 employees continue to shed jobs, although at a much reduced rate.

The improvement in employment is indicated for all sectors of industry. The capital goods industries have now registered a strong positive balance of +10%, although significant reductions, albeit at a slower rate, are still occurring in the 'food, drink and tobacco' and 'metal manufacture' sectors. Strong growth in numbers employed is reported by 'heating, ventilating amd refrigerating equipment', 'leather and leather goods', 'spinning and weaving' and by 'hand tools and implements' and 'industrial engines, pumps and compressors'. 'Timber, wooden products other than furniture', 'textile consumer goods' and 'motor vehicles' continue to show high and stable jobs growth.

Looking ahead, further increases in employment are expected for a balance of +8% of respondents, with the smallest firms leading the way. Firms with over 5,000 employees now expect job gains over the next four months, while capital goods industries expect the last four months' growth to continue. Falls in numbers employed are expected in intermediate goods industries and in the 'chemicals' and 'metal manufacture' sectors.

Costs and Prices

- **Costs**

	Jan 1988 Past 4 mths	Jan 1988T Next 4 mths
Up (%)	27	39
Down (%)	11	6
Balance (%)	+16	+33

Average costs per unit of output have increased more slowly in the fourth quarter of 1987. The balance of firms reporting an upward trend over the past four months has fallen to +16%, compared with +22% in October. This outturn is lower than expected and reflects the fall on a seasonally adjusted basis in the cost of materials and fuels purchased by manufacturing industry in October and November. Unit labour costs increased marginally, helped by a rise of nearly 7.5% in productivity in the three months ended in October, compared with a year earlier. The slow down in costs is broadly based with absolute falls being reported by capital goods industries and the 'electrical and instrument engineering' sector. Consumer goods industries and the 'food, drink and tobacco' sector report, however, an upward trend in costs, as do individual industries including 'man-made fibres' and 'heavy industrial plant'.

The outlook for early 1988 is for a significant acceleration in costs, with firms having 500 to 5,000 employees and intermediate goods industries expecting notable increases. Costs are now expected to pick up sharply for capital goods industries and the 'electrical and instrument engineering' sector. The upward trend in costs is widely based in the main industrial sectors, with above average increases anticipated in 'paper, printing and publishing' and 'metal products', balanced by moderate increases in 'food, drink and tobacco' and 'chemicals'.

- **Prices**

	Jan 1988 Past 4 mths	Jan 1988 Next 4 mths
Up (%)	24	43
Down (%)	6	4
Balance (%)	+18	+39

Average prices at which domestic orders are booked have risen a little slower than expected, in line with the less than expected increase in costs over the past four months. A balance of +18% of respondents report an upward trend in prices, the same as in the October Survey. Main sectors reporting a lower rate of price increase include 'food, drink and tobacco', 'paper, printing and publishing' and 'all other manufacturing', while price reductions are indicated by 'electrical and instrument engineering'. More rapid increases in average prices, however, are recorded by 'metal manufacture' and 'motor vehicles other transport equipment' sectors. Official statistics indicate that output prices rose by under 4% on a year-on-year basis in the fourth quarter, a modest increase on the 3.5% annual rate in the third quarter.

The balance of +39% of respondents expecting prices to rise over the next four months, in line with the upward trend in costs, indicates that a pick-up in factory gate prices can be expected over the coming months.

Exports

• Export Prospects

	Oct 1987	Jan 1988
More optimistic (%)	26	15
Less optimistic (%)	12	22
Balance (%)	+14	-7

Business optimism about export prospects has declined sharply since the October Survey, with a negative balance of -7% indicated by the current Survey. This compares with +14% in the October Survey and is similar to the turn-round experienced between April and July 1986. The fall in optimism is reported by all main industrial sectors with particularly sharp falls in business confidence being reported by 'paper, printing and publishing' and 'other manufacturing' sectors.

• New Export Orders

	Jan 1988 Past 4 mths	Jan 1988 Next 4 mths
Up (%)	28	20
Down (%)	14	13
Balance (%)	+14	+7

The rate of increase in new export orders has risen strongly in the fourth quarter after the slow down in the previous quarter. Growth has been notable for the largest firms, capital goods industries and the 'chemicals' and 'mechanical engineering' sectors. The balance of respondents expecting an upward trend in the volume of new orders over the next four months, at only +7%, indicates a slower rate of growth in the first quarter of 1988. Medium sized firms expect a sharp slackening in export orders, while the smallest firms anticipate a stable growth and the largest firms a pick-up in the rate of increase. The downward trend in the growth of orders is expected to be significant for consumer goods industries and 'food, drink and tobacco'.

• Export Prices

	Jan 1988 Past 4 mths	Jan 1988 Next 4 mths
Up (%)	19	34
Down (%)	8	8
Balance (%)	+11	+26

The rate of increase in the average prices at which export orders are booked, picked up in the fourth quarter, with the balance of respondents reporting an upward trend rising from +6% in the October Survey to +11%. This acceleration was less marked than had been expected, and primarily affected the larger firms, the intermediate and capital goods industries as well as the 'chemicals' and 'metal manufacture' sectors. A further acceleration is now anticipated in the first quarter of 1988, with the forward looking balance standing at +26%. This increase is expected throughout the main industrial sectors, with only 'metal manufacture' not expecting to raise its prices in export markets.

Prices remain the most important factor limiting the ability to obtain export orders, being cited by 56% of respondents, the same as in October. Delivery dates are cited by 17% of respondents, compared with 15% in the October Survey. Political and economic conditions abroad remain, however, a more important factor cited by 29% of respondents, 1 percentage point higher than in October.

NOTES

Respondents directly account for over half of manufacturing employment and approaching half the country's manufactured exports. The replies are weighted to take account of the firm's industry, net output and employment size; amd separate information is used for the questions relating to exports.

The Industrial Trends Survey, introduced in 1958, is conducted quarterly. In addition, the CBI carries out an abbreviated Enquiry in the intervening months, which also represents part of the harmonised EEC Business Survey. The questions are qualitative and most refer to changes rather than levels and to the immediate past or future. Our own disaggregation now provides results for 50 individual industries, which have been defined to reflect the 1980 SIC classification, and disaggregated results are available on subscription.

The 1980 SIC changed the total coverage of manufacturing to include non-energy extraction (which was previously outside manufacturing) and to exclude all energy based manufacturing activities, such as oil refining, which used to be within manufacturing. The Survey has therefore been extended to include non-energy extraction and results are available for both the old and new bases of manufacturing. No significant differences seem apparent between the results for these two definitions for total manufacturing. New weights were obtained from, and with the assistance of, the Government's Business Statistics Offfice and are based on the 1980 Annual Census of Production.

Please contact the CBI's Economic Trends Department (01-379-7400) for more details.

CBI INDUSTRIAL TRENDS SURVEY: SUMMARY OF RESULTS FROM OCTOBER 1986 TO JANUARY 1988

(All figures are percentage balances * except where otherwise stated)

TOTAL TRADE		Oct 86	Jan 87	Apr 87	Jul 87	Oct 87	Jan 88
1 Optimism re business situation		0	+12	+29	+25	+23	+11
3 12 month forecast of capital expenditure authorisations compared with previous 12 months on:							
a buildings		-13	-10	- 3	+ 1	- 3	+ 1
b plant and machinery		+ 8	+10	+13	+20	+17	+20
4 Firms working below capacity[1]		49	50	49	45	41	35
6 Numbers employed	- past 4 months	-17	-16	-10	- 7	+ 4	+ 9
	- next 4 months	-19	- 9	- 4	- 3	+ 2	+ 8
7 Volume of new orders	- past 4 months	0	+14	+26	+24	+25	+26
	- next 4 months	+18	+20	+25	+25	+25	+16
8 Volume of output	- past 4 months	- 1	+ 9	+24	+23	+19	+31
	- next 4 months	+13	+15	+25	+23	+25	+26
10a Stocks of raw materials	- past 4 months	- 4	- 8	- 6	+ 3	0	- 1
	- next 4 months	-19	- 6	- 6	- 3	- 8	- 1
b Stocks of work in progress	- past 4 months	- 2	- 8	- 5	+ 6	+ 7	+ 7
	- next 4 months	-12	- 5	- 6	+ 1	+ 1	- 3
c Stocks of finished goods	- past 4 months	- 7	- 6	- 7	- 4	- 7	- 8
	- next 4 months	-14	- 5	- 8	- 5	- 8	- 2
11 Average unit costs	- past 4 months	+ 6	+15	+25	+10	+22	+16
	- next 4 months	+11	+29	+18	+11	+19	+33
12a Average domestic prices	- past 4 months	+ 3	+13	+20	+16	+18	+18
	- next 4 months	+14	+30	+26	+19	+23	+39
14 Four month forecast of factors likely to limit output[1]							
Orders or sales		75	82	72	69	65	67
Skilled labour		12	9	12	18	19	20
Other labour		1	1	2	3	5	4
Plant capacity		13	15	25	22	24	21
Credit or finance		4	3	4	3	3	3
Materials/components		6	5	4	6	8	8
Other		3	2	2	4	2	3

EX[illegible] TRADE		Oct 86	Jan 87	Apr 87	Jul 87	Oct 87	Jan 88
2 Optimism re export prospects		+11	+20	+24	+24	+14	- 7
7b Volume of new export orders	- past 4 months	-11	+ 7	+15	+23	+ 9	+14
	- next 4 months	+15	+21	+20	+17	+17	+ 7
9b Volume of export deliveries	- past 4 months	- 5	+ 7	+15	+23	+13	+22
	- next 4 months	+11	+21	+22	+21	+21	+11
12b Average export prices	- past 4 months	0	+ 9	+18	+ 9	+ 6	+11
	- next 4 months	+20	+29	+15	+13	+21	+26
15 Four month forecast of factors likely to limit export orders[1]							
Prices		61	61	59	60	56	56
Delivery dates		13	13	15	12	15	17
Credit or finance		12	9	9	13	6	11
Quota and licence		13	11	10	13	11	12
Political/economic conditions abroad		29	26	25	28	28	29
Other		11	10	10	9	13	10

1 Percentage Figures

CBI Monthly Trends Enquiry: Time Series of results from February 1987 to January 1988

In the intervening months between the main quarterly Industrial Trends Surveys the CBI carries out a much abbreviated monthly Trends Enquiry. In the latter participants are only asked to answer five questions. These five questions are also included in the main quarterly Survey and the table below sets out the time series of results for the past year.

		Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
1a Total Order Book	(Q.5a)*	+ 2	+ 4	+ 1	+10	+ 3	+ 6	+11	+ 9	+10	+13	+18	+20
1b Export Order Book	(Q.5b)	- 2	0	- 6	0	+ 9	+10	+ 5	+ 3	+ 1	+11	+ 4	+ 5
2 Stocks	(Q.5c)	+ 6	+ 7	+ 5	0	- 1	+ 1	- 1	+ 3	- 7	- 5	+ 2	- 1
3 Volume of Output	(Q.8)	+29	+34	+25	+31	+37	+23	+38	+30	+25	+36	+31	+26
4 Average Prices	(Q.12a)	+34	+25	+26	+28	+19	+19	+21	+20	+23	+28	+31	+39

* question number in quarterly survey

* The 'balance' is the difference between those replying 'more', 'up', 'above normal' or 'more than adequate' and those replying 'less', 'down', 'below normal' or 'less than adequate'.

EDTRENDS1P

Industrial Trends Survey: summary of results
January 1988

CBI CONFEDERATION OF BRITISH INDUSTRY

Number of RESPONDENTS: Total Trade Questions **1373**

Export Trade Questions **925**

Number of RESPONDENTS in each employment size group:

(a) 0–199 **753** (b) 200–499 **335** (c) 500–4,999 **263** (d) 5,000 and over **22**

		More	Same	Less	N/A
1	Are you more, or less, optimistic than you were four months ago about the general business situation in your industry	23	65	12	
2	Are you more, or less, optimistic about your export prospects for the ~~next twelve~~ months than you were four months ago	15	62	22	1
3	Do you expect to authorise more or less capital expenditure in the next twelve months than you authorised in the past twelve months on: a. buildings	21	43	20	16
	b. plant and machinery	38	40	18	3

		Yes	No	N/A
4	Is your present level of output below capacity (i.e. are you working below a satisfactory full rate of operation)	35	63	1

5 Excluding seasonal variations, do you consider that in volume terms:

	Above Normal	Normal	Below Normal	N/A
a. Your present total order book is	33	54	13	1
b. Your present export order book is *(firms with no order book are requested to estimate the level of demand)*	26	51	21	2

	More than Adequate	Adequate	Less than Adequate	N/A
c. Your present stocks of finished goods are	10	64	11	14

Excluding seasonal variations, what has been the trend over the PAST FOUR MONTHS, and what are the expected trends for the NEXT FOUR MONTHS, with regard to:

	Trend over PAST FOUR MONTHS				Expected trend over NEXT FOUR MONTHS			
	Up	Same	Down	N/A	Up	Same	Down	N/A
6 Numbers employed	27	55	18	+	26	55	18	+
7 Volume of total new orders	40	43	14	3	30	53	14	3
of which: a. domestic orders	42	44	12	3	30	56	11	3
b. export orders	28	56	14	2	20	65	13	2
8 Volume of output	40	50	9	+	32	61	6	1
9 Volume of: a. domestic deliveries	46	43	10	1	35	57	6	1
b. export deliveries	31	58	9	2	22	65	11	2
10 Volume of stocks of: a. raw materials and brought in supplies	17	63	18	2	13	70	14	2
b. work in progress	23	57	16	4	13	67	16	4
c. finished goods	12	54	20	14	15	55	17	14

Excluding seasonal variations, what has been the trend over the PAST FOUR MONTHS, and what are the expected trends for the NEXT FOUR MONTHS, with regard to:

	Trend over PAST FOUR MONTHS				Expected trend over NEXT FOUR MONTHS			
	Up	Same	Down	N/A	Up	Same	Down	N/A
11 Average costs per unit of output	27	61	11	1	39	54	6	1
12 Average prices at which: a. domestic orders are booked	24	70	6	1	43	53	4	1
b. export orders are booked	19	71	8	3	34	55	8	3

13 Approximately how many months' production is accounted for by your present order book or production schedule.

Less than 1	1-3	4-6	7-9	10-12	13-18	More than 18	N/A
16	46	14	2	5	1	3	13

14 What factors are likely to limit your output over the next four months. Please tick the most important factor or factors.

Orders or Sales	Skilled Labour	Other Labour	Plant Capacity	Credit or Finance	Materials or Components	Other
67	20	4	21	3	8	3

15 What factors are likely to limit your ability to obtain export orders over the next four months. Please tick the most important factor or factors.

Prices (compared with overseas competition)	Delivery Dates (compared with overseas competition)	Credit or Finance	Quota & Import Licence Restrictions	Political or Economic Conditions Abroad	Other
56	17	11	12	29	10

16 a. In relation to expected demand over the next twelve months is your present fixed capacity :

More than adequate	adequate	less than adequate
23	64	13

b. What are the main reasons for any expected CAPITAL EXPENDITURE AUTHORISATIONS ON BUILDINGS, PLANT OR MACHINERY over the next twelve months

to expand capacity	42	other *(please specify)*	7
to increase efficiency	78	N/A	5
for replacement	52		

c. What factors are likely to limit (wholly or partly) your capital expenditure authorisations over the next twelve months

Inadequate net return on proposed investment	46	Uncertainty about demand	39
Shortage of internal finance	20	Shortage of labour including Managerial and Technical Staff	6
Inability to raise external finance	1	Other *(please specify)*	2
Cost of finance	6	N/A	12

INDIVIDUAL INDUSTRIES IN THE CBI INDUSTRIAL TRENDS SURVEY

FOOD, DRINK AND TOBACCO
Food; drink and tobacco.

CHEMICALS, COAL AND PETROLEUM PRODUCTS
Industrial and agricultural products; consumer chemicals; synthetic resins and plastics.

METAL MANUFACTURE
Ferrous metals; non-ferrous metals.

MECHANICAL AND INSTRUMENT ENGINEERING
Agricultural machinery; machine tools; industrial engines; textile machinery; contractors' plant; industrial and office machinery; heating, refrigerating and ventilating equipment; heavy industrial plant; construction steelwork; other mechanical engineering; instrument engineering.

ELECTRICAL ENGINEERING
Power and industrial electric goods; electronic goods; electric consumer goods.

SHIPBUILDING, MARINE ENGINEERING AND VEHICLES
Shipbuilding and marine engineering; motor vehicles; other vehicles.

METAL GOODS NOT ELSEWHERE SPECIFIED
Engineers' small tools and gauges; hand tools and implements; fabricated metal goods.

TEXTILES
Man-made fibres; spinning and weaving; wool textiles; hosiery and knitwear; other textiles; clothing and fur; leather and leather goods; footwear.

OTHER MANUFACTURING
Building materials; timber and wooden products; furniture etc.; glass and ceramics; paper and paper products; printing and publishing; rubber; miscellaneous manufacturing.

The full analysis of the results is available on a subscription basis. The annual subscription is £75 (CBI members £30) and can

	Business Optimism		Export Optimism	
	Unadjusted	Seasonally Adjusted	Unadjusted	Seasonally Adjusted
1986				
Jan	-1	-3	0	-3
Apr	+8	-6	+12	+3
July	-9	-2	-10	-2
Oct	0	+9	+11	+15
1987				
Jan	+12	+10	+20	+17
Apr	+29	+15	+24	+15
July	+25	+32	+24	+32
Oct	+23	+31	+14	+18
1988				
Jan	+11	+9	-7	-10

EXPORTS
S.a.

TABLE 1A

CBI MONTHLY SURVEY QUESTIONS (OTHER THAN OUTPUT EXPECTATIONS)

	PRESENT LEVEL OF ORDER BOOK (Balance of those responding "Above normal" less those responing "Below normal")				PRICES(Q12A) Expected trend next 4 months. (Balance of those responding "Up" less those responding "Down")	
	TOTAL (Q5A)		EXPORT (Q5B)			
	Reported	Seasonally Adjusted	Reported	Seasonally Adjusted	Reported	Seasonally Adjusted
1986						
Jun	-21	-23	-19	-21	+6	+12
Jly	-25	-22	-25	-21	+11	+15
Aug	-20	-20	-25	-20	+10	+15
Sep	-21	-20	-23	-18	+10	+17
Oct	-23	-17	-22	-16	+14	+17
Nov	- 9	-12	-10	-10	+19	+21
Dec	-10	-12	- 7	- 9	+26	+21
1987						
Jan	-15	-10	-13	-10	+30	+22
Feb	+ 2	- 2	- 2	- 6	+34	+28
Mar	+ 4	0	0	- 7	+25	+21
Apr	+ 1	+ 4	- 6	- 6	+26	+22
May	+10	+ 5	0	- 7	+28	+29
Jun	+ 3	+ 1	+ 9	+ 8	+19	+25
Jul	+ 6	+ 9	+10	+14	+19	+23
Aug	+11	+11	+ 5	+ 9	+21	+26
Sep	+ 9	+10	+ 3	+ 8	+20	+27
Oct	+10	+16	+ 1	+ 7	+23	+26
Nov	+13	+10	+11	+10	+28	+30
Dec	+18	+16	+ ~~3~~4	+ ~~1~~2	+31	+26
Jan	+20	+26	+5	+8	+39	+31

NB.1.The monthly question concerning the adequacy of present stock levels is not found to display stable seasonality.

2.The question numbers given are those for the quarterly survey, since there is no ambiguity in monthly survey question titles.

PRICES S.a

CBI SURVEY QUESTIONS ON OUTPUT: MONTHLY EXPECTATIONS & QUARTERLY OUTTURN

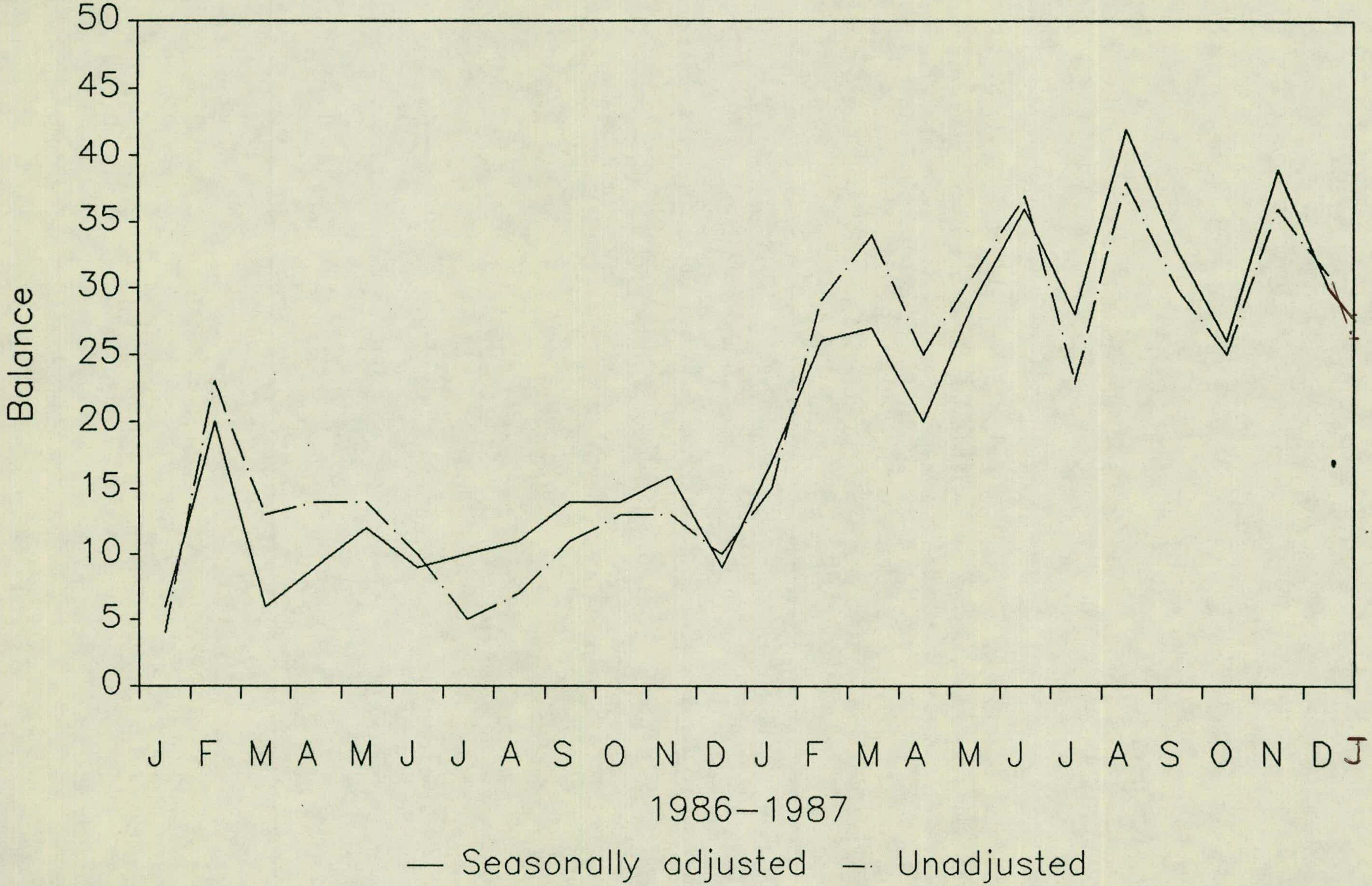
VOLUME OF OUTPUT(Q8)

(Balance of those responding "Up" less those responding "Down")

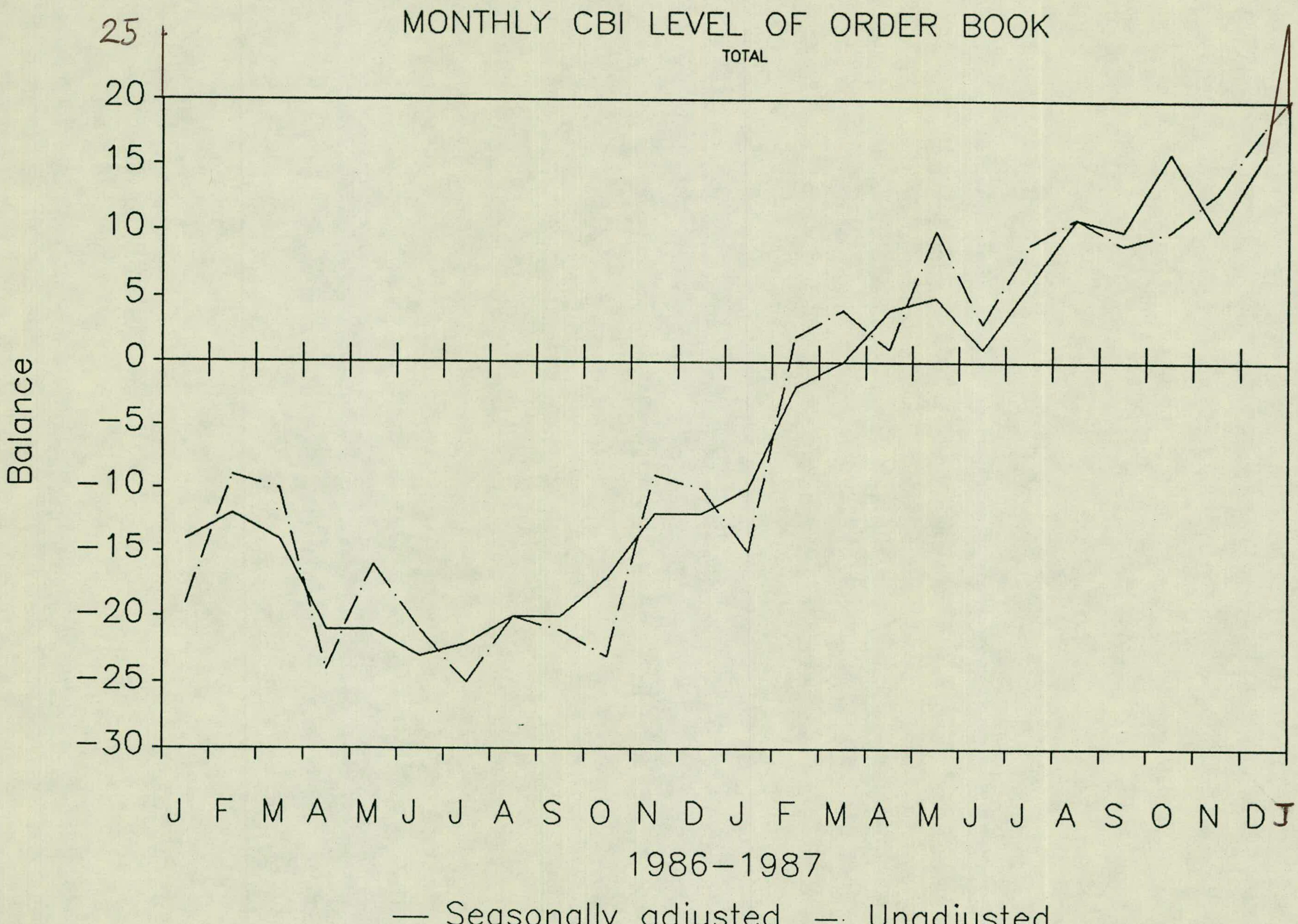
	PAST 4 MONTHS		EXPECTED TREND OVER NEXT 4 MONTHS	
	Reported	Seasonally Adjusted	Reported	Seasonally Adjusted
1986				
May			+14	+12
Jun			+10	+ 9
Jly	- 2	- 2	+ 5	+10
Aug			+ 7	+11
Sep			+11	+14
Oct	- 1	+ 3	+13	+14
Nov			+13	+16
Dec			+10	+ 9
1987				
Jan	+ 9	+10	+15	+17
Feb			+29	+26
Mar			+34	+27
Apr	+24	+19	+25	+20
May			+31	+29
Jun			+37	+36
Jul	+23	+23	+23	+28
Aug			+38	+42
Sep			+30	+33
Oct	+19	+23	+25	+26
Nov			+36	+39
Dec			+31	+30
Jan	+31	+32	+26	+27

NB. The results of the expectations question are shown against the month in which the survey was carried out. Therefore, for example, the August result represents the expected trend in output to December.

MONTHLY CBI VOLUME OF OUTPUT

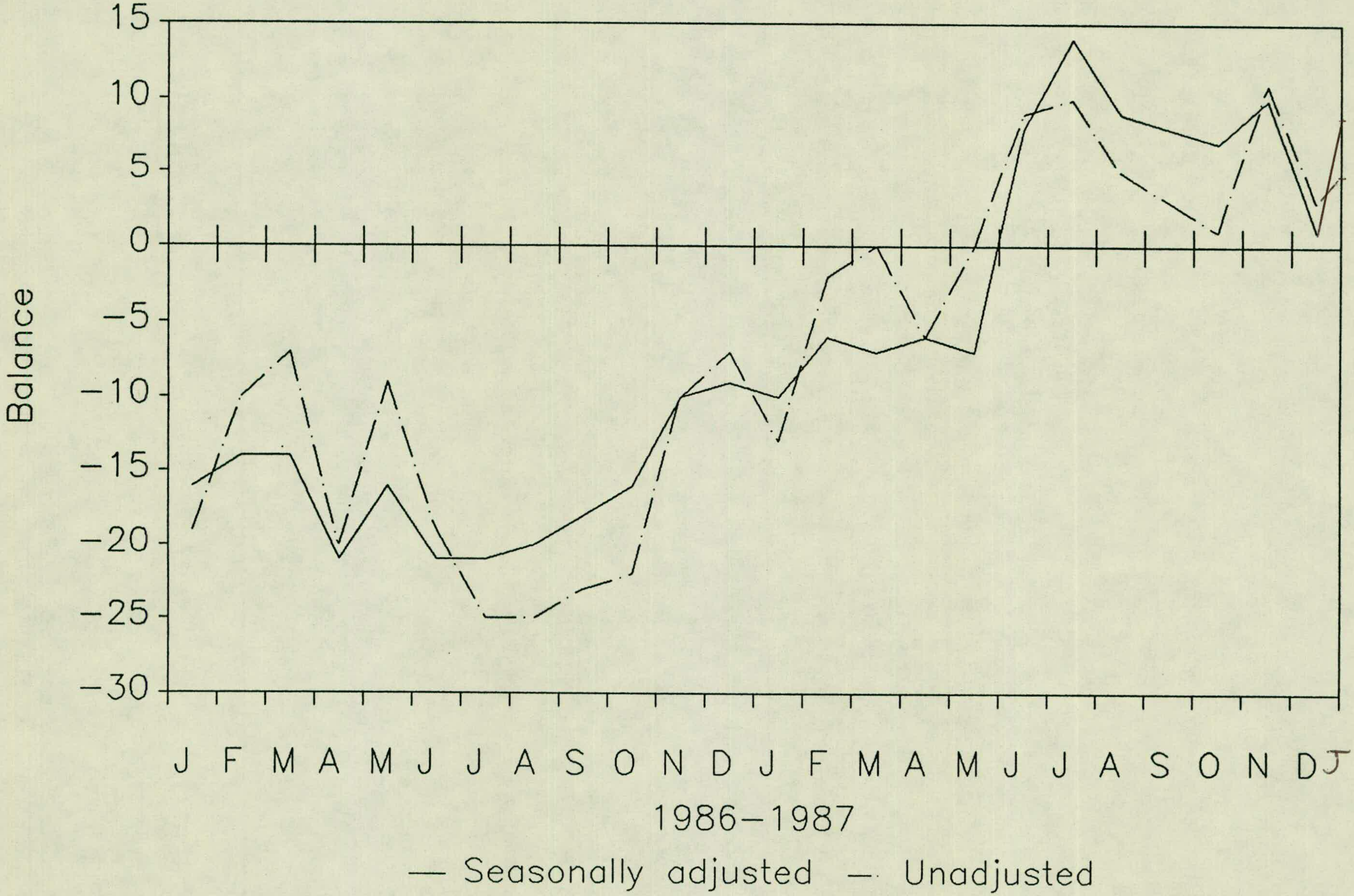


11/12/87

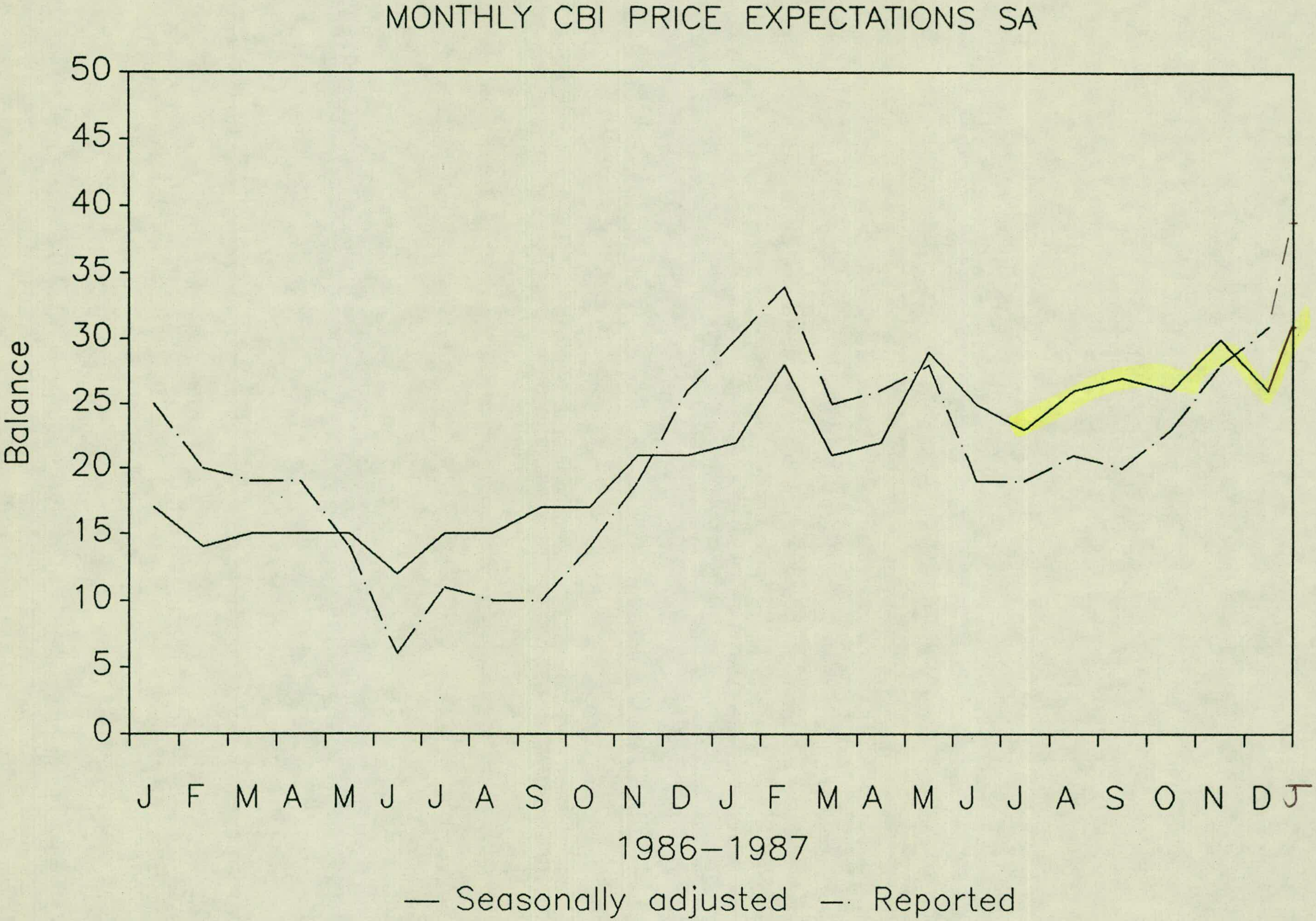

MONTHLY CBI LEVEL OF ORDER BOOK
TOTAL
25
20
15
10
5
0
-5
-10
-15
-20
-25
-30
Balance
J F M A M J J A S O N D J F M A M J J A S O N D J
1986-1987
— Seasonally adjusted — Unadjusted

11/12/87

MONTHLY CBI LEVEL OF ORDER BOOK
EXPORT

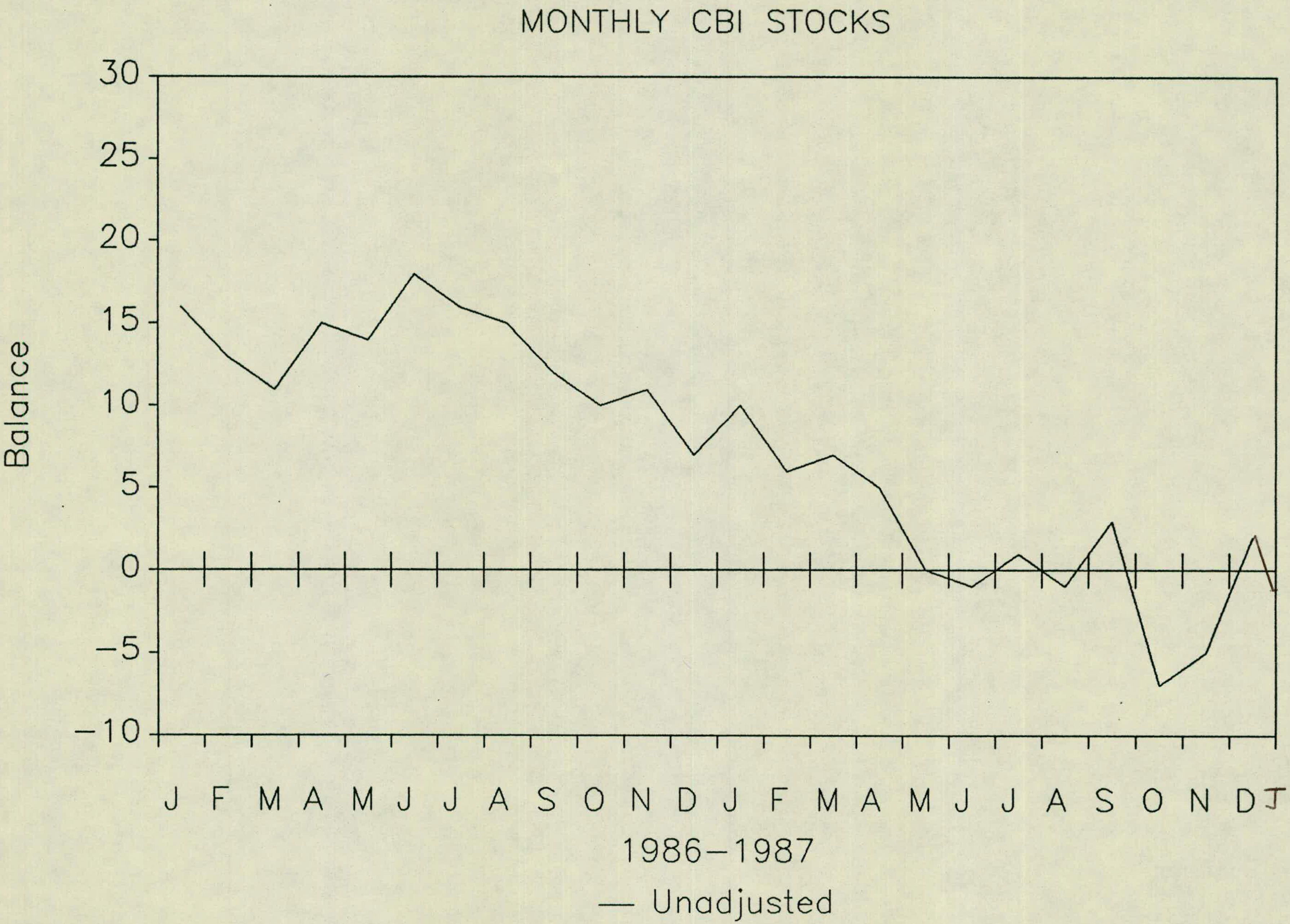


11/12/87

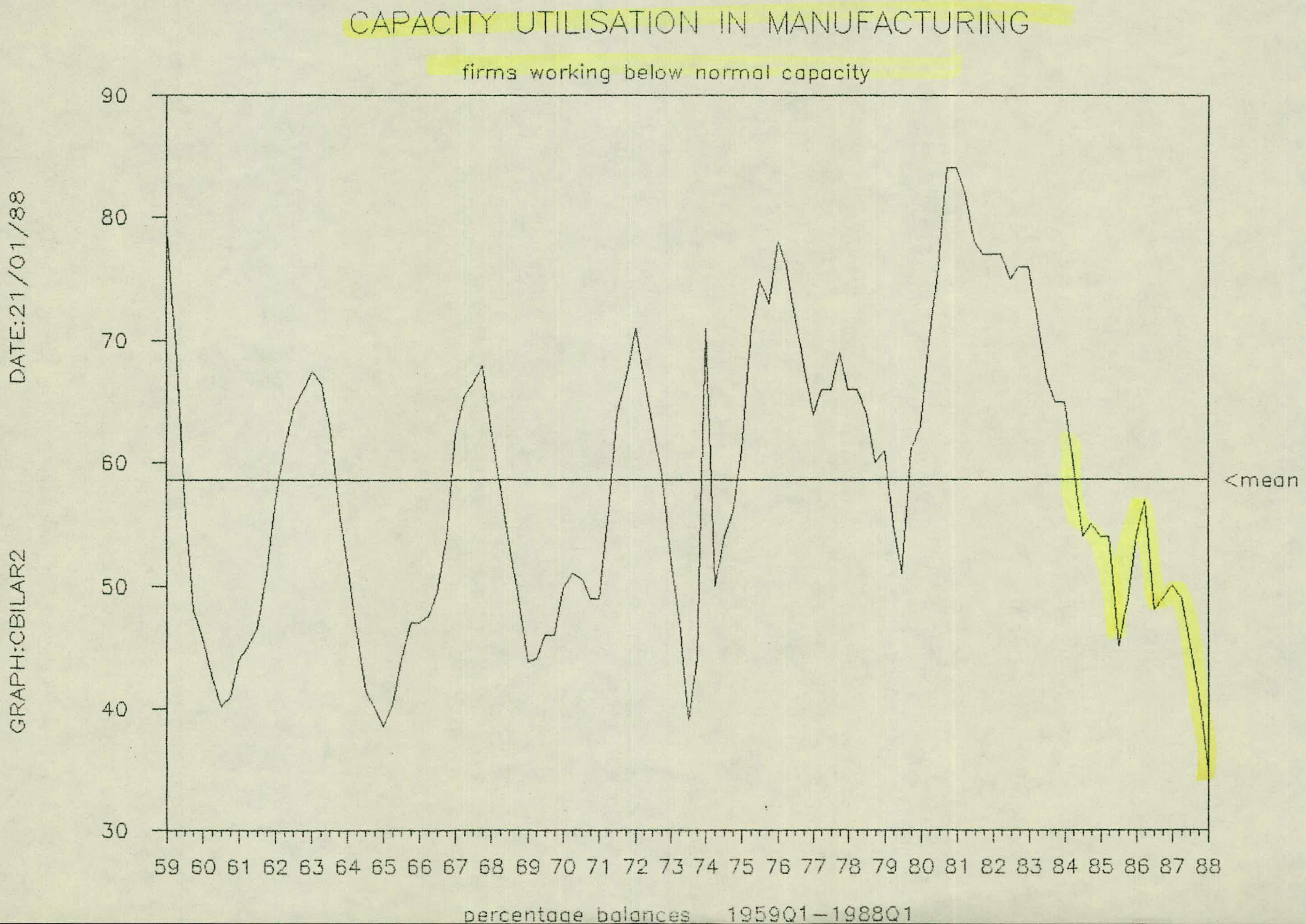


MONTHLY CBI PRICE EXPECTATIONS SA
Balance
50
45
40
35
30
25
20
15
10
5
0
J F M A M J J A S O N D J F M A M J J A S O N D J
1986–1987
— Seasonally adjusted —· Reported

11/12/87

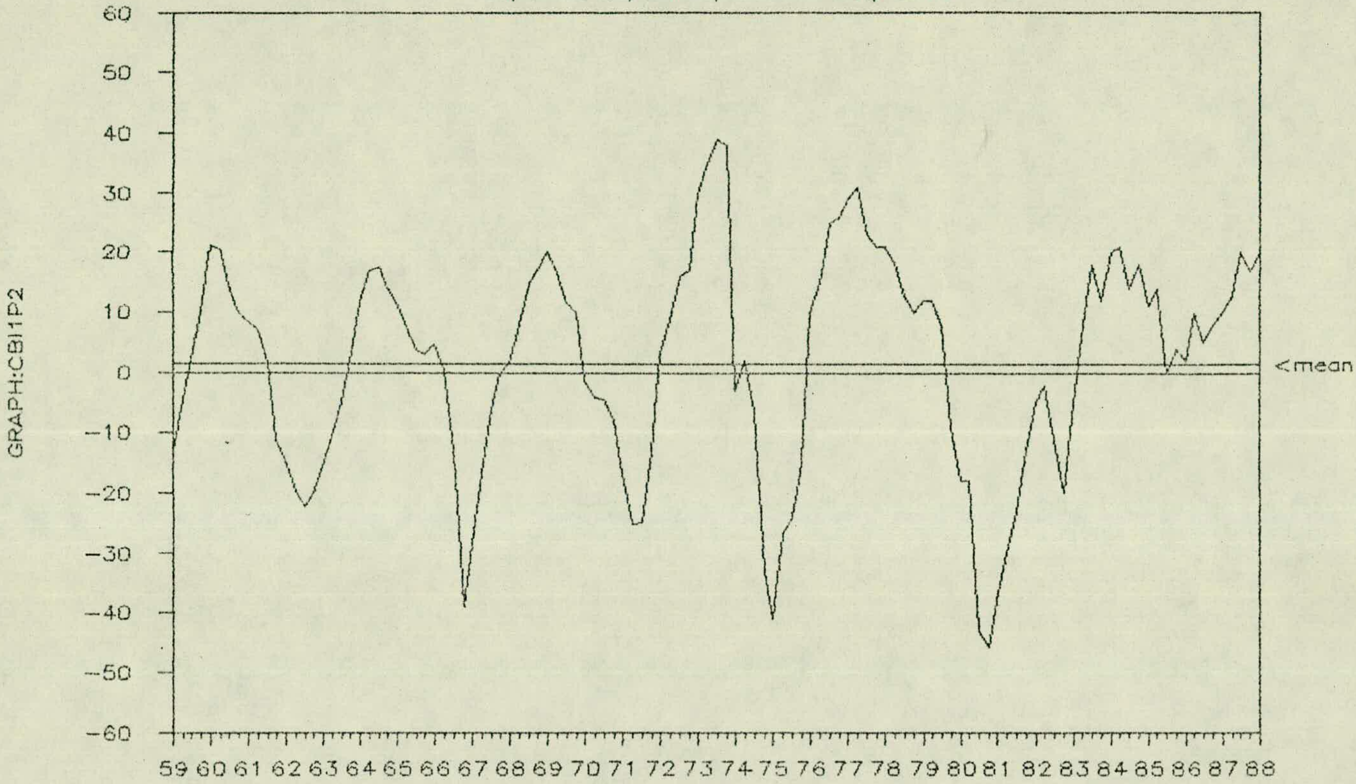

MONTHLY CBI STOCKS
30
25
20
15
10
5
0
−5
−10
Balance
J F M A M J J A S O N D J F M A M J J A S O N D J
1986−1987
— Unadjusted

11/12/87


CAPACITY UTILISATION IN MANUFACTURING
firms working below normal capacity
DATE:21/01/88
GRAPH:CBILAR2
90
80
70
60
50
40
30
<mean
59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88
percentage balances 1959Q1–1988Q1

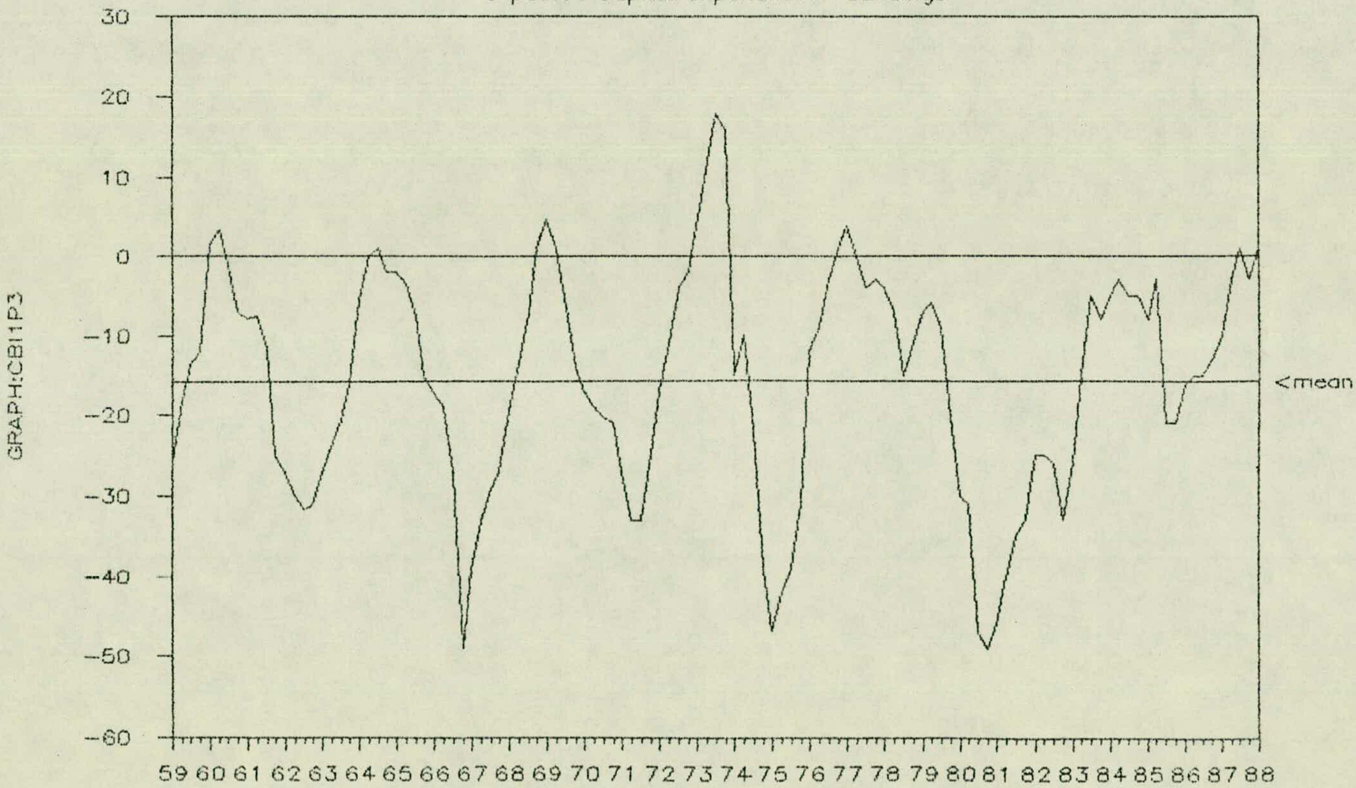
CBI INDUSTRIAL TRENDS SURVEY

expected capital expenditure on p & m



percentage balances 1959Q1 – 1988Q1

expected capital expenditure:–buildings



percentage balances 1959Q1 – 1988Q1

CONFIDENTIAL

illegible! not minuted

Thanks. Re para 6, [illegible] also shows how [illegible] as [illegible] now [illegible] conditions ~ 1973. Nevertheless, one or 2 [illegible] [illegible]. N.

MP

FROM: SIR T BURNS
DATE: 22 JANUARY 1988

CHANCELLOR

cc Sir P Middleton
Mr Sedgwick
Mr Pickford

CBI ECONOMIC TRENDS SURVEY

You asked about the correlation between the growth of UK exports and the answers to the various CBI export questions. I attach some charts.

2. There are three relevant questions:

- export pessimism/optimism (question 2);
- expected new orders over the next 4 months (question 7b);
- total export order book (question 5a).

3. The balance to each question is plotted alongside the growth of manufacturing exports (excluding erratics) in charts 1 to 3. As you will see there is some correlation in each case although it is not very precise. The latest figures are consistent with some slowdown of export growth (which is also a feature of the latest forecast).

4. There is no downturn in the series for the total export order book. But as you will notice there is some suggestion that this has been a lagging indicator over the past 4 years.

5. Charts 4 and 5 show the pessimism/optimism balance plotted against movements of the sterling index in nominal and real terms. There are signs of an inverse relationship and the recent decline in optimism is consistent with the exchange rate appreciation.

6. I also attach some charts showing long runs of data for some of the questions in the Trends Survey. One pattern of note; of the various factors limiting output, plant capacity is the only one showing a reading decisively above its historical average - skilled labour is just above average and the other factors are below average.

T B.

T BURNS

CHART 1

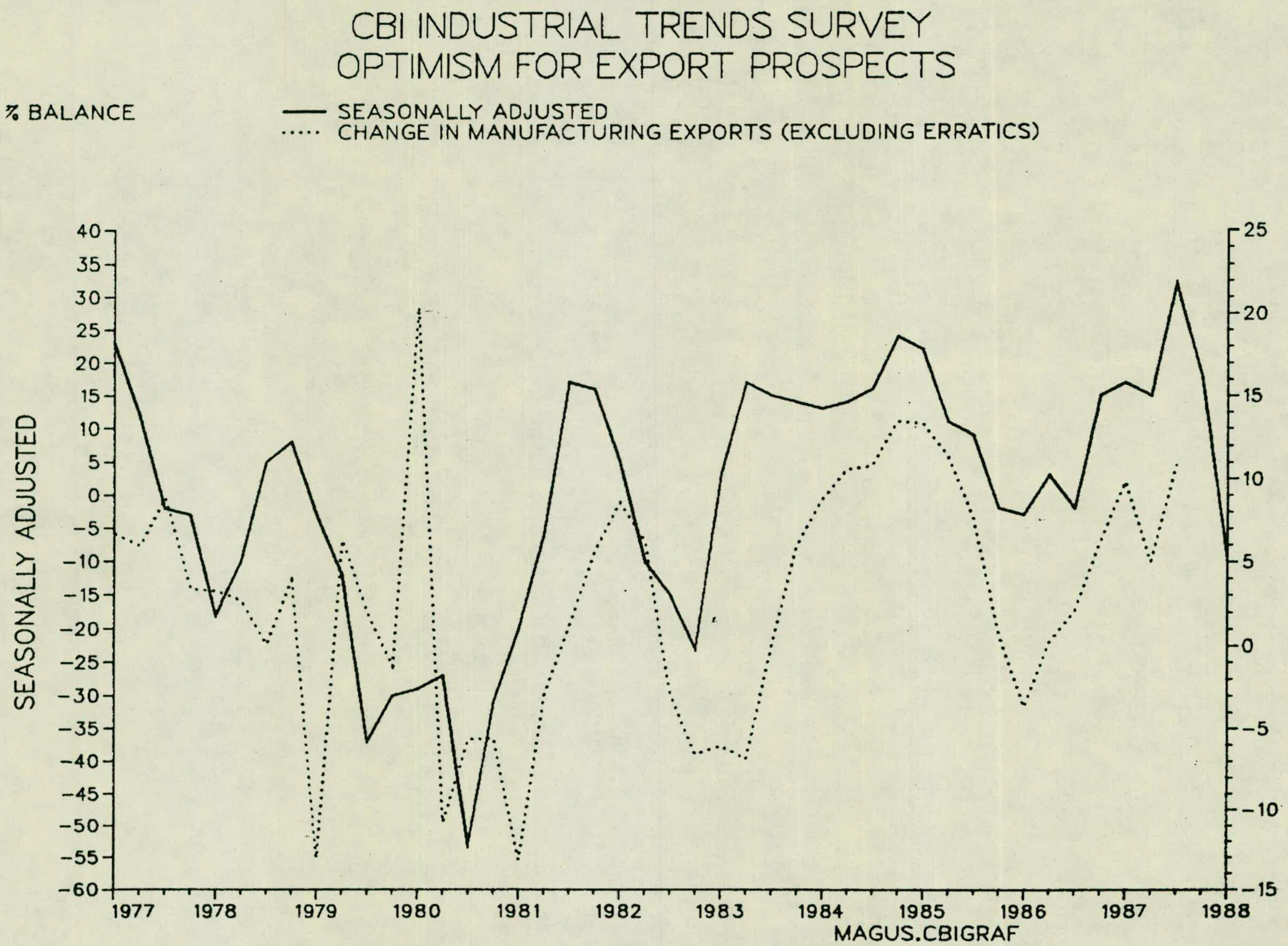
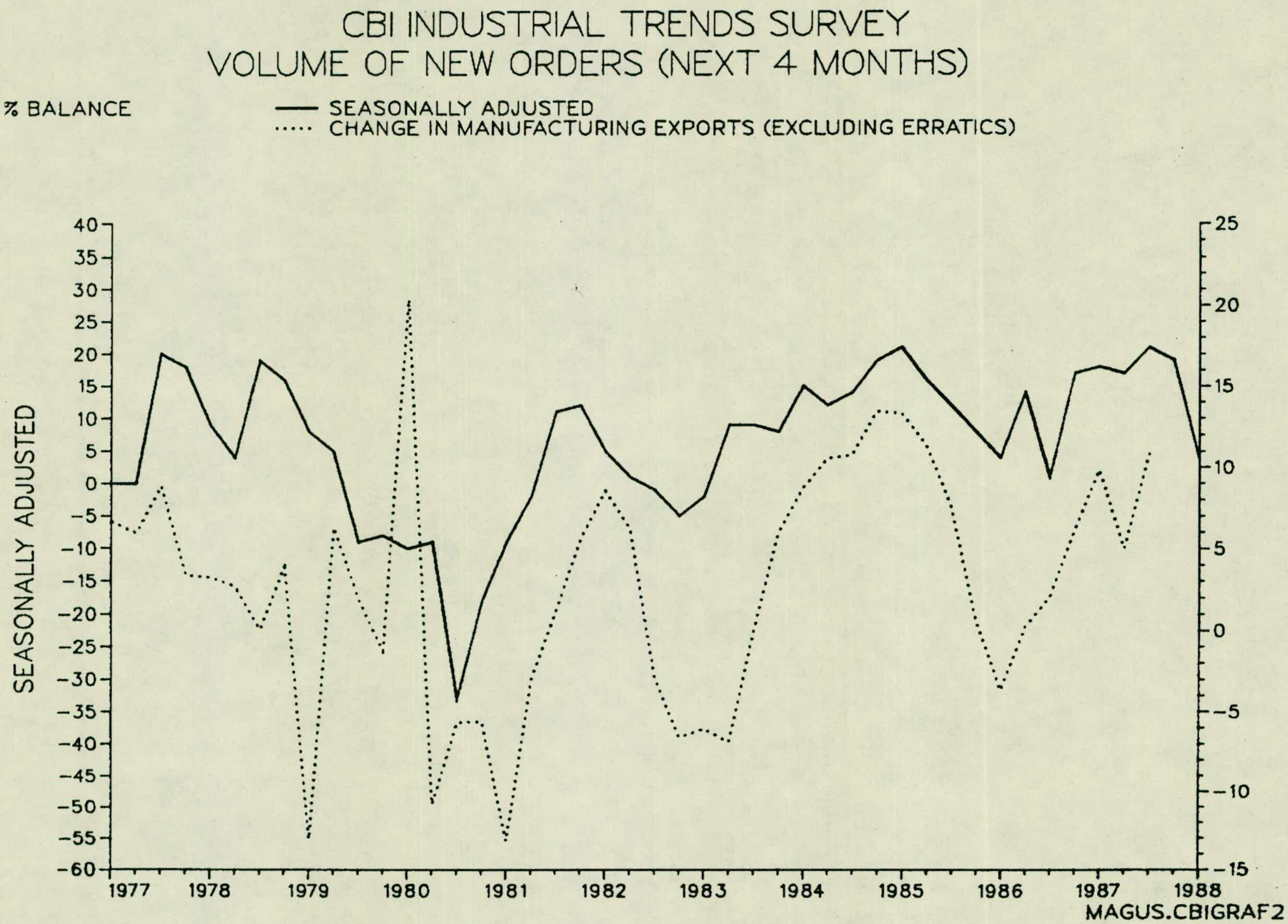

CBI INDUSTRIAL TRENDS SURVEY
OPTIMISM FOR EXPORT PROSPECTS
% BALANCE
SEASONALLY ADJUSTED
CHANGE IN MANUFACTURING EXPORTS (EXCLUDING ERRATICS)
SEASONALLY ADJUSTED
40
35
30
25
20
15
10
5
0
−5
−10
−15
−20
−25
−30
−35
−40
−45
−50
−55
−60
25
20
15
10
5
0
−5
−10
−15
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
MAGUS.CBIGRAF

CHART 2



CBI INDUSTRIAL TRENDS SURVEY
VOLUME OF NEW ORDERS (NEXT 4 MONTHS)
% BALANCE
SEASONALLY ADJUSTED
CHANGE IN MANUFACTURING EXPORTS (EXCLUDING ERRATICS)
SEASONALLY ADJUSTED
40
35
30
25
20
15
10
5
0
-5
-10
-15
-20
-25
-30
-35
-40
-45
-50
-55
-60
25
20
15
10
5
0
-5
-10
-15
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
MAGUS.CBIGRAF2

CHART 3

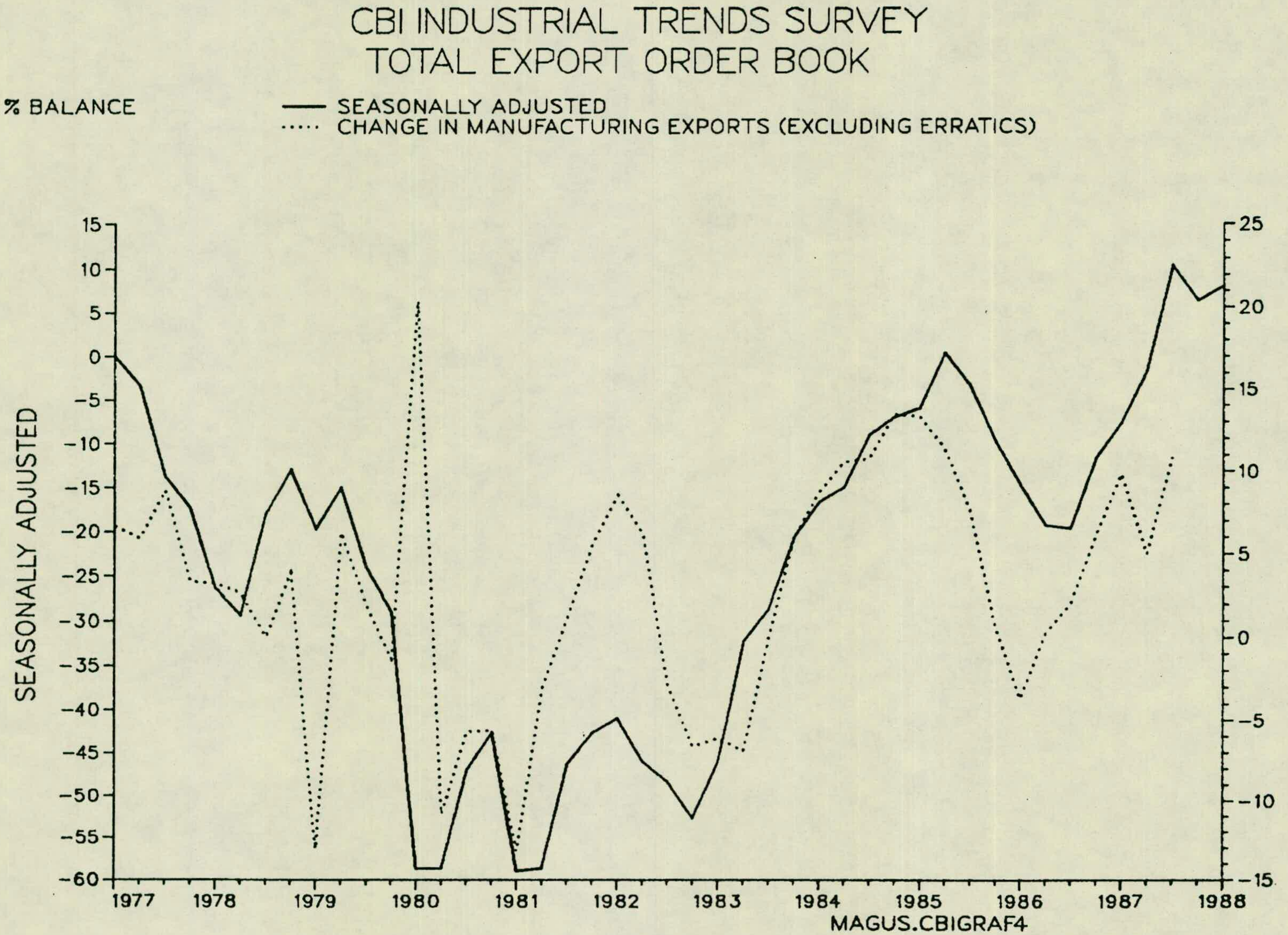
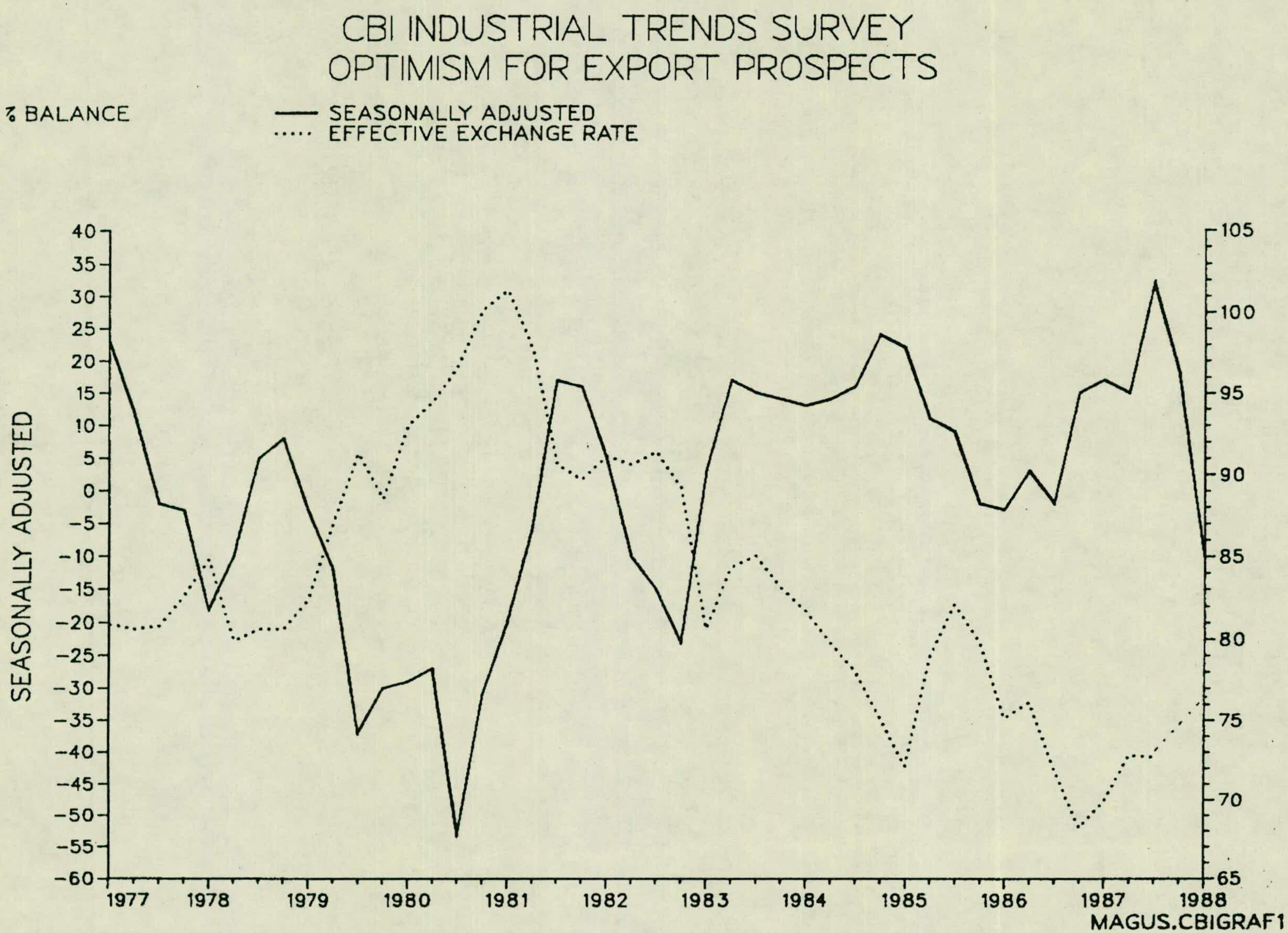
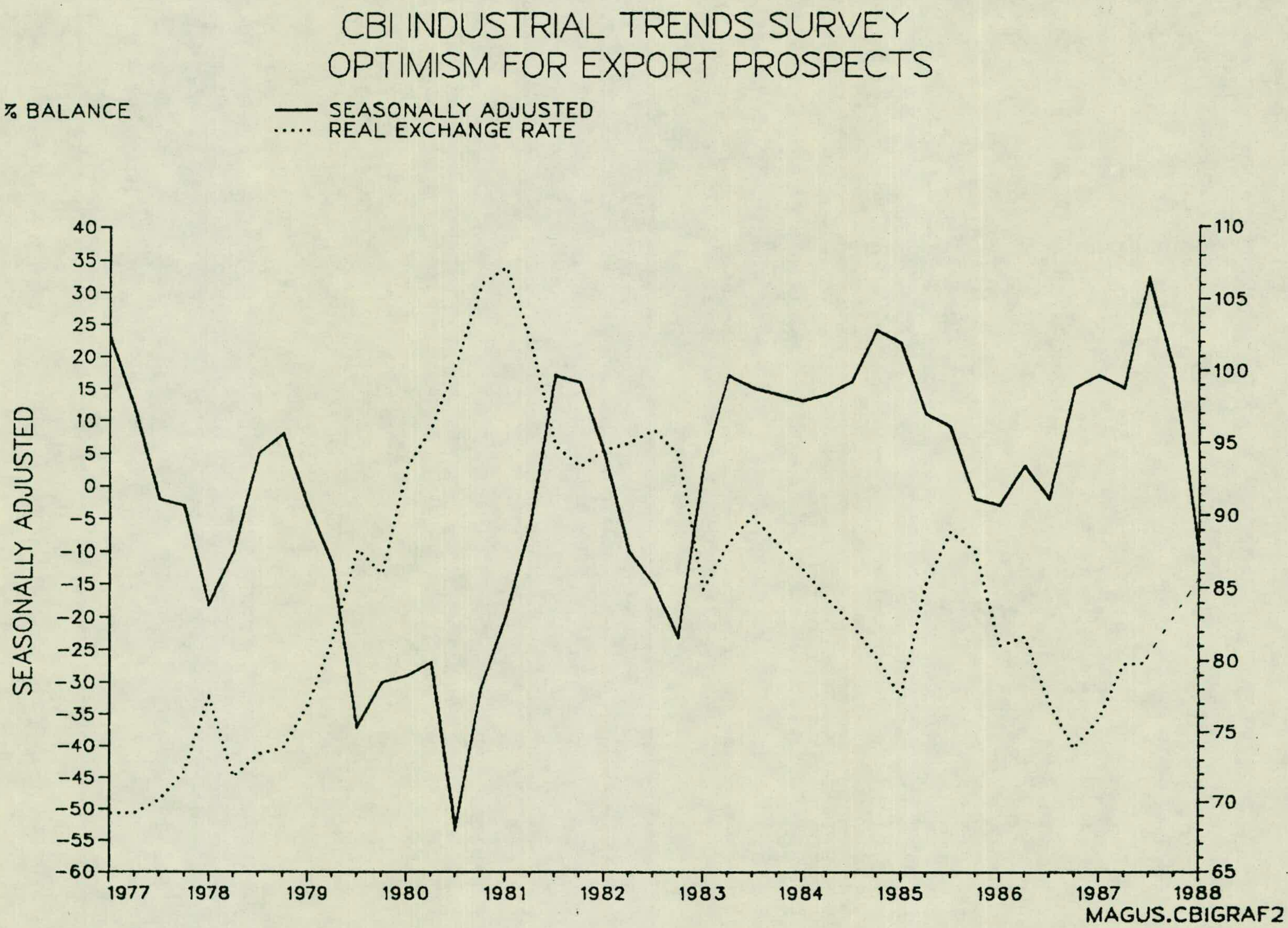

CBI INDUSTRIAL TRENDS SURVEY
TOTAL EXPORT ORDER BOOK
% BALANCE
SEASONALLY ADJUSTED
CHANGE IN MANUFACTURING EXPORTS (EXCLUDING ERRATICS)
SEASONALLY ADJUSTED
15
10
5
0
-5
-10
-15
-20
-25
-30
-35
-40
-45
-50
-55
-60
25
20
15
10
5
0
-5
-10
-15
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
MAGUS.CBIGRAF4

CHART 4



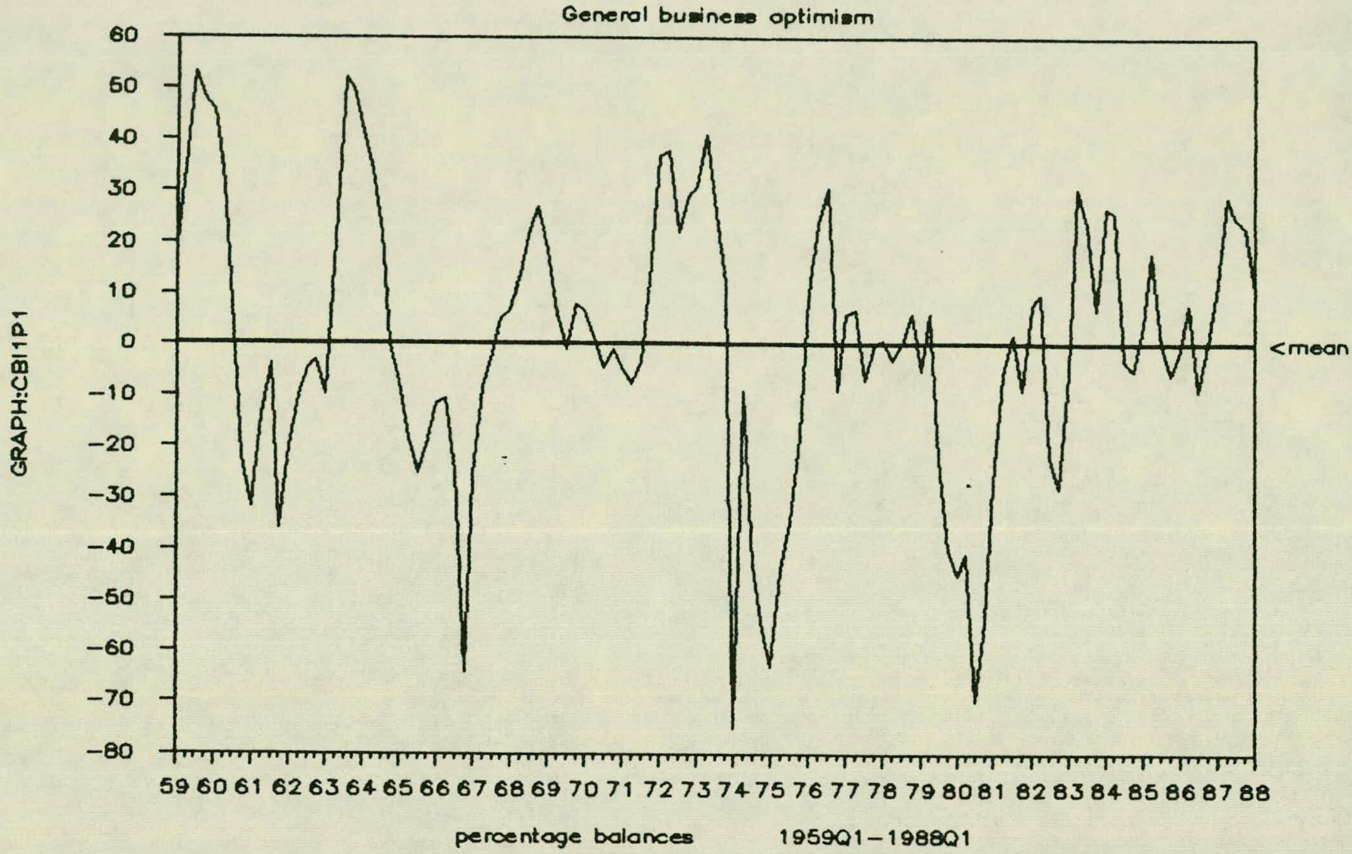
CBI INDUSTRIAL TRENDS SURVEY
OPTIMISM FOR EXPORT PROSPECTS
% BALANCE
SEASONALLY ADJUSTED
EFFECTIVE EXCHANGE RATE
SEASONALLY ADJUSTED
40
35
30
25
20
15
10
5
0
-5
-10
-15
-20
-25
-30
-35
-40
-45
-50
-55
-60
105
100
95
90
85
80
75
70
65
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
MAGUS.CBIGRAF1

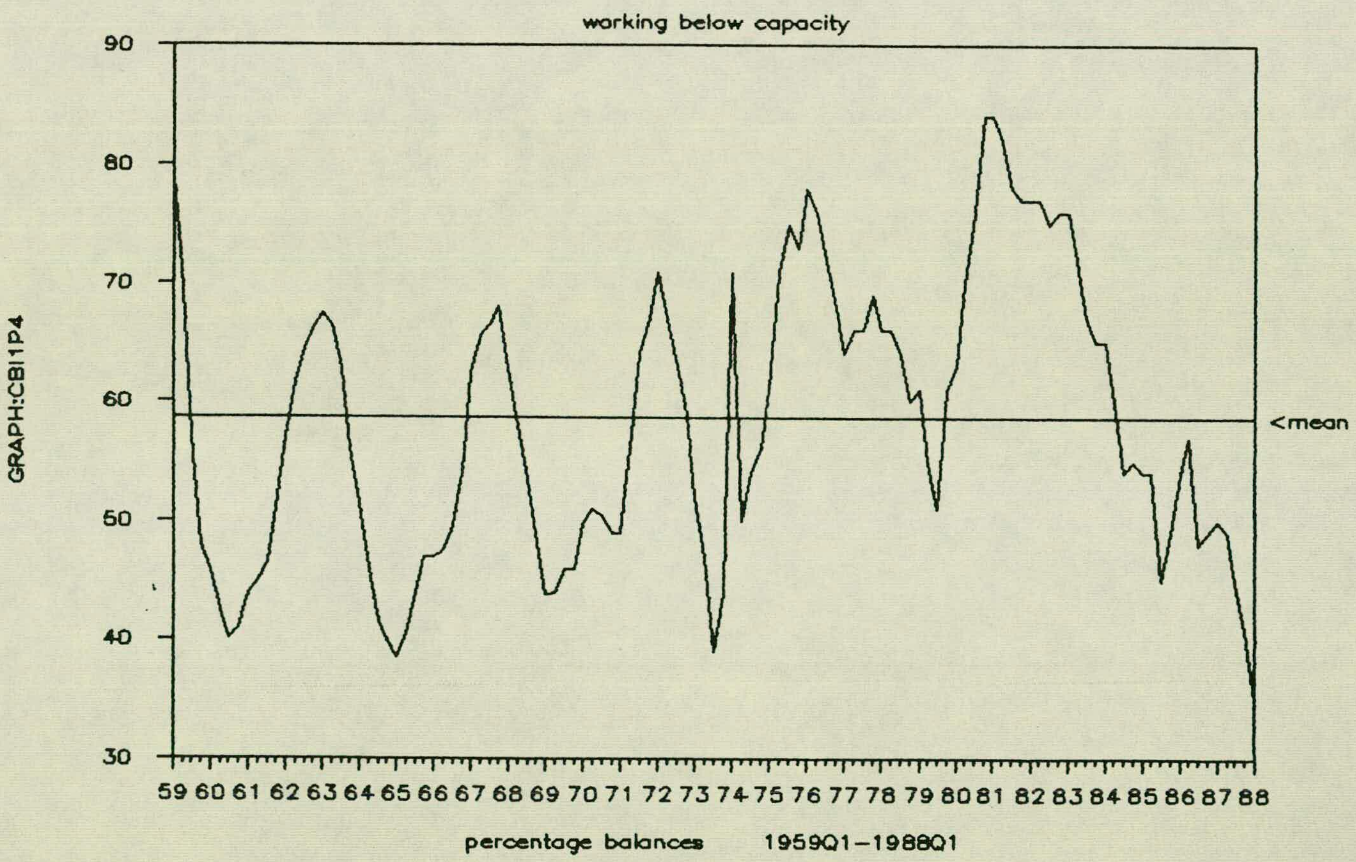
CHART 5



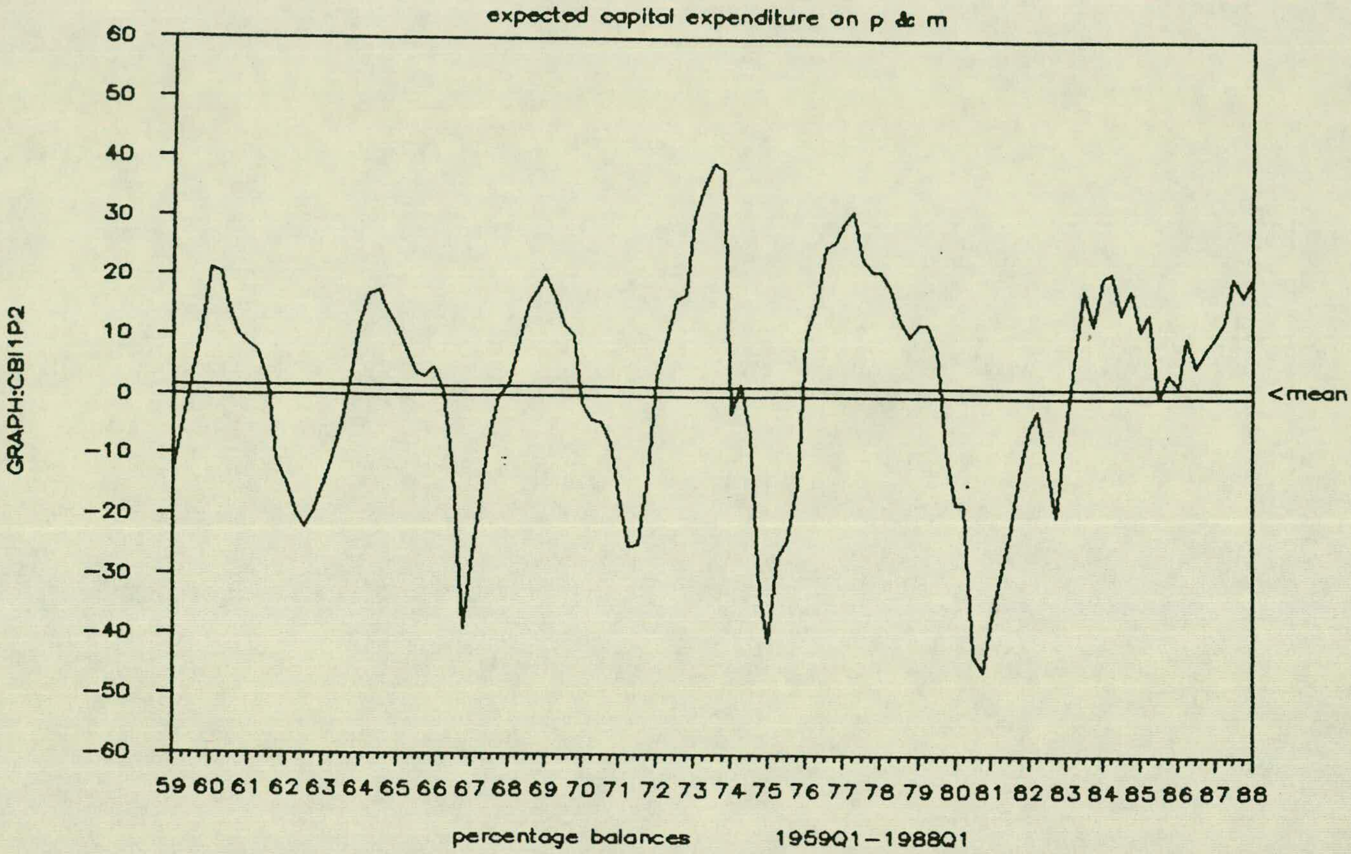
CBI INDUSTRIAL TRENDS SURVEY
OPTIMISM FOR EXPORT PROSPECTS
% BALANCE
SEASONALLY ADJUSTED
REAL EXCHANGE RATE
SEASONALLY ADJUSTED
40
35
30
25
20
15
10
5
0
-5
-10
-15
-20
-25
-30
-35
-40
-45
-50
-55
-60
110
105
100
95
90
85
80
75
70
65
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
MAGUS.CBIGRAF2

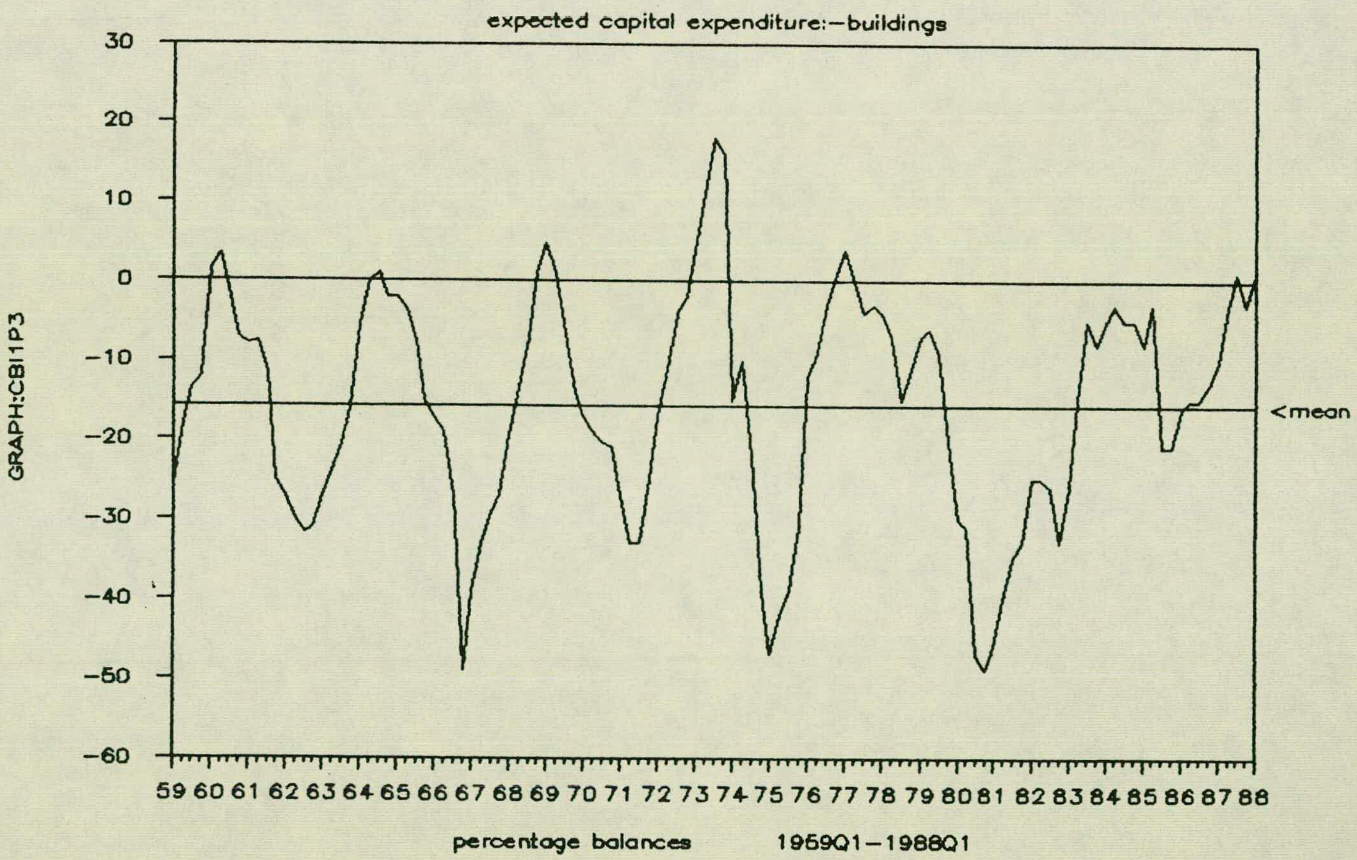
CBI INDUSTRIAL TRENDS SURVEY



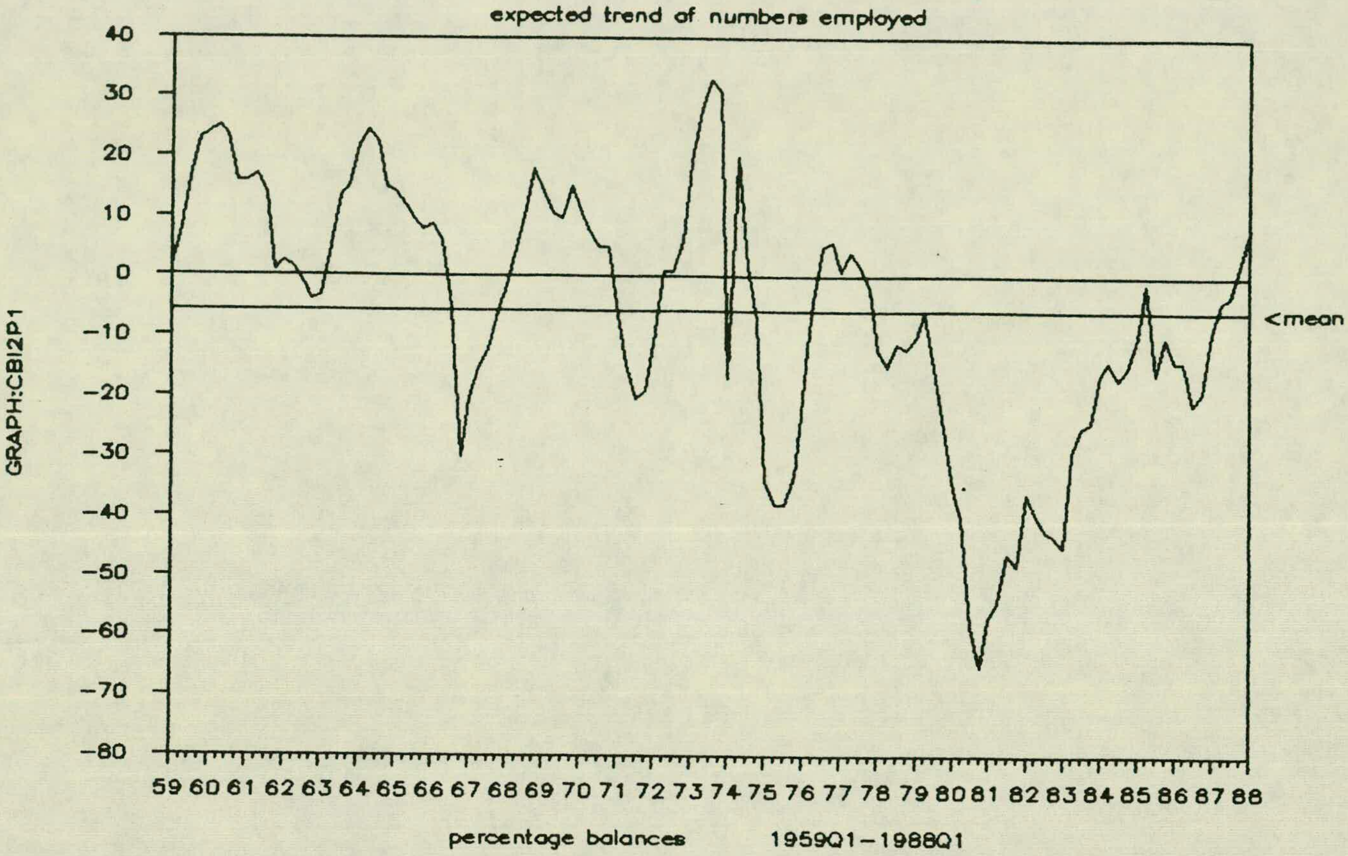


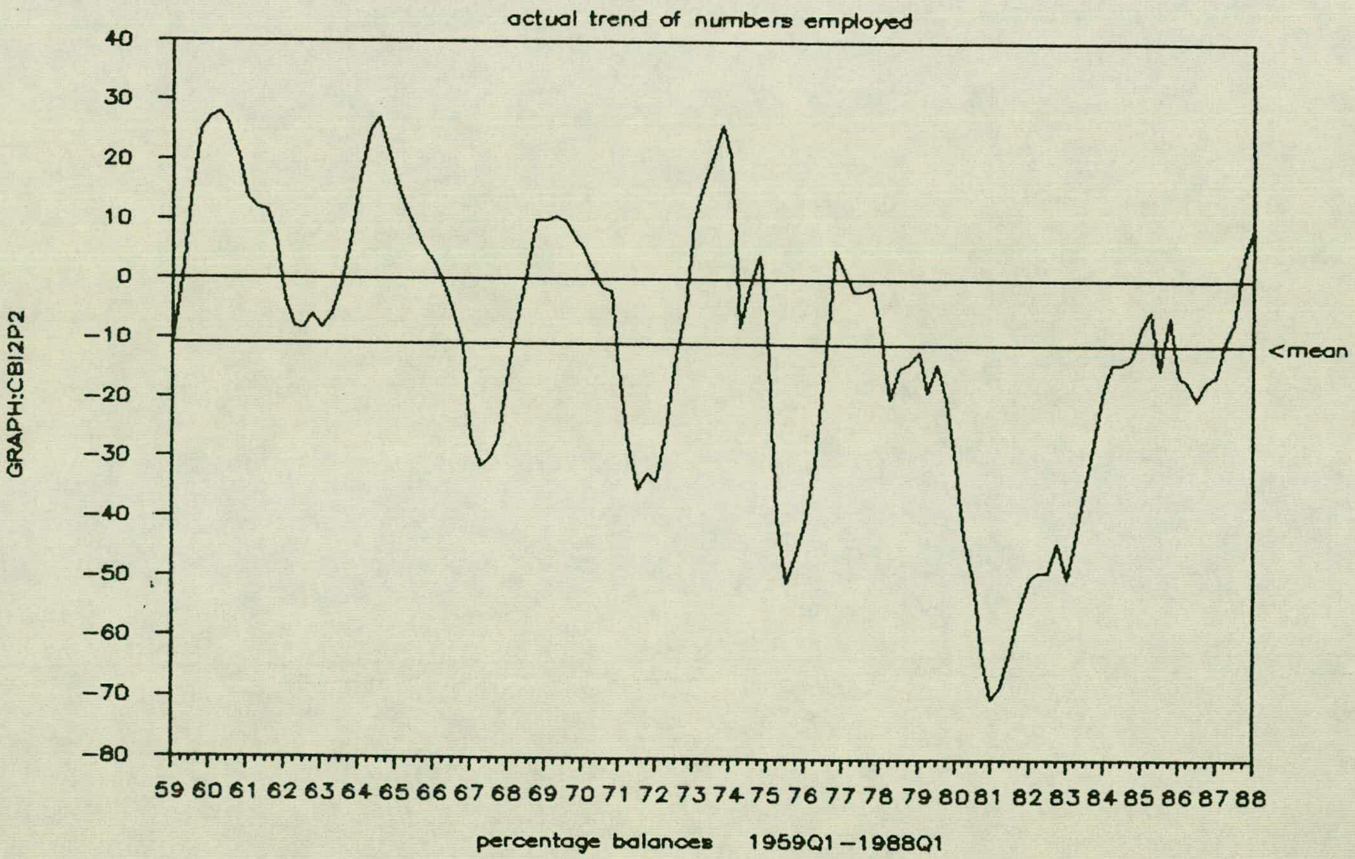
CBI INDUSTRIAL TRENDS SURVEY





CBI INDUSTRIAL TRENDS SURVEY





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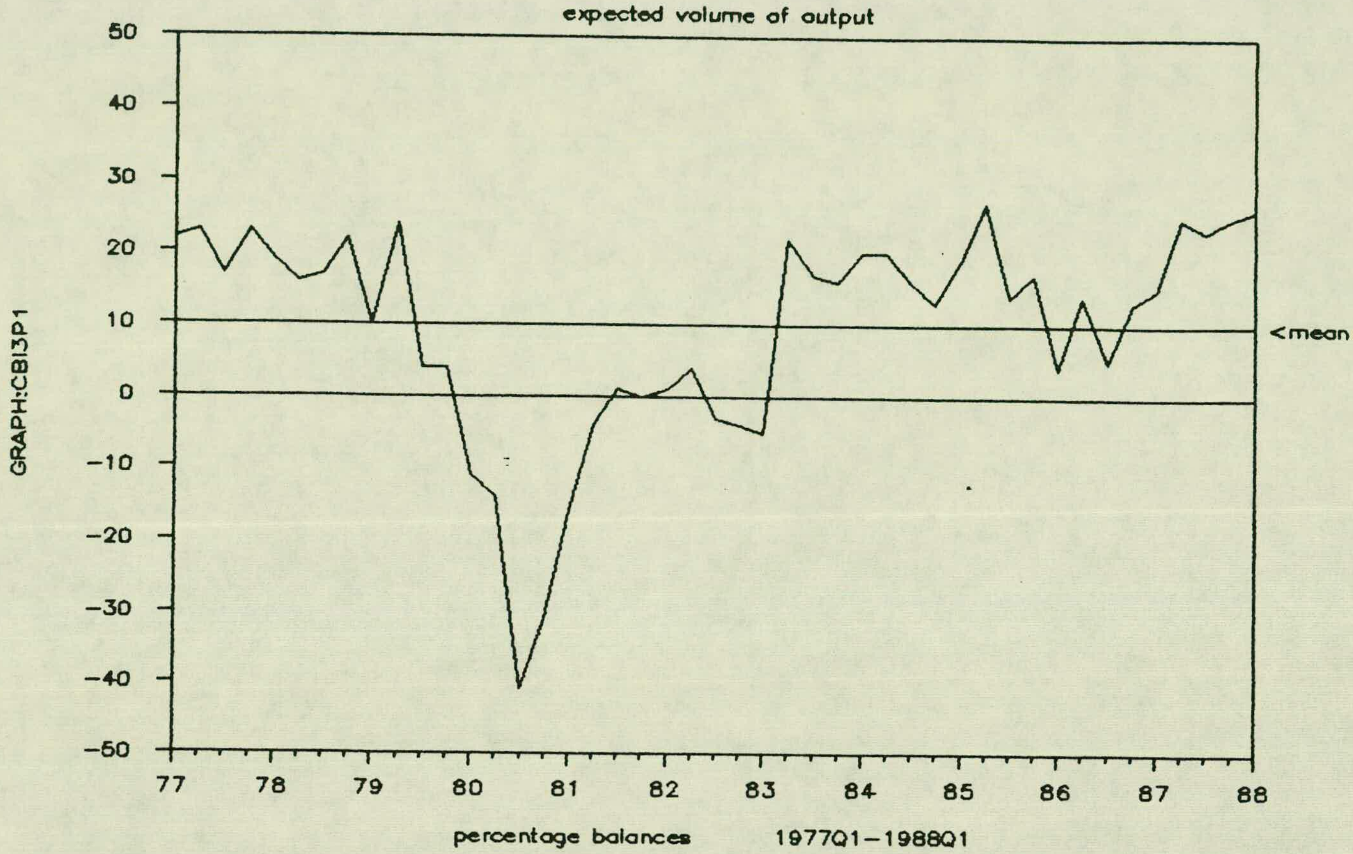
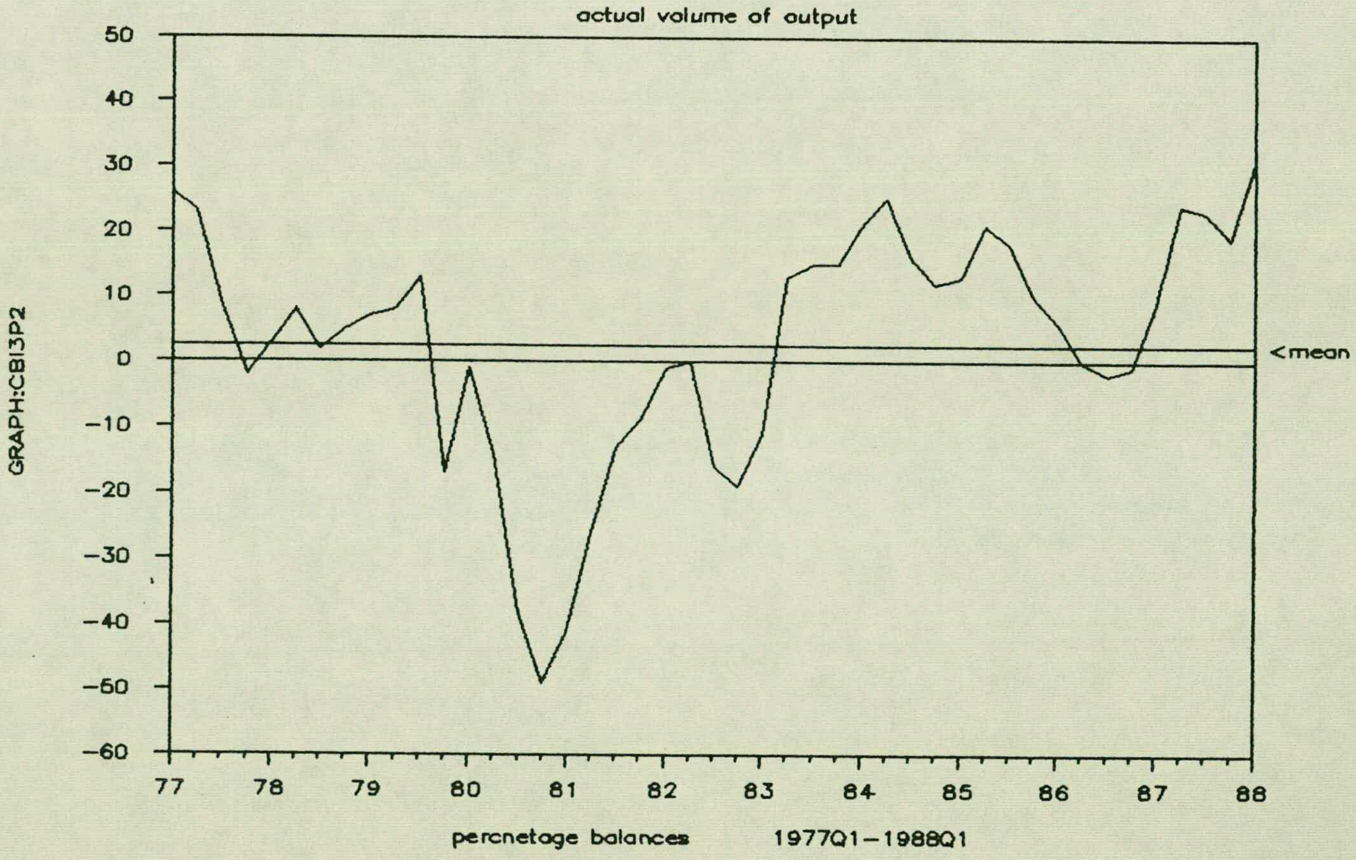
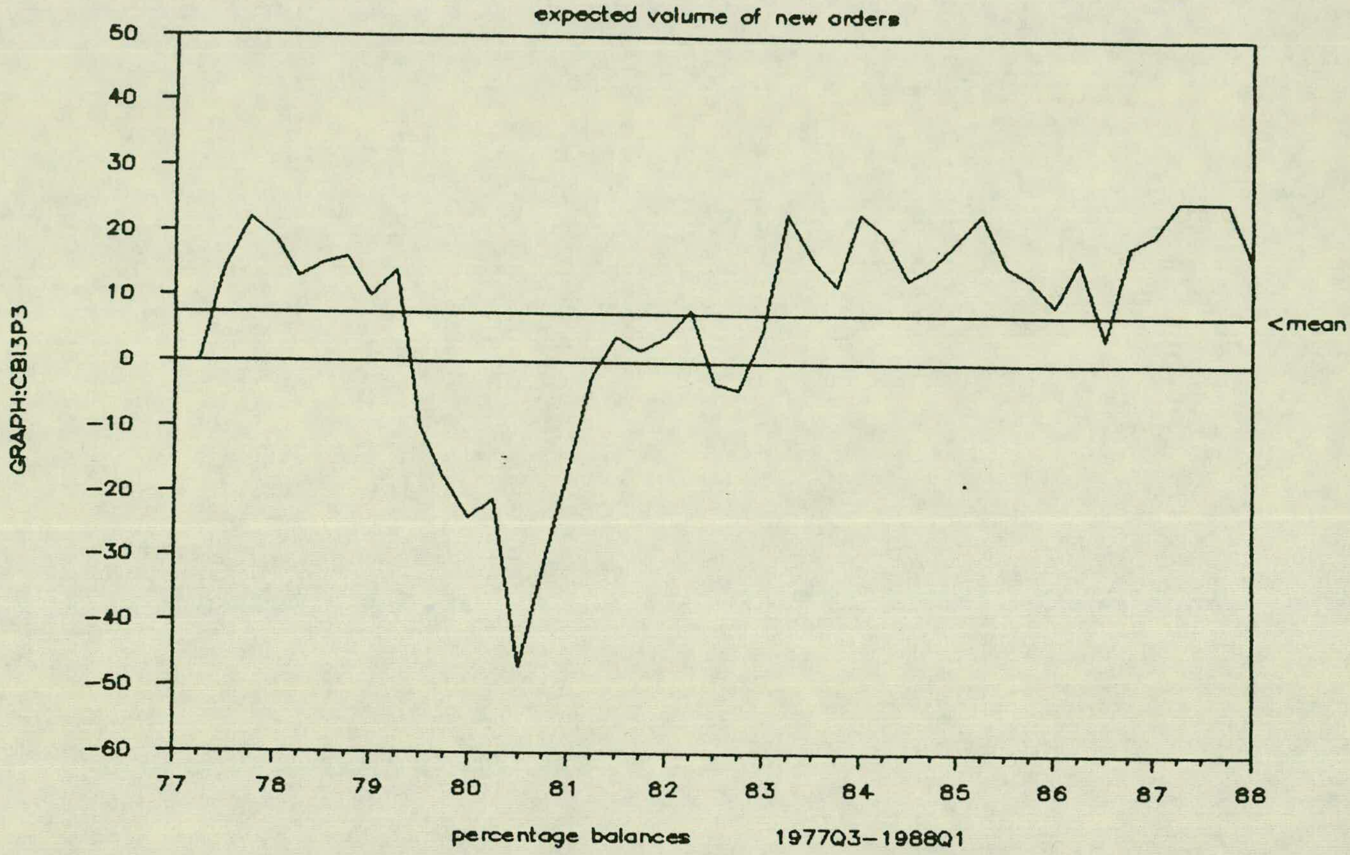
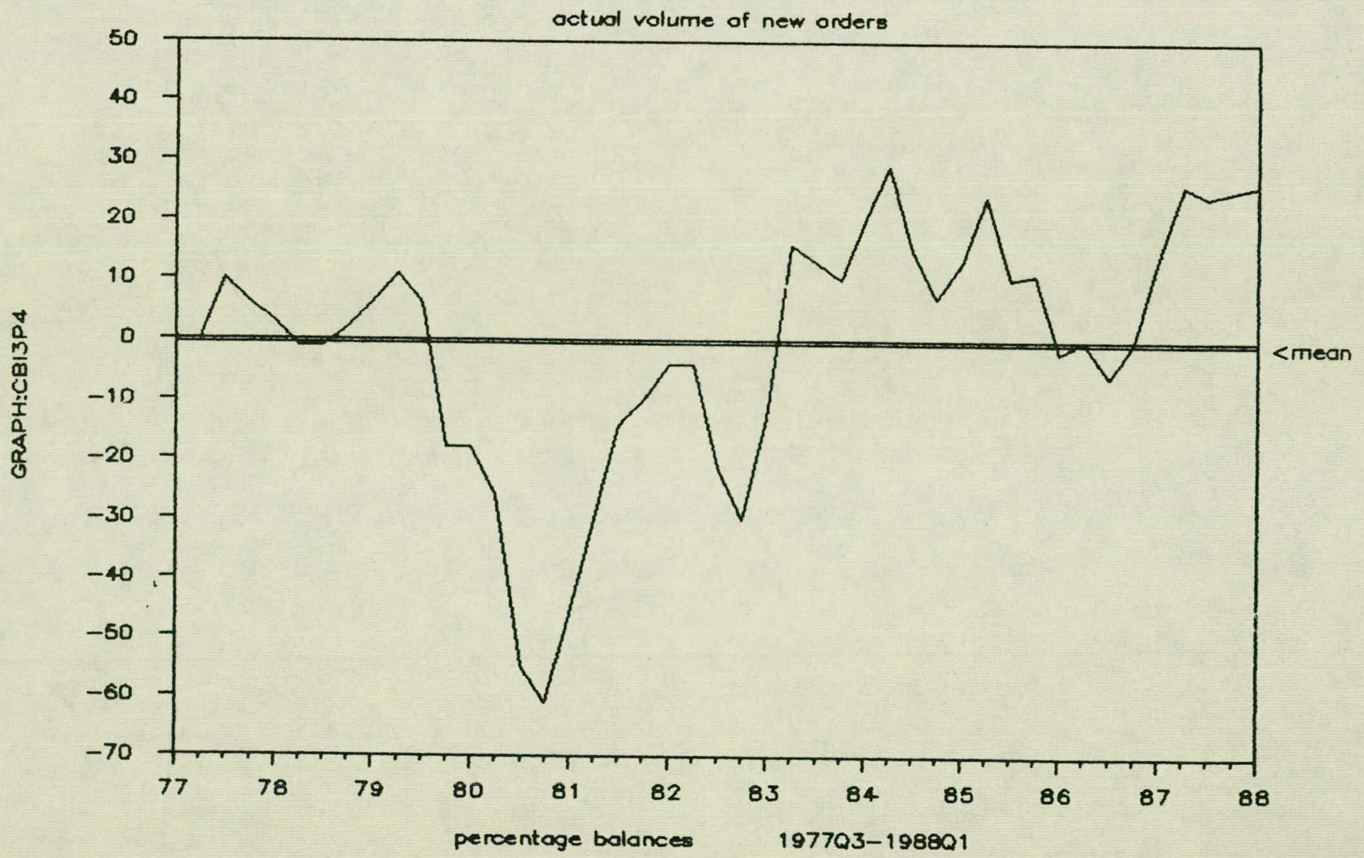


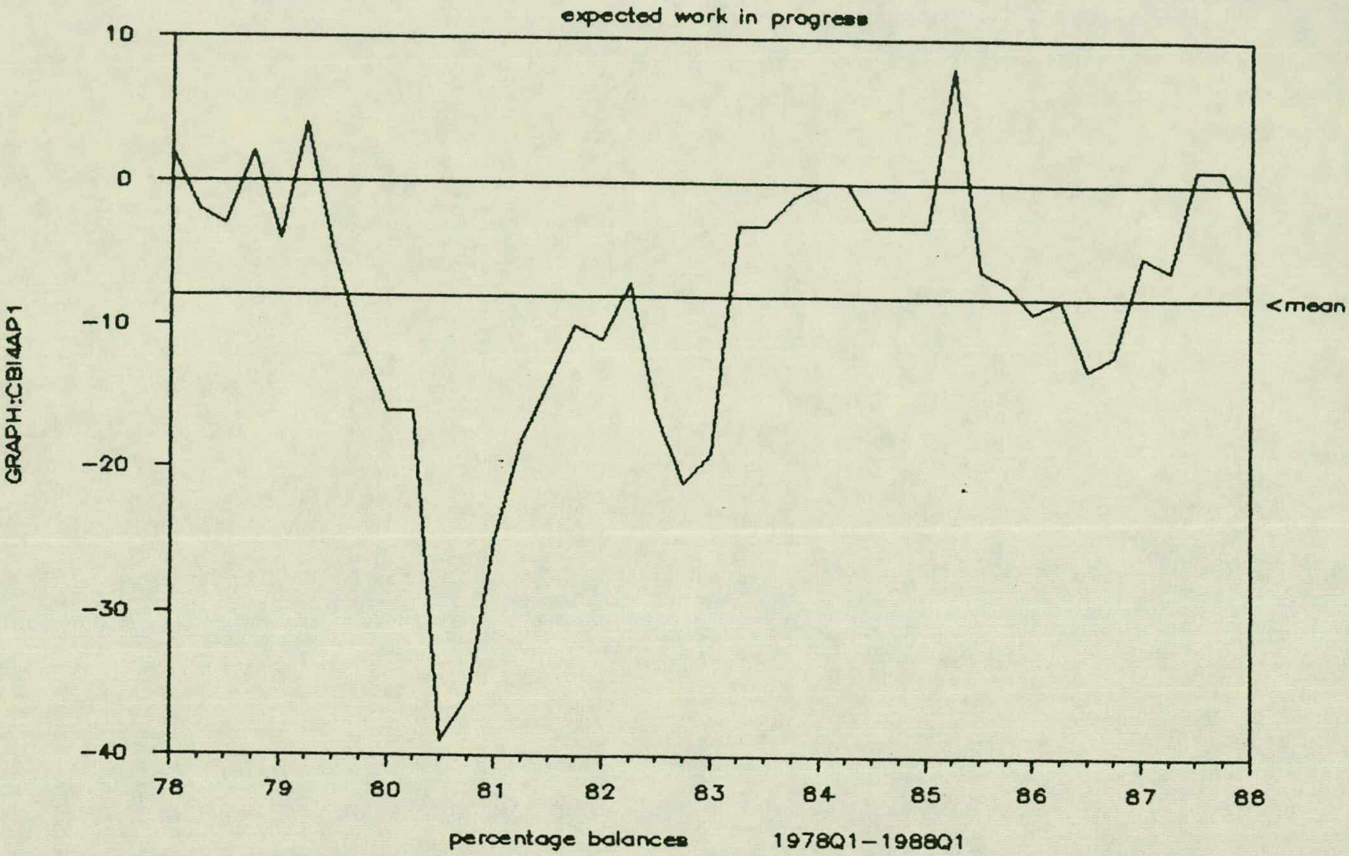


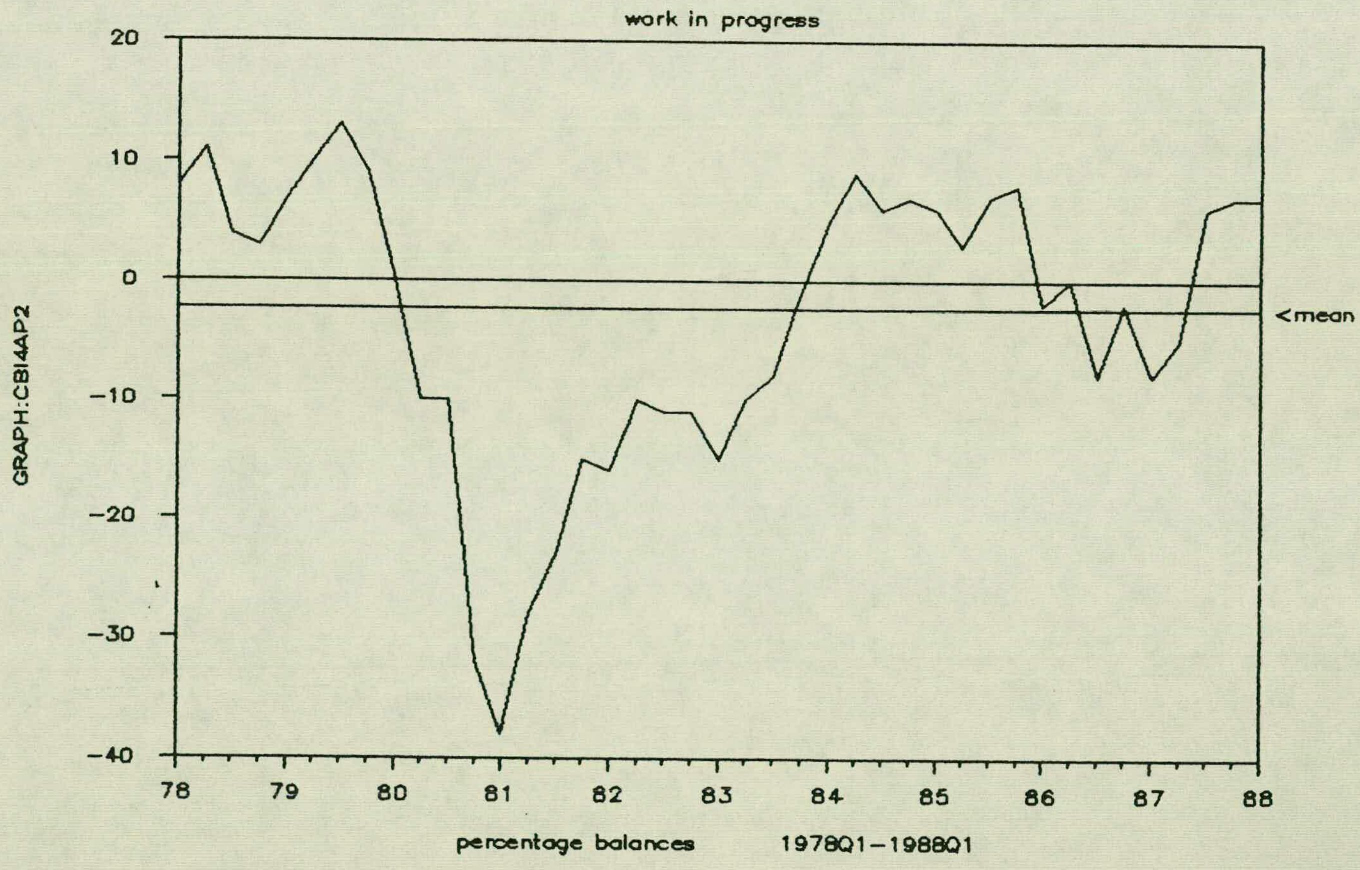
CBI INDUSTRIAL TRENDS SURVEY



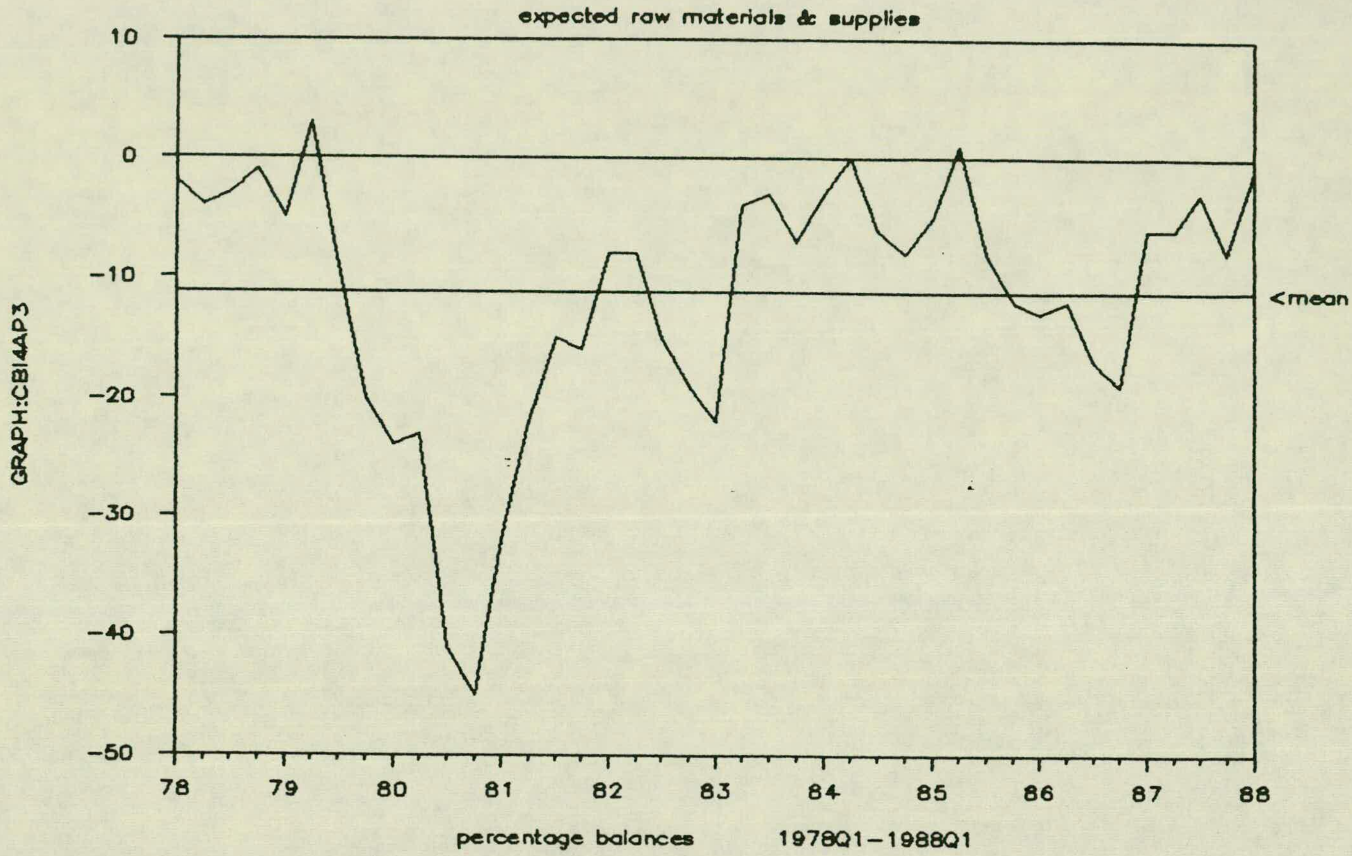


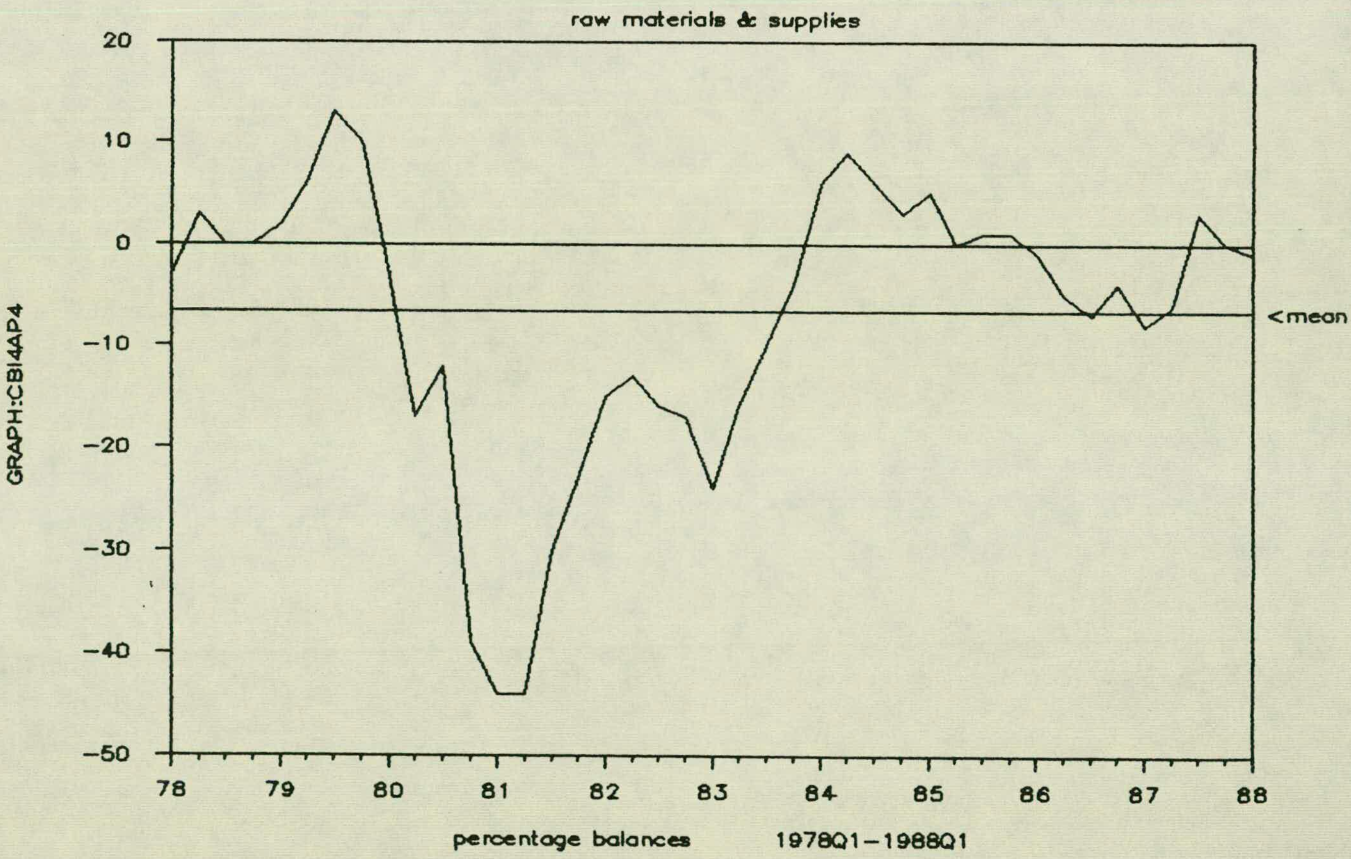
CBI INDUSTRIAL TRENDS SURVEY : VOLUME OF STOCKS





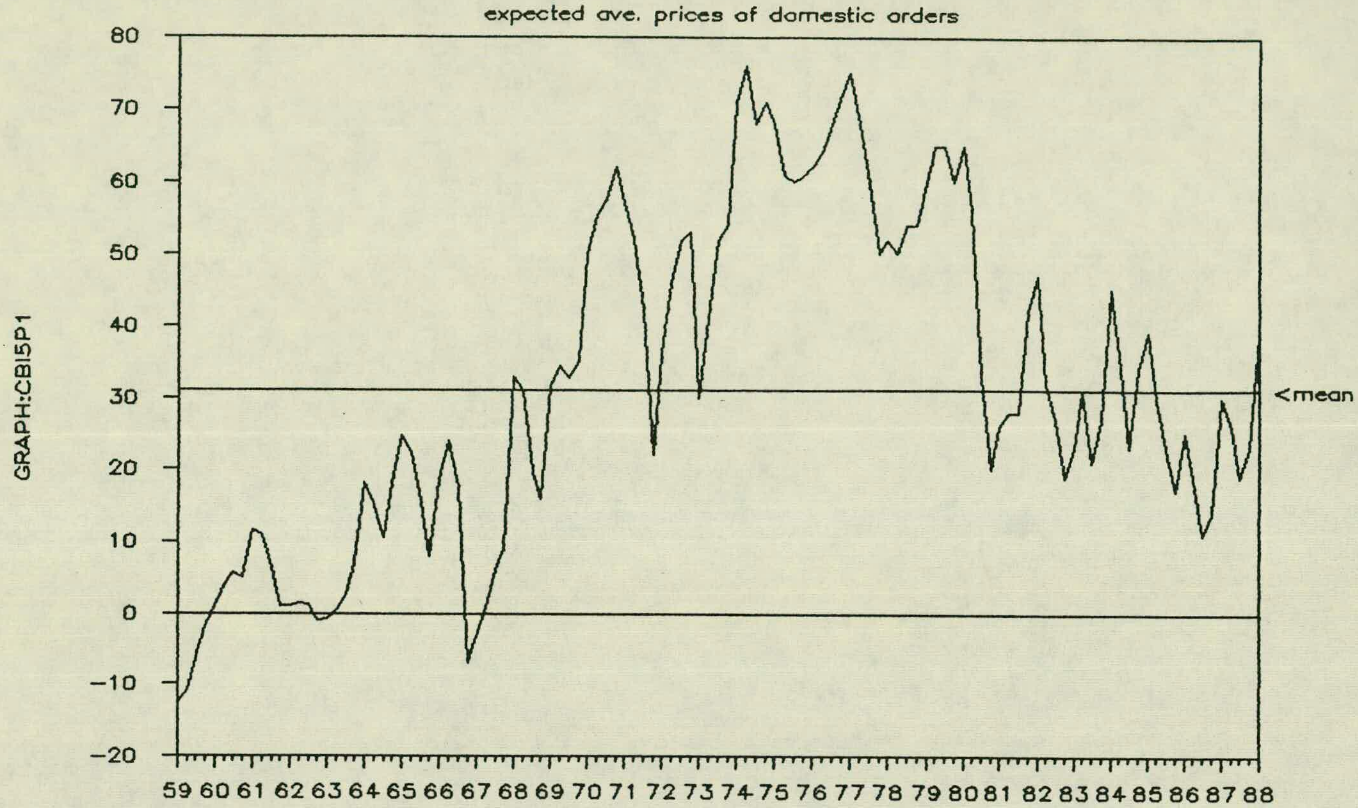
CBI INDUSTRIAL TRENDS SURVEY : VOLUME OF STOCKS





CBI INDUSTRIAL TRENDS SURVEY

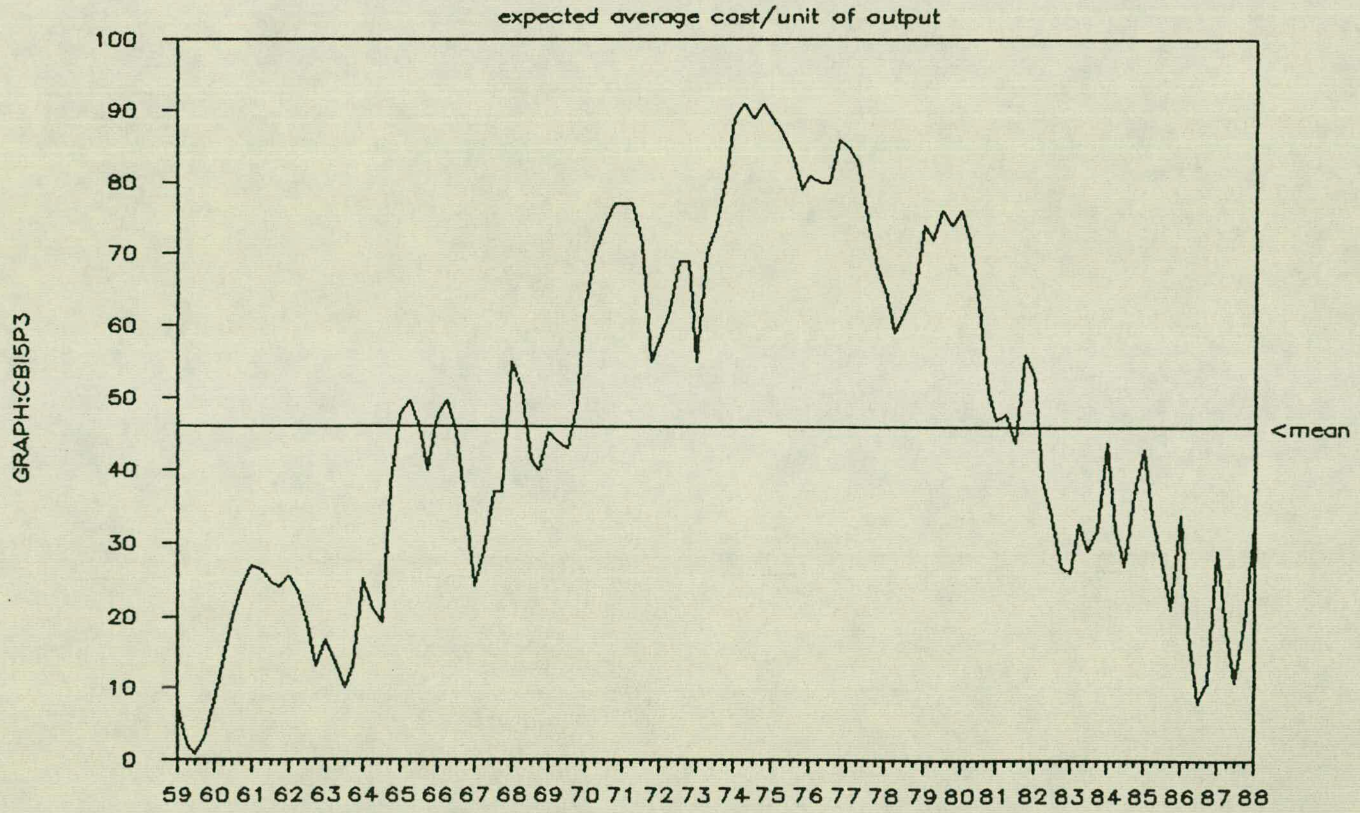
expected ave. prices of domestic orders



percentage balances 1959Q1–1988Q1

CBI INDUSTRIAL TRENDS SURVEY

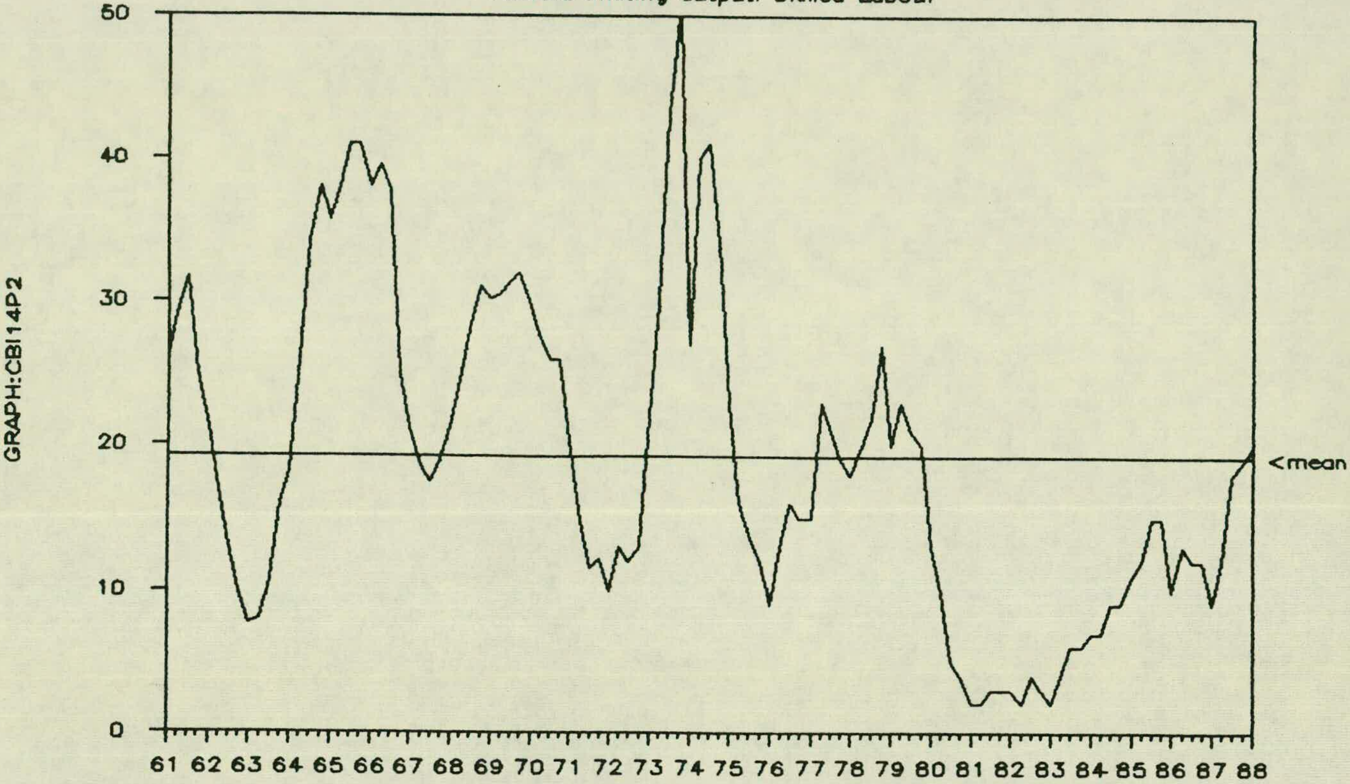
expected average cost/unit of output



percentage balances 1959Q1–1988Q1

CBI INDUSTRIAL TRENDS SURVEY

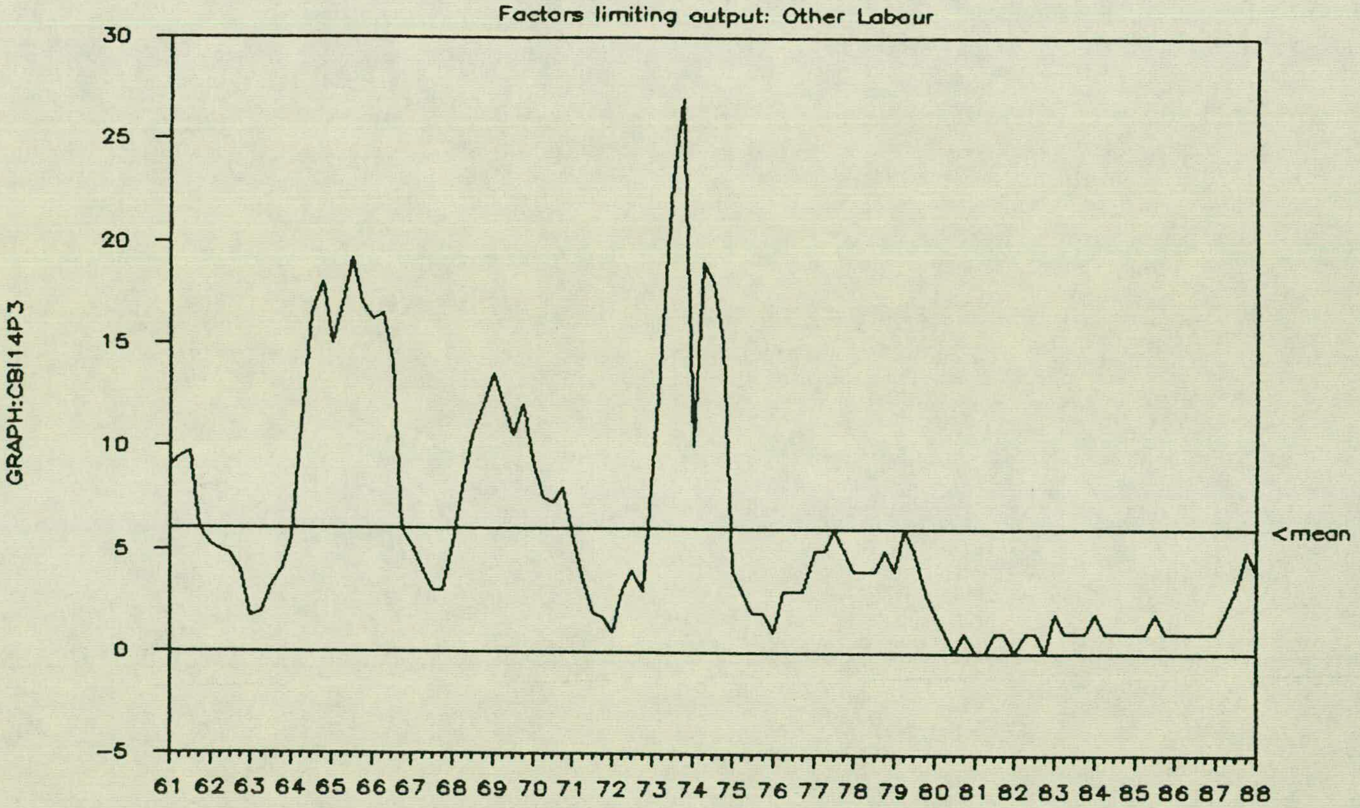
Factors limiting output: Skilled Labour



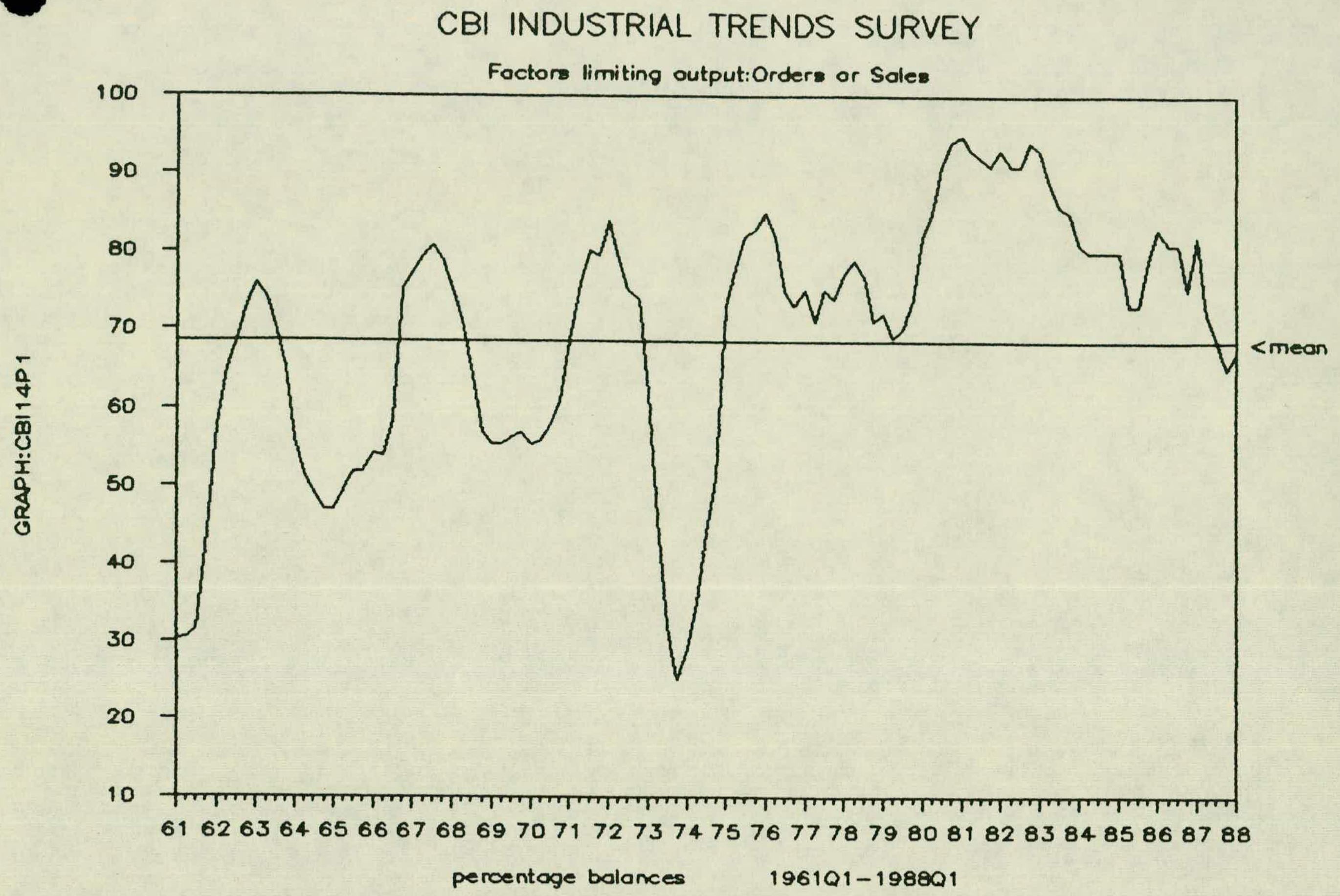
percentage balances 1961Q1–1988Q1

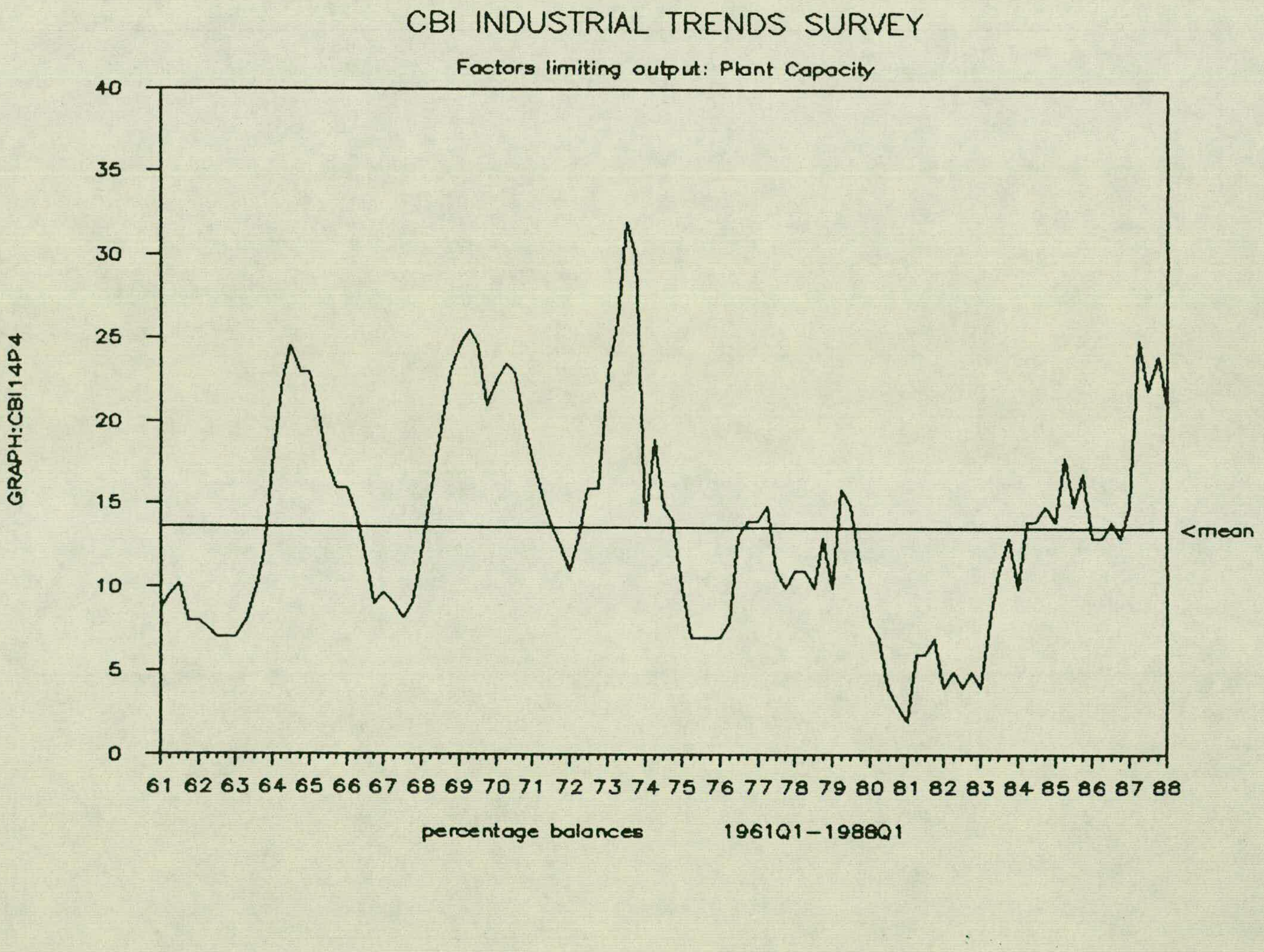
CBI INDUSTRIAL TRENDS SURVEY

Factors limiting output: Other Labour



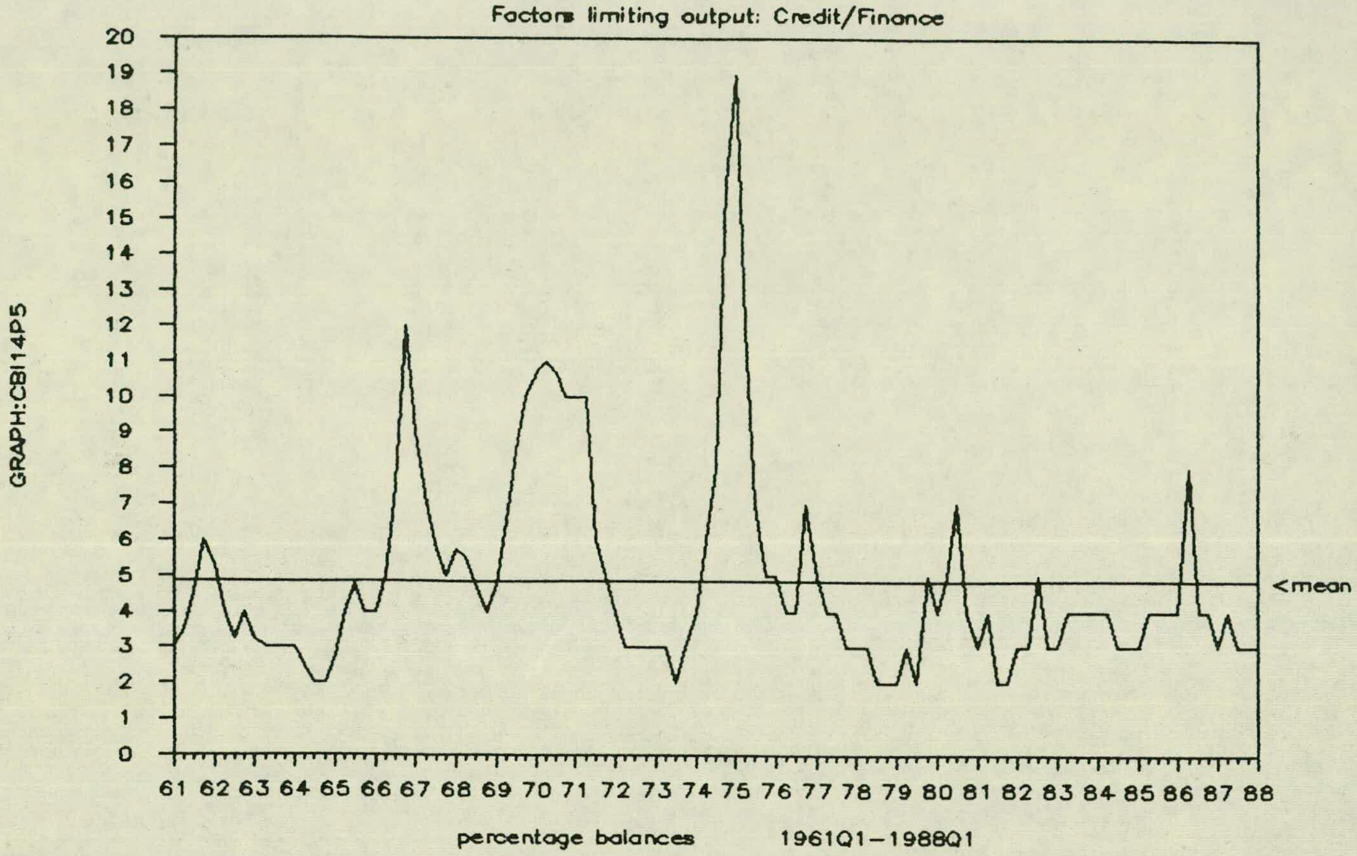
percentage balances 1961Q1–1988Q1


CBI INDUSTRIAL TRENDS SURVEY
Factors limiting output:Orders or Sales
GRAPH:CBI14P1
100
90
80
70
60
50
40
30
20
10
<mean
61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88
percentage balances
1961Q1-1988Q1


CBI INDUSTRIAL TRENDS SURVEY
Factors limiting output: Plant Capacity
GRAPH:CBI14P4
40
35
30
25
20
15
10
5
0
<mean
61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88
percentage balances
1961Q1-1988Q1

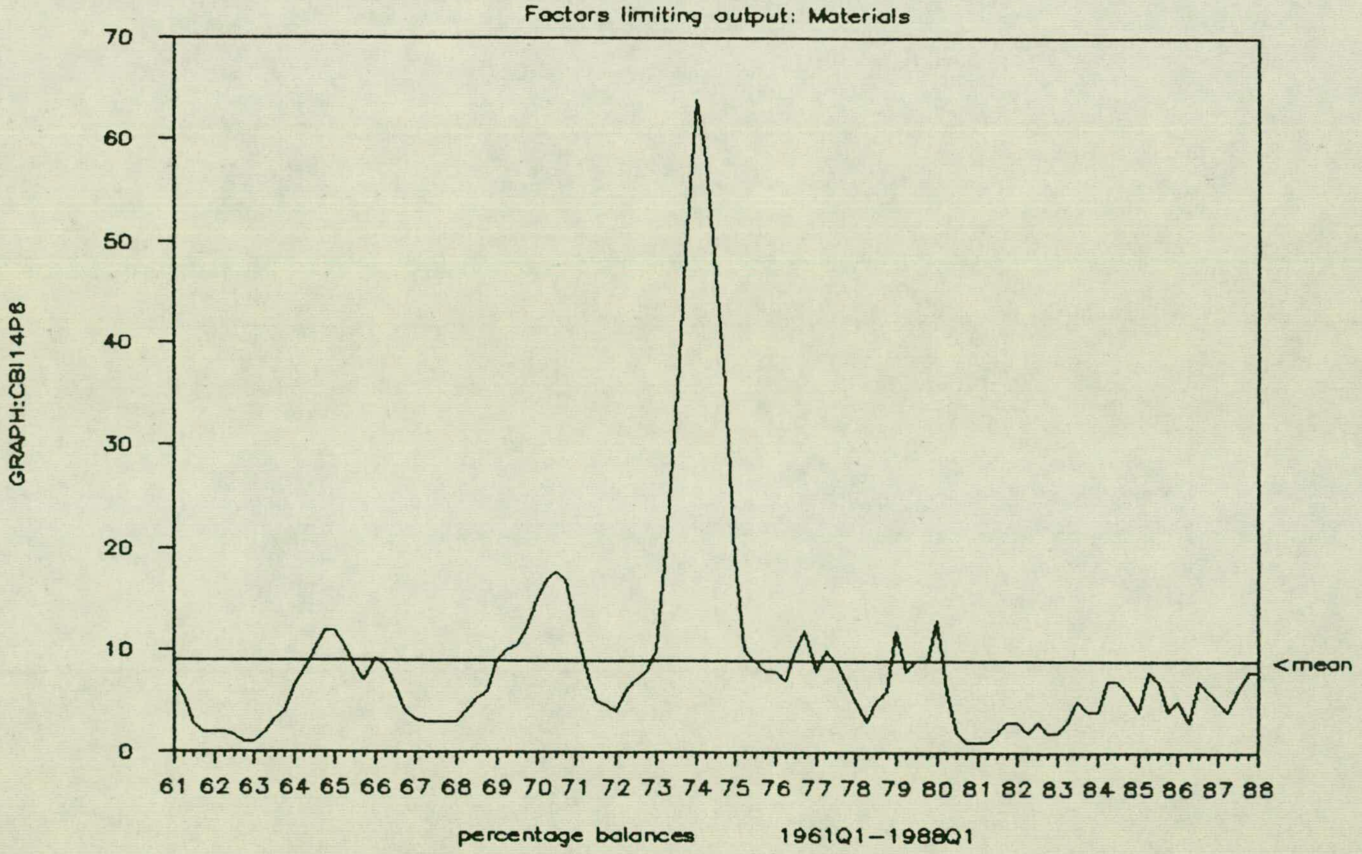
CBI INDUSTRIAL TRENDS SURVEY

Factors limiting output: Credit/Finance

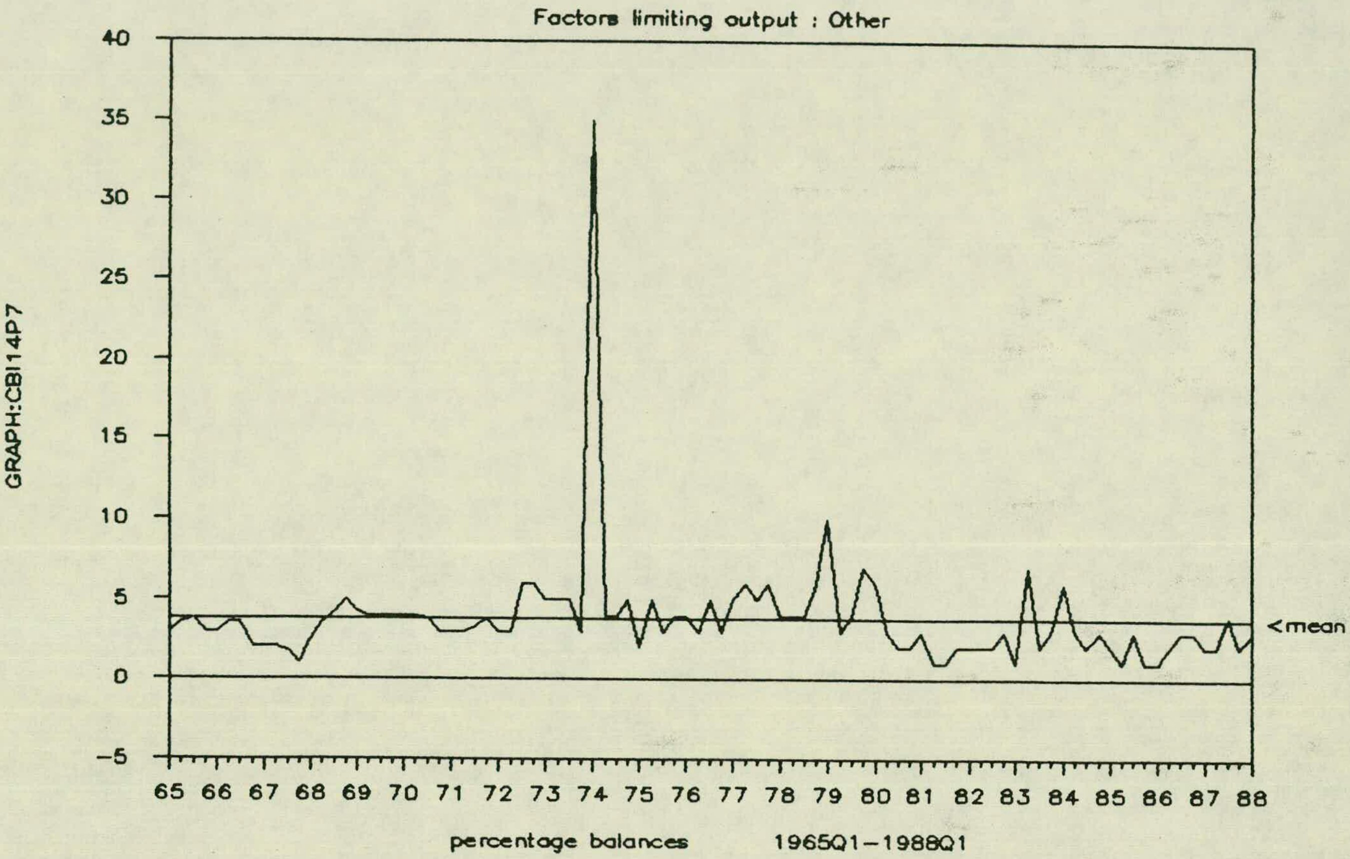


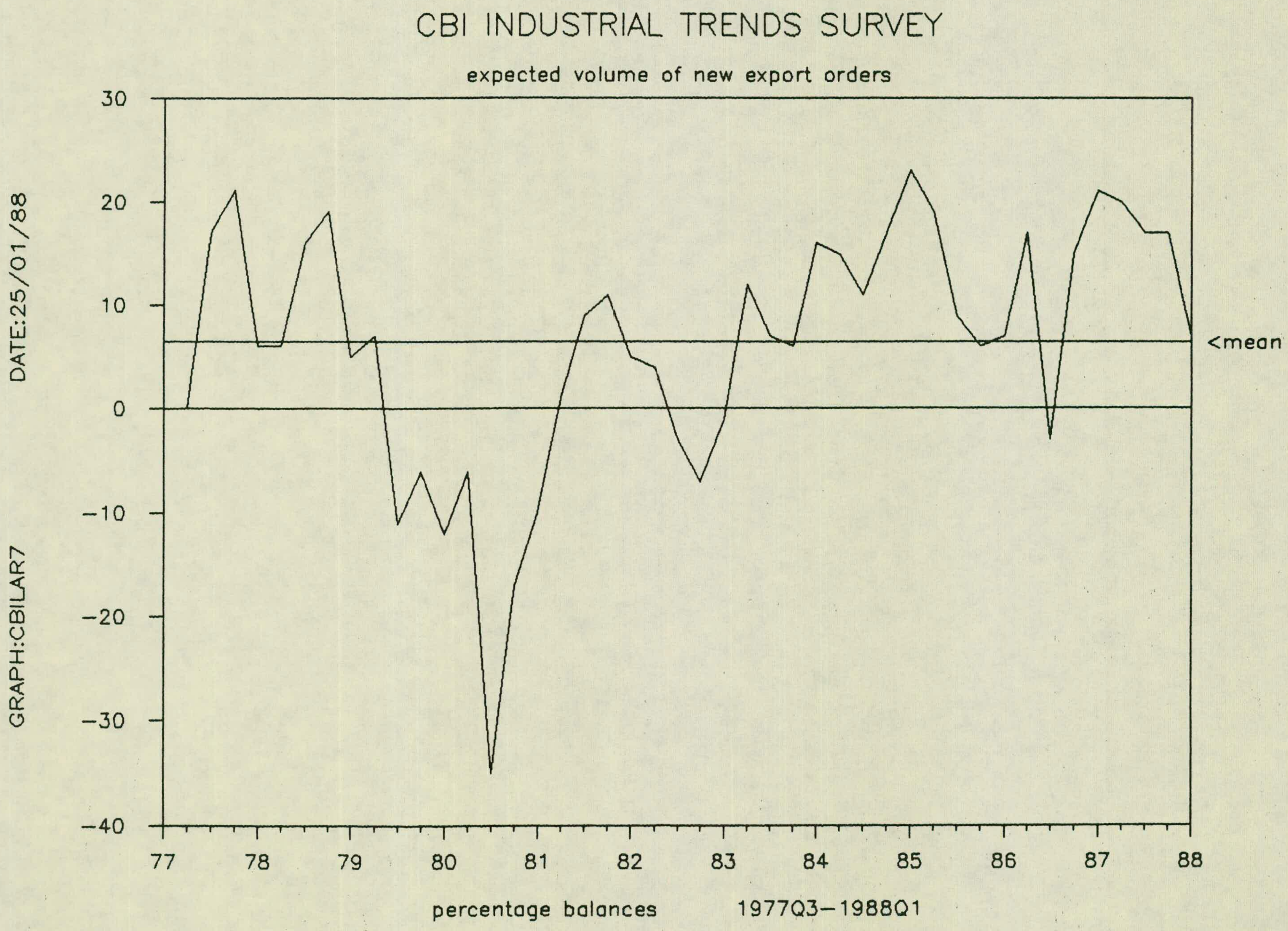
CBI INDUSTRIAL TRENDS SURVEY

Factors limiting output: Materials

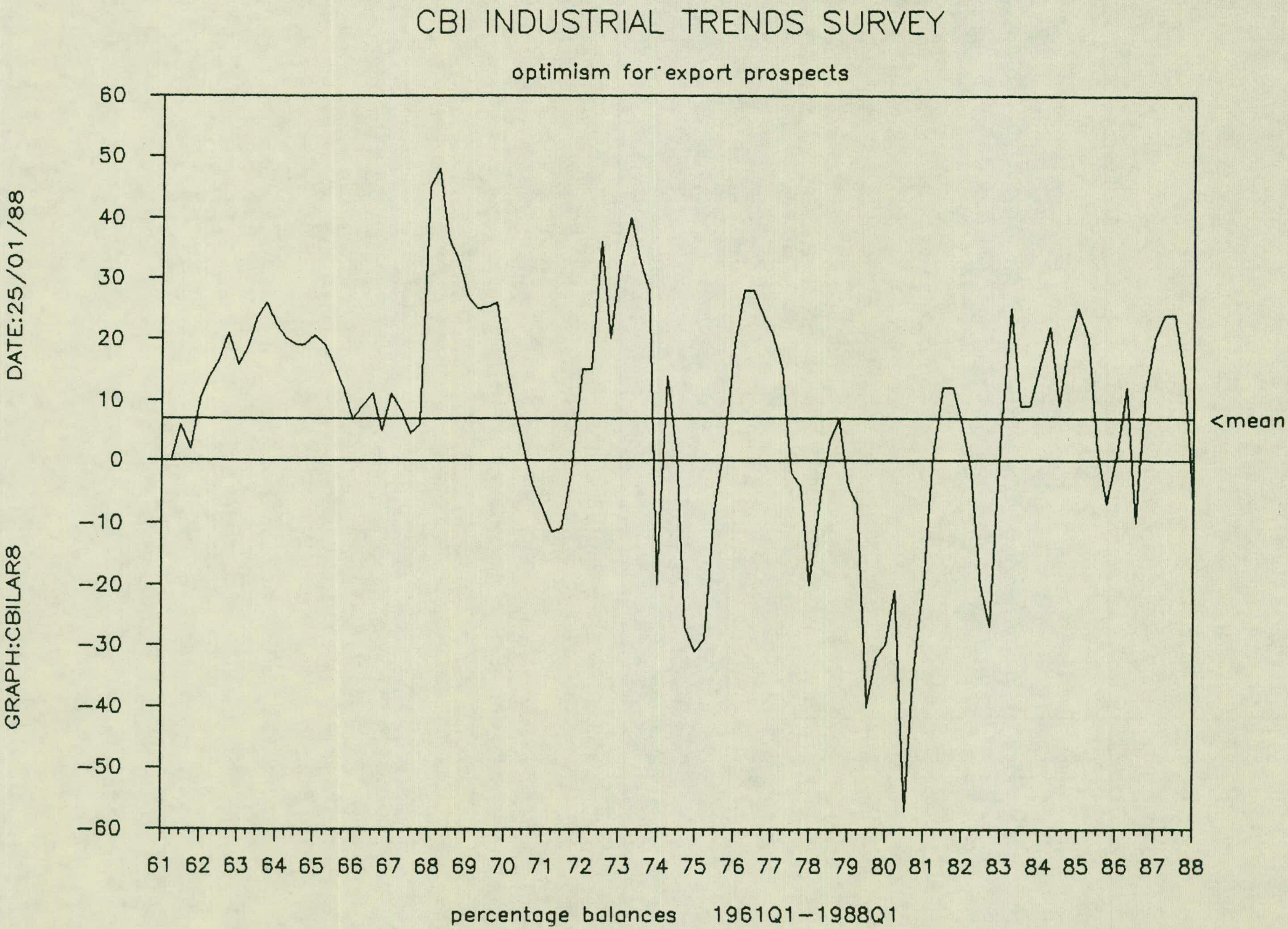


CBI INDUSTRIAL TRENDS SURVEY





CBI INDUSTRIAL TRENDS SURVEY
expected volume of new export orders
30
20
10
0
-10
-20
-30
-40
<mean
DATE:25/01/88
GRAPH:CBILAR7
77
78
79
80
81
82
83
84
85
86
87
88
percentage balances
1977Q3-1988Q1


CBI INDUSTRIAL TRENDS SURVEY
optimism for export prospects
60
50
40
30
20
10
0
-10
-20
-30
-40
-50
-60
DATE:25/01/88
GRAPH:CBILAR8
<mean
61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88
percentage balances 1961Q1-1988Q1

T.MES

Wednesday, February 3, 1988

...bour to offer enhanced role ...r the two sides of industry

...CHAEL CASSELL, POLITICAL CORRESPONDENT

...EXT Labour Government ...d offer a "new partner-..." with British industry, in ...h management and trade ...s would be given a more ...ful voice in determining ...tion's economic future, ...an Gould, the shadow ...d Industry Secretary, ...day.

..., in the first of six ...which will set out ...dustrial strategy – ...bbed it the "Gould ...attacked what he ...as the Department of ...d Industry's "abdica-... responsibility" and ...for more co-operation ...en government and indus-...

He told a meeting at the Commons that the Government, for reasons of ideological prejudice, had followed a course which was diametrically opposed to that of governments in more successful economies. Only in Britain, he claimed, was a close and co-operative relationship regarded as something to be resisted, rather than encouraged.

Mr Gould said that the mechanisms by which industry made its views known to government had been progressively weakened. The Confederation of British Industry, which was increasingly dominated by financial institutions and importers rather than manufacturers, had become a less effective influence on government, while bodies such as the National Economic Development Council had been increasingly ignored by ministers.

Mr Gould continued: "We can no longer afford a situation in which the voice of the bankers and money dealers is heard loud and clear but the voice of industry is muted and uncertain."

He said that Labour would also want to bring the trade unions back into the machinery for decision-making on economic policy. It was clearly wrong that the representatives of 11m working people should be excluded from having any say in the nation's economic future.

The next Labour Government, he continued, would establish an effective forum, providing a proper meeting place for government and industry. Without it, Mr Gould stressed, Britain would continue to handicap itself in the battle to maintain international competitiveness.

Mr Gould said that the partnership sought by Labour would not be based on an attempt to dictate to industry but on the advantages to be gained through a systematic and institutionalised effort to ensure both sides understood each other.

Under the proposals, he claimed, industry would have a much more effective forum, which was genuinely representative of industry's interests and less dominated by the "big battalions".

11

THE TIMES

Labour economic policy

Link offered with industry

By Philip Webster, Chief Political Correspondent

Mr Bryan Gould disclosed yesterday the first outlines of a new Labour economic and industrial policy by offering a new partnership between government and industry under a future Labour government.

With the party's policy review now well under way and its progress due to be scrutinized by the leadership later this week, Mr Gould made the first of six major speeches sketching out ideas for Labour's new industrial strategy.

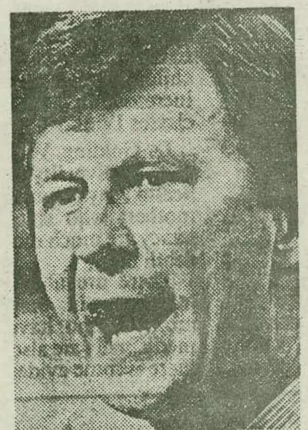
Mr Gould, the shadow Secretary of State for Trade and Industry, is also the joint "convener" of the key policy group on the economy.

Some of the ideas he will set out in the next two or three months either have or will have been discussed in broad terms by the policy group, but Mr Gould, who is considered to be a long-term contender for the party leadership, is clearly keen to be seen to be setting the agenda for the policy discussion.

In his speech last night to the Labour Finance and Industry Group and the Labour Economic Strategy Group, Mr Gould argued that Britain should learn from other countries and have far more cooperation between government and industry.

He attacked the "abdication of responsibility" of the Department of Trade and Industry under Lord Young of Graffham.

He accused the Government of paying too much attention to the financial establishment but too little to industry and blamed both sides for the lack of a cooperative relationship, accusing the CBI of being increasingly



Mr Gould: Learning from abroad

dominated by financial institutions.

Mr Gould promised that Labour would bring the unions back into the decision-making machinery of economic policy, but his speech concentrated on the need for a new partnership to bring industry into the centre of decision-making as well.

He said: "It will be a partnership based not on any attempt to dictate to industry, but rather on the great advantage to be gained through a systematic and institutionalized effort to ensure that both sides understand each other and work with rather than against each other.

"No government will promise in advance to do everything that industry wants, but there is surely much to be said for at least knowing what is in each other's minds and in trying to increase the mutual confidence on which longer-term planning, for both government and industry, can be based."

He added: "A government prepared to take industry into its confidence and an industry prepared to work with government can bring great benefits to everyone.

"To turn our backs on these advantages would not be a high-minded renunciation of corporatism but would mean resigning ourselves to doing badly what we are trying to do well."

In a remark that may raise some suspicion on the left, Mr Gould said that he looked forward to a much closer relationship with chambers of commerce and trade associations than had been the case so far.

Mr Gould's other speeches will set out early ideas for a new policy on wealth creation, raising finance for investment, resources for the future, the balance of the economy between service and manufacturing, and trade and Britain's place in the world.

On Thursday and Friday, the Shadow Cabinet and the national executive committee are to meet at Transport House.

They will hear reports from the conveners of the seven policy review groups about the initial stages of their work.

The most contentious item for the meeting will be a preliminary discussion on a new statement of Labour's values and objectives, which is being prepared for the annual conference this year.

The debate is certain to expose the divisions between the far left and the rest of the party about the direction Mr Neil Kinnock is taking the party. Mr Tony Benn and Mr Ken Livingstone have submitted draft statements for the discussion.

111

bf 10.2.

FROM: A P HUDSON 13/2

DATE: 3 February 1988

MR TYRIE

cc Mr R I G Allen
Mr Pickford
Mr Wynn Owen
Mr Cropper
Mr Call
Mr N Forman MP

Already done

BRYAN GOULD'S SPEECHES ON INDUSTRY

Please could you arrange for somebody to get hold of copies of Mr Gould's six speeches setting out Labour's industrial strategy. (See attached press report).

I think we'll have to do this!

2. It might be useful, also, if Central Office could compare these with John Smith's speeches when he was Shadow DTI Spokesman.

3. As I said to you on the phone, I think somebody should ask Mr Gould whether, since he is so concerned with the health of British industry, he urged his constituents at Dagenham to moderate their pay claim and not go on strike. A very good line for the House

4. Mr Gould alleges that the CBI is increasingly dominated by financial institutions and importers rather than manufacturers. Can Mr Wynn Owen advise on whether this is right, please?

APH

A P HUDSON

14/210

Wednesday, February 3, 1988

Labour to offer enhanced role for the two sides of industry

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

THE NEXT Labour Government would offer a "new partnership" with British industry, in which management and trade unions would be given a more powerful voice in determining the nation's economic future, Mr Bryan Gould, the shadow Trade and Industry Secretary, said yesterday.

Mr Gould, in the first of six speeches which will set out Labour's industrial strategy – he has dubbed it the "Gould plan" – attacked what he described as the Department of Trade and Industry's "abdication of responsibility" and called for more co-operation between government and industry.

He told a meeting at the Commons that the Government, for reasons of ideological prejudice, had followed a course which was diametrically opposed to that of governments in more successful economies. Only in Britain, he claimed, was a close and co-operative relationship regarded as something to be resisted, rather than encouraged.

Mr Gould said that the mechanisms by which industry made its views known to government had been progressively weakened. The Confederation of British Industry, which was increasingly dominated by financial institutions and importers rather than manufacturers, had become a less effective influence on government, while bodies such as the National Economic Development Council had been increasingly ignored by ministers.

Mr Gould continued: "We can no longer afford a situation in which the voice of the bankers and money dealers is heard loud and clear but the voice of industry is muted and uncertain."

He said that Labour would also want to bring the trade unions back into the machinery for decision-making on economic policy. It was clearly wrong that the representatives of 11m working people should be excluded from having any say in the nation's economic future.

The next Labour Government, he continued, would establish an effective forum, providing a proper meeting place for government and industry. Without it, Mr Gould stressed, Britain would continue to handicap itself in the battle to maintain international competitiveness.

Mr Gould said that the partnership sought by Labour would not be based on an attempt to dictate to industry but on the advantages to be gained through a systematic and institutionalised effort to ensure both sides understood each other.

Under the proposals, he claimed, industry would have a much more effective forum, which was genuinely representative of industry's interests and less dominated by the "big battalions".

THE TIMES

Labour economic policy

Link offered with industry

By Philip Webster, Chief Political Correspondent

Mr Bryan Gould disclosed yesterday the first outlines of a new Labour economic and industrial policy by offering a new partnership between government and industry under a future Labour government.

With the party's policy review now well under way and its progress due to be scrutinized by the leadership later this week, Mr Gould made the first of six major speeches sketching out ideas for Labour's new industrial strategy.

Mr Gould, the shadow Secretary of State for Trade and Industry, is also the joint "convener" of the key policy group on the economy.

Some of the ideas he will set out in the next two or three months either have or will have been discussed in broad terms by the policy group, but Mr Gould, who is considered to be a long-term contender for the party leadership, is clearly keen to be seen to be setting the agenda for the policy discussion.

In his speech last night to the Labour Finance and Industry Group and the Labour Economic Strategy Group, Mr Gould argued that Britain should learn from other countries and have far more co-operation between government and industry.

He attacked the "abdication of responsibility" of the Department of Trade and Industry under Lord Young of Graffham.

He accused the Government of paying too much attention to the financial establishment but too little to industry and blamed both sides for the lack of a co-operative relationship, accusing the CBI of being increasingly

Mr Gould: Learning from abroad

dominated by financial institutions.

Mr Gould promised that Labour would bring the unions back into the decision-making machinery of economic policy, but his speech concentrated on the need for a new partnership to bring industry into the centre of decision-making as well.

He said: "It will be a partnership based not on any attempt to dictate to industry, but rather on the great advantage to be gained through a systematic and institutionalized effort to ensure that both sides understand each other and work with rather than against each other.

"No government will promise in advance to do everything that industry wants, but there is surely much to be said for at least knowing what is in each other's minds and in trying to increase the mutual confidence on which longer-term planning, for both government and industry, [illegible] based."

He [illegible]: "A government prepared to take industry into its confidence and an industry prepared to work with government can bring great benefits to everyone.

"To turn our backs on these advantages would not be a high-minded renunciation of corporatism but would mean resigning ourselves to doing badly what we are trying to do well."

In a remark that may raise some suspicion on the left, Mr Gould said that he looked forward to a much closer relationship with chambers of commerce and trade associations than had been the case so far.

Mr Gould's other speeches will set out early ideas for a new policy on wealth creation, raising finance for investment, resources for the future, the balance of the economy between service and manufacturing, and trade and Britain's place in the world.

On Thursday and Friday, the Shadow Cabinet and the national executive committee are to meet at Transport House.

They will hear reports from the conveners of the seven policy review groups about the initial stages of their work.

The most contentious item for the meeting will be a preliminary discussion on a new statement of Labour's values and objectives, which is being prepared for the annual conference this year.

The debate is certain to expose the divisions between the far left and the rest of the party about the direction Mr Neil Kinnock is taking the party. Mr Tony Benn and Mr Ken Livingstone have submitted draft statements for the discussion.

CJ/074/1m

RESTRICTED

Bf
10/3

~~CF 29.2~~
~~7.~~3

FROM: A P HUDSON

DATE: 22 February 1988

MR WYNN OWEN

cc Mr Monck
Mr Burgner
Mr R I G Allen
Mr MacAuslan
Mr Pickford
Mr Flanagan
Mr Fray
Mr Cropper
Mr Call
Mr Tyrie

PS. ask ~~[illegible]~~ PWO v. politely if he's done this yet.

APH

APH
SOMETHING WILL BE UP IN NEXT TWO DAYS UNLESS YOU WANT IT SOONER
TL 7/3

THE BALANCE OF THE CBI MEMBERSHIP

The Chancellor was grateful for your 11 February.

2. He has asked what the definition of "Industrial" is. And how does the CBI's 62/38 breakdown reflect the pattern of the economy as a whole? His impression is that, in terms of the share of GDP, the Industrial/Commercial ratio is nothing like 62/38.

APH

A P HUDSON

4241/029

RESTRICTED

FROM: P WYNN OWEN

DATE: 11 February 1988

MR A P HUDSON ~ 2

C.

~~Ld's position & Ant~~

Tom may like to see.

Thanks. What is the definition of manufacturer? And how does the CBI's 62/38 breakdown reflect the pattern of the economy as a whole? My impression is that in share of GDP, the industrial/commercial ratio is nothing like 62/38.

AHH

cc Mr Monck
Mr Burgner
Mr R I G Allen
Mr MacAuslan
Mr Pickford
Mr Flanagan
Mr Fray
Mr Cropper
Mr Call
Mr Tyrie

THE BALANCE OF THE CBI MEMBERSHIP

Your minute of 3 February asked whether the CBI is increasingly dominated by financial institutions and importers rather than manufacturers.

Alleged by Bryan Gould (see below).

THE NUMBERS

2. The CBI membership department provided the following figures:-

CBI MEMBERSHIP (%)

	Industrial	Commercial
1981	77	23
1983	73	27
1986	64	36
1987	62	38

I asked PWO if CBI could go further back, but they can't. AHH

3. As one would expect from changes within the economy, the commercial membership has been growing at the expense of the industrial. But a substantial proportion of the membership (almost two-thirds) is still industrial. Moreover, although the CBI could not give me confidential information on subscriptions, they said the industrial contributors, since they were usually larger, formed an even greater proportion of total CBI subscriptions.

4. The figures above have not been published and the CBI requested that they be consulted first before any public use is made of the numbers.

COMMENT

5. A couple of recent developments within the CBI are relevant.

6. First, the CBI City/Industry Task Force Report, published in October 1987, concluded that, though "short-termism" was a problem in the UK, it did not derive

from the City. Sir David Nickson, the CBI's outgoing President, chaired the Task Force, which consisted of both industrialists and financiers. Its apparent whitewash of the City has been criticised. You might, for instance, have noticed the attached articles reporting Professor Mayer's recent attack on the CBI report.

7. John Banham's arrival at the CBI last summer was heralded by reports that he would be aiming to collaborate with the Government in solving problems and adopting a "pro-active" approach, helping industry to help itself. But this aroused opposition among some members of the CBI's governing council and in some CBI regions. Banham's original policy document went through countless drafts. By the autumn, it had been reduced to the lowest common denominator - lobbying Government. He has continued to show interest in issues such as management development, which suggests he is seeking to keep pro-active work afloat. But most of his pre-Christmas time was spent in lobbying HMG on issues such as electricity prices and the community charge. More recently, the most surprising thing about his criticism of the base rate rise was not that he made it in an apparently ill-informed manner (there is nothing unusual in CBI leaders instantly condemning base rate rises), but that he felt he had to explain publicly his reasons, following an attack on his complaint. It may be that the existence of an increasing proportion of CBI members from commerce, presumably including the City, is contributing to such balancing acts.

CONCLUSIONS

8. The commercial share of CBI membership is increasing rapidly. But the figures above clearly show the CBI is not presently dominated by importers and financial institutions, at least in terms of membership. My impression is that the CBI, far from being hijacked by **financiers** or **importers**, has actually been undergoing a partial facelift due to John Banham's **management consultancy** approach, rather similar in some respects to the new role Lord Young is developing for DTI. The substance of CBI activities is now a somewhat schizophrenic mixture of the traditional task of lobbying of Government, together with the initial elements of a more pro-active, task force, consultancy based approach which Banham brought with him.

Philip Wynn Owen

P WYNN OWEN

Thursday, February 4, 1988

THE GUARDIAN

CBI survey 'faulty'

24

By Peter Rodgers

The CBI's recent defence of the City against charges of short-termism was fiercely attacked last night by Professor Colin Mayer of City University Business School.

Professor Mayer said the report of the CBI task force on the City and industry had entirely failed to identify the central issues, and its "exoneration" of the City was based on a faulty survey.

The survey of executives reported that "fear of takeover had not been a significant constraint on long-term investments". Professor Mayer said the question was framed in a way which prompted that response and showed the "very limited scope of the CBI investigation".

He said the task force view was that all that was needed was an improvement in communications between City and industry.

This failed to reflect the greater willingness in other countries to invest long-term at high risk and to provide finance on terms that made such projects attractive. The CBI had failed to consider alternatives to capital markets and takeovers as a means of restructuring British industry.

The CBI responded that it had considered the differences from Germany and Japan at great length but had concluded that changes to the structure of the British financial system would not yield great benefits.

THE TIMES

Bankers on musical chairs

Hill Samuel has dropped out of sight in the latest league table of merchant banks, ranked according to corporate finance expertise. Shareholders in the TSB Group might be alarmed that the bank for which they paid twice as much as they should has fallen from fifth in line to the corporate finance crown to 14th, but it is unlikely to be more than of passing interest to the TSB board.

The survey was, to be fair, conducted in Hill Samuel's darkest hour. The corporate finance stars had departed and the TSB was taking criticism for pressing on with a deal after Black Monday at a price negotiated when the bull market was still running hard.

TSB was advised by Lazard Brothers, which also saw no reason to change the terms of the acquisition just because the stock market had fallen by nearly a third in value. And Lazard Brothers has pushed up the league from eighth place to fifth, taking Hill Samuel's old position. If Lazard did right by their client, the TSB, then we should see Hill Samuel bouncing back up the table in a year's time. If not, maybe Lazard should drop out . . .

Top of the merchant bankers survey, conducted by Consensus Research in conjunction with *The Treasurer*, comes SG Warburg, having changed places with Morgan Grenfell, still a formidable force in second place. Credit Suisse First Boston and Goldman Sachs International have begun to inch their way into the league.

THE TIMES

CBI taskforce report 'failed to identify the issues'

21

New doubts cast on City's role

By John Bell, City Editor

Professor Colin Mayer of the City University Business School has thrown an academic spanner into the workings of the CBI taskforce which recently dismissed charges of "short-termism" against the City.

Far from being the definitive work on the subject, the report produced by the taskforce failed to identify the issues, said Prof Mayer yesterday.

The CBI initiative in setting up a working party was borne of a deep unease among industrialists that London's financial community was made up of fair weather friends, reluctant to fund long-term projects and all too ready to part with investments in sound companies facing hostile takeover bids. The conclusions of the taskforce were, however, broadly favourable to the City's technical performance as a fund-raiser, though it admitted communications could be improved.

"As I sit in the Business School, evaluating the role of the City in the funding of industry, I feel increasingly uneasy," said Prof Mayer at a London symposium on industry and finance. "The models that I am supposed to respect and apply as an academic seem to bear so little resemblance to what I see of financial practice."

The main deficiency of the CBI report was its failure to take a broader perspective, he said. There was no analysis of the costs of funding particular investment projects in different countries. There was no evaluation of the relative merits of takeovers and banks in effecting corporate reorganizations. And most seriously of all, there was no discussion of the extent to which it was the role of the financial system to arrest a decline in corporate profitability in a country in which investment had been inadequate or misdirected, he said.

Challenge 24

Prof Mayer said that in seeking to dispel some myths about City and industry, the taskforce had created its own. "It is just not the case, as the taskforce maintains, that the consensus view which emerges is that the stock market operates efficiently. Recently a large number of studies have reported results that are at variance with market efficiency." There was no consensus. There was considerable uncertainty — even more so since the events of October 19, he said.

The observation by the taskforce that fear of takeover was not perceived by chief executives as a constraint on long-term investment was an extraordinary basis on which to exonerate the British financial system.

While the CBI report was water under the bridge, there remained a pressing need for some evidence on the relative merits of different financial systems, before more of British industry, not least the financial sector itself, fell under the weight of Japanese capital, said Prof Mayer.

5/3