



PO-CH/NL/0323

PART C

Part C.

CONFIDENTIAL
(Circulate under cover and
notify REGISTRY of movement)

Begins: 10/3/88
Ends: 31/8/88.


 PO -CH /NL/0323

 PART C

Chancellors (Lawson) Papers;

THE CONFEDERATION OF
BRITISH INDUSTRY
ECONOMIC PROGRESS REPORT

PO -CH /NL/0323
PART C

DD '3: 25 Years
D Anderson
1/11/95.

FROM: P WYNN OWEN
DATE: 10 March 1988

MR HUDSON - (2) / 2

*Short point is:
CBI membership is 54% Industrial,
39% commercial & small residual;
GDP is 45% Industrial, 35%
traded services, 20% non-traded
services.*

- cc Mr Monck
- Mr Burgner
- Mr R I G Allen
- Mr MacAuslan
- Mr S Brooks
- Mr Pickford
- Mr Flanagan
- Mr Fray
- Mr Cropper
- Mr Call
- Mr Tyrie
- Mr Lomas - CSO

AMH
Pl. minute AMH

BALANCE OF CBI MEMBERSHIP

Your minute of 22 February, responding to mine of 11 February, asked:

- (i) What the definition of "Industrial" is.
- (ii) How the CBI's industrial/commercial membership breakdown reflected the pattern of the economy as a whole.

INDUSTRIAL AND COMMERCIAL CLASSIFICATIONS

2. The CSO make use of the standard industrial classification (SIC) in their analyses of economic activity. However, the SIC does not explicitly distinguish between industrial and commercial concerns. Nevertheless, within this CSO classification "Industry" sectors could be considered as those which are components of the index of industrial production and construction, including energy and water production industries, plus agriculture, forestry and fishing. In practice, that means those which produce a physical product. "Commercial" classification could be accorded to traded services, including transport and financial services. It should be noted that in the National Accounts the Industrial and Commercial Companies Sub-sector (ICCs) excludes public corporations and financial companies and institutions. It is therefore narrower than the more general concepts of "Industry" and "Commerce" described above, from which, broadly speaking, the CBI membership may be drawn.

3. The CBI do not use CSO classifications. They follow their Charter and bye-laws laid down in 1977. Under bye-law No 4 Industrial classification means:

"Any company or firm which is wholly or mainly engaged in productive or manufacturing industry in Great Britain (as opposed to trade of any type or services ancillary thereto), including producers of raw materials, manufacturers and converters and companies and firms carrying out industrial processes, or engaged in the construction industry or the transport industries."

To be eligible for classification as a CBI Commercial member you have to meet the following definition:

"Any company or firm which is wholly or mainly engaged in trade of any type, or in services ancillary thereto in Great Britain."

4. The CBI have two other small categories of member - those in the "public sector" and "representative organisations". Otherwise, any member company or firm gets classified either as industrial or commercial. The head of the Membership Department freely admitted that the tariff structure was wrong - commercial members get very cheap membership relative to industrial members, due to a tariff structure invented ten years ago by Peat Marwick, which the CBI appear to have been too timid to overturn since. This explains the disparity between the breakdowns of membership by **numbers** and by **subscription** given below.

5. The key difference to note between the CSO and CBI definitions of "Industrial" is that the CBI chooses to classify transport industries as industrial.

NUMBERS

6. The head of the CBI Membership Department said they had provided confused and incorrect numbers before and gave me the following new numbers.

CBI MEMBERSHIP -1987 (%)

	<u>By number</u>	<u>By value of subscriptions</u>
Industrial	53.7	64.0
Commercial	39.3	24.3
Public Sector	0.7	4.6
Representative Organisations	6.3	7.1

7. It is not therefore possible to achieve an exact breakdown of the CBI membership by industrial/commercial categories, since we do not know the division within "representative organisations" or "public sector" members between the two classifications. But, for broad working purposes, we might now take the CBI industrial/commercial split, by number, as 54:39 (1.38:1).

8. The CSO, working on the informal definitions above, have Industrial as constituting about 45 per cent of total GDP, with traded services (including transport) at 35 per cent and non-traded services at 20 per cent. Their broad rule-of-thumb for the Industrial/Commercial split would therefore be 45:35 (1.29:1). But if one were to use the CBI classification, with transport as industrial, this would change to 50:30 (1.67:1). Neither is perhaps too far removed from the CBI 54:39 (1.38:1) split. But we do not know how great a proportion of output in each sector is covered by CBI members, so the comparison may be somewhat misleading.

9. As in my earlier minute, the CBI figures have not been published and the CBI have requested that they be consulted first before any public use is made of them.

Philip Wynn Owen

P WYNN OWEN

Walter Nicholson

Text of speech given by Sir David Nickson KBE,
President of the Confederation of British Industry,
at the CBI Annual Dinner, 12 May 1988.

WELCOME TO YOU ALL TO THE 1988 CBI DINNER. TONIGHT WE HAVE A RECORD ATTENDANCE WITH OVER 1500 PRESENT AND MANY MORE WHO WOULD LIKE TO HAVE COME - AFFIRMATION, IF ANY WAS NEEDED, OF THE STRENGTH OF CBI'S MEMBERSHIP AND REPUTATION. BOOK NOW FOR 1989.

BUT I WOULD LIKE TO START BY WELCOMING ALL OUR GUESTS - MINISTERS, POLITICIANS, SENIOR CIVIL SERVANTS, MOST OF WHOM WE SEE FREQUENTLY ON A WORKING BASIS, BUT ARE PARTICULARLY HAPPY TO HAVE WITH US ON THIS SOCIAL OCCASION TONIGHT.

AND ESPECIALLY TO THE PRESIDENT OF THE EUROPEAN PARLIAMENT - LORD PLUMB - WE ARE AS HONOURED TO HAVE HIM HERE THIS EVENING AS WE WILL BE FOR HIM TO BE OUR OPENING SPEAKER AT OUR CONFERENCE IN TORQUAY IN NOVEMBER.

AND TO ALL CBI'S OTHER DISTINGUISHED GUESTS; BOTH UP HERE AND WHEREVER YOU MAY BE SCATTERED THROUGHOUT THIS GREAT ROOM. I GIVE MY WARMEST GREETINGS.

TONIGHT, OUR PRINCIPAL GUEST AND SPEAKER IS LORD YOUNG. I AM MOST GRATEFUL TO YOU FOR COMING DOWN FROM THE SCOTTISH CONSERVATIVE PARTY CONFERENCE IN PERTH FOR THIS DINNER. NO-ONE COULD HAVE PLACED A STRONGER OR A MORE PERSONAL STAMP ON THE PARAMOUNT IMPORTANCE OF THE SUCCESS OF BRITISH INDUSTRY AND COMMERCE SINCE YOU BECAME OUR SECRETARY OF STATE LAST JUNE.

BRITISH INDUSTRY HAS NOW CONCLUSIVELY PROVED THAT IT IS CAPABLE OF STANDING ON ITS OWN FEET, BUT THAT DOES NOT MEAN, SECRETARY OF STATE, WE DO NOT NEED A STRONG VOICE - A CRUSADER - IN GOVERNMENT TO SPEAK UP FOR BRITISH BUSINESSES LARGE AND SMALL - HERE AT HOME, IN EUROPE AND THROUGHOUT THE WORLD. IT IS IN THAT ROLE, AS OUR CHAMPION, THAT WE SO MUCH WELCOME YOUR PRESENCE HERE TONIGHT.

IN MY CLOSING SPEECH AS CHAIRMAN OF THE CBI IN SCOTLAND, IN 1981, I SAID THAT WE WERE CONDEMNED TO LOOK BACK ON THE DECADE OF "THE SAD SEVENTIES", BUT THAT BRITISH BUSINESS OWED IT TO THE NATION TO SEE THAT THE DECADE AHEAD WOULD BECOME KNOWN IN DUE COURSE AS "THE ENTERPRISING EIGHTIES".

NOW, 7 YEARS LATER, THIS IS MY LAST SPEECH AS YOUR PRESIDENT. AT MIDNIGHT FOR ME, LIKE CINDERELLA, THE BALL IS OVER - AND LIKE CINDERELLA I HAVE ENJOYED IT ENORMOUSLY.

THE QUALITY OF ANY BALL DEPENDS ON TWO THINGS - THE RIGHT ATMOSPHERE AND THE RIGHT PARTNERS. LET ME TALK ABOUT EACH IN TURN. THE PRESENT ATMOSPHERE - THE ENVIRONMENT FOR BUSINESS IS AS POSITIVE AS ANY I CAN RECALL IN MY BUSINESS LIFETIME.

AND AS A RESULT I HAVE BEEN MUCH LUCKIER AS PRESIDENT THAN MY ELEVEN PREDECESSORS.

FOR I HAVE DANCED TO A SWEETER TUNE

I HAVE DANCED TO A STRONGER UPBEAT FROM THE BAND

I HAVE DANCED TO THE WALTZ OF SUCCESS.

CBI MEMBERSHIP COVERS COMPANIES LARGE AND SMALL ACROSS ALL SECTORS OF THE ECONOMY - MANUFACTURING, ASSEMBLING, MARKETING, FINANCIAL, INSURANCE, BANKING, RETAIL, COMMERCIAL, LEISURE, TOURISM - IN FACT ALMOST 60% OF OUR MEMBERSHIP ACTUALLY MAKE THINGS, AND 40% ARE IN THE BUSINESS OF SERVICE AND SUPPLY.

FREQUENTLY, AS YOU YOURSELF POINTED OUT THE OTHER DAY, IT'S SMALL COMPANIES THAT MAKE THE COMPONENTS FOR LARGE COMPANIES TO ASSEMBLE.

BUT WE ARE ALL INTERDEPENDENT. THE DISTINCTIONS BETWEEN MANUFACTURING AND SERVICE. LARGE COMPANIES AND SMALL. FINANCE AND INDUSTRY ARE LARGELY ILLUSORY. LET ME GIVE YOU JUST ONE EXAMPLE.

A MAJOR POWER STATION CONTRACT IN INDIA RECENTLY COMPLETED BY A LARGE NORTHERN ENGINEERING COMPANY INVOLVED NOT ONLY GOVERNMENT, FINANCE, BANKS, INSURANCE, LAWYERS, CONSULTANTS BUT 2,500 SUB-CONTRACTORS - MOSTLY SMALL BRITISH COMPANIES WHO WOULD NOT HAVE BEEN EXPORTING AT ALL BUT FOR THE SUCCESS OF THAT LARGE COMPANY IN WINNING THAT ORDER FOR BRITAIN.

SLAAAK

IT WAS A BRITISH TEAM EFFORT.

THE CBI ANNUAL REPORT FOR 1987, WHICH I HOPE YOU WILL ALL TAKE THE TROUBLE TO READ (COPIES ARE AVAILABLE ON THE WAY OUT), RECORDS A REMARKABLE SITUATION FOR BRITISH BUSINESS.

- OUR VOLUME OF MANUFACTURED EXPORTS ROSE FASTER THAN ALL OUR PRINCIPAL COMPETITORS EXCEPT THE UNITED STATES, WHICH HAD THE ADVANTAGE OF A FALLING DOLLAR.
- WE HEADED THE INTERNATIONAL LEAGUE TABLES IN TERMS OF ECONOMIC GROWTH, GROWTH OF MANUFACTURING OUTPUT AND WERE HIGH UP THE PRODUCTIVITY LEAGUE.
- UNIT LABOUR COSTS IN MANUFACTURING INCREASED BY JUST OVER JUST OVER ONE PER CENT, THE LOWEST IN MORE THAN TWO DECADES.
- INFLATION REMAINED RELATIVELY LOW, THOUGH NOT LOW ENOUGH; AND PROFITABILITY IMPROVED.
- UNEMPLOYMENT HAS FALLEN FASTER IN THE UNITED KINGDOM THAN IN ANY OTHER PART OF THE EUROPEAN COMMUNITY; BUSINESS HAS CREATED MORE JOBS IN THE LAST YEAR THAN IN THE REST OF THE EEC PUT TOGETHER.

SO, 300 SPEECHES LATER, MY WORDS OF 1981 (SPOKEN THEN MORE IN HOPE THAN EXPECTATION I AM BOUND TO ADMIT), HAVE INDEED BEEN FULFILLED - WE CAN INDEED NOW REFER TO "THE ENTERPRISING EIGHTIES".

NO WONDER, SECRETARY OF STATE, THAT YOU ADDED THAT WORD TO YOUR DEPARTMENT WITH ALL THOSE SYMBOLIC BLUE SQUIGGLES ON TV TO EMPHASISE THE POINT.

I HAVE SOMETIMES TOYED WITH THE IDEA OF MAKING THE INITIALS CBI STAND NOT FOR "THE CONFEDERATION OF BRITISH INDUSTRY" BUT FOR "THE CONFEDERATION FOR BUSINESS AND INDUSTRY" - TO UNDERLINE THE BREADTH AND DEPTH OF OUR MEMBERSHIP - BUT PERHAPS A BETTER IDEA WOULD BE TO FOLLOW YOUR LEAD BY AWARING OURSELVES A COLLECTIVE CBE AND CHANGE OUR NAME TO WHAT WE ALREADY ARE IN PRACTICE - "THE CONFEDERATION FOR BRITISH ENTERPRISE".

SLAAAK

SECRETARY OF STATE, I DO NOT INTEND TO SAY MUCH TONIGHT ON EUROPE AND THE INTERNAL MARKET BECAUSE I AM SURE YOU WILL BE COVERING IT IN YOUR OWN SPEECH. MY OWN RECENT VISITS TO BRUSSELS, TO STRASBOURG, TO PARIS AND MADRID HAVE BEEN INTENDED TO EMPHASISE THE CBI'S COMMITMENT. I HAVE ALSO COMMITTED MY SUCCESSOR TO A FORMIDABLE RANGE OF EUROPEAN VISITS NOT THAT AS AN EXPERIENCED EUROPEAN BUSINESSMAN HE NEEDED ANY PERSUASION!

NOR TONIGHT DO I INTEND TO COMMENT ON RECENT EVENTS IN THE CITY, ON WHICH THE CBI VIEWS ARE ALREADY WELL KNOWN THROUGH THE CITY/INDUSTRY TASK FORCE. I WOULD MERELY EMPHASISE ONCE AGAIN THAT IT IS THE NEED FOR BRITISH FIRMS TO BE INTERNATIONALLY COMPETITIVE ON A EUROPEAN OR GLOBAL SCALE THAT IS OFTEN MORE IMPORTANT THAN DOMESTIC COMPETITION POLICY.

WE MUST BE IN A POSITION TO MAKE ACQUISITIONS IN EUROPE IF OUR EUROPEAN FRIENDS ARE TO HAVE FREE ACCESS TO THE UK. WE CANNOT AFFORD TO CONTINUE PLAYING FOOTBALL AGAINST PEOPLE WITH A BRICK WALL ACROSS THEIR OWN GOAL MOUTHS.

OUR OBJECTIVE MUST BE TO TEAR DOWN THE WALLS OF PROTECTIONISM. IT WOULD BE TRAGIC IF THE ONLY WAY CRITICAL MASS ON AN INTERNATIONAL SCALE CAN BE ACHIEVED HERE IN THE UK IS FOR THE OWNERSHIP OF BRITISH BUSINESS TO BE TRANSFERRED OVERSEAS. THAT WAY LIES THE BRANCH AND SCREWDRIVER ECONOMY.

THE CITY OF LONDON COMES IN FOR A LOT OF STICK OVER ITS SHORT-TERM ATTITUDE TO INVESTMENT - SOME OF IT JUSTIFIED - MUCH OF IT UNFAIR - BUT ITS ROLE AS THE GREAT GENERATOR OF OVERSEAS EARNINGS AND ITS POTENTIAL AS THE SECTOR OF BRITISH BUSINESS BEST PLACED TO GAIN CRITICAL MASS IN A EUROPEAN AND INTERNATIONAL SENSE MUST NEVER BE UNDERESTIMATED.

BUT I DON'T WISH TO BE TOO SERIOUS TONIGHT SO IF ANY OF YOU HAVE COLD FEET ABOUT EUROPE LET ME REMIND YOU, ON A VERY LIGHT-HEARTED NOTE, OF THE ORIGINS OF SOME OF OUR GREAT BRITISH MERCHANT BANKS:

SLAAAK

FOR:

THE LAZARDS CAME FROM NEW ORLEANS - THE MORGANS FROM NEW YORK
THE GUINNESS MAHONS FROM DUBLIN TOWN AND NOT FROM COUNTY CORK
THE MONTAGUS (SANS CAPULETS) FROM ITALY PERCHANCE
THE HIGGINSONS FROM BOSTON AND THE D'ERLANGERS FROM FRANCE
THE BARINGS WITH THE SCHRODERS AND THE SONS OF WILLIAM BRANDT
MAY WELL HAVE READ PHILOSOPHY WITH OLD IMMANUEL KANT
THE HAMBRO WHO LEFT NORWAY'S SHORE WAS FORMERLY A DANE
WHILE NATHAN MEYER ROSHCCHILD STEMMED FROM FRANKFURT ON THE MAIN
THE KLEINWORTS WHO LEFT CUBA WHEN WITH SPAIN IT STILL WAS ONE
REACHED LONDON - AS THE SAMUELS DID - BY 1831
THE SELIGMANS, THE WARBURGS AND THE HALBERT WHO JOINED WAGG
MAY NOT APPEAR IN DOMESDAY BUT THEY'VE GOT IT IN THE BAG
SO, IF YOU FEAR FOR BRITAIN BY 1992
AND DO NOT WANT TO ACT AS OTHER COUNTRIES DO
JUST LOOK AROUND AT LONDON AND THE MERCHANT BANKING SET
IT'S THE MOST UNCOMMON MARKET WHICH THE WORLD WILL EVER GET

AND IF BY THE WAY WE DO NEED A SYMBOL FOR EUROPE - SOMETHING
TO CATCH THE PUBLIC'S IMAGINATION - WHY CAN'T WE TAKE A VERY
FIRM DECISION NOW NOT TO PUT THE CLOCKS BACK THIS AUTUMN AND
TO PUT THEM FORWARD AN HOUR NEXT SPRING.

OUR MEMBERS FAVOUR THIS MOVE. WE SHOULD LITERALLY BE
GETTING OURSELVES IN TIME AND THUS IN STEP WITH EUROPE.

I EVEN HEAR THE SCANDINAVIANS ARE THINKING OF DOING THE SAME
- AND THEY ARE A LOT FURTHER NORTH THAN SCOTLAND!

BUT LET ME RETURN TO THE BALL FOR A MOMENT AND TALK NOW
ABOUT OUR PARTNER. IT IS CRITICAL FOR GOVERNMENT AND
BUSINESS AS PARTNERS TO KEEP IN STEP. OTHERWISE, AS EVERY
DANCER KNOWS, IT CAN TAKE A SOLID KICK ON THE SHINS TO GET
YOUR PARTNERS ATTENTION. SO SOMETIMES IT IS IN RELATIONS
BETWEEN CBI AND GOVERNMENT.

SLAAAK

THE CBI IS A LOBBY, A FORUM, A SERVICE - FOR THE BENEFIT OF OUR MEMBERS. IN MANY CASES AS YOU, OUR MEMBERS, OFTEN TELL US, YOU DO NOT WANT TO PUT THE HEADS OF YOUR COMPANIES OVER THE PARAPET ON PUBLIC POLICY ISSUES AFFECTING BUSINESS. YOU PAY THE CBI TO DO IT FOR YOU. AS A LOBBY FOR THE MINDS OF THE PUBLIC I LIKE TO THINK THAT WE HAVE DONE A NATIONAL SERVICE OVER THE YEARS IN FIGHTING OUR CORNER FOR FREE ENTERPRISE AND THE WEALTH CREATION PROCESS. BUT WE WOULD BE FAILING OUR MEMBERSHIP IF WE DID NOT CONTINUE TO POINT OUT POWERFULLY AND IN PUBLIC WHERE WE BELIEVE THAT A GOVERNMENT, WHICH HAS GOT SO MUCH RIGHT, DOES, JUST OCCASIONALLY, GET ONTO THE WRONG FOOT.

BUT THE CBI HAS ALWAYS TO BALANCE VERY VERY CAREFULLY WHEN SUCH PUBLIC PRESSURE IS JUSTIFIED AND LIKELY TO BE MORE PRODUCTIVE THAN PRIVATE PERSUASION. CREDIBILITY AND INFLUENCE DEPEND ON GOOD WILL, RESPECT AND TRUST. TO SOUND OFF IN PUBLIC TOO OFTEN DOES NOT CREATE THESE. COMMUNICATION BY HEADLINE IS FREQUENTLY MISUNDERSTOOD.

OCCASIONALLY OF COURSE PUBLIC APPEALS CAN BE MET WITH MOST GRATIFYING SPEED. AT OUR GLASGOW CONFERENCE LAST NOVEMBER, I ADDRESSED THE CHANCELLOR ON TAXATION AND SAID "WE HAVE TAX RATES OF 25,27, 30,35,40, 45, 50, 55, 60 PER CENT. NIGEL CAN ALL THESE RATES REALLY BE NECESSARY"? AS WE ALL KNOW WE NOW HAVE THREE RATES INSTEAD OF NINE. HE WAS CERTAINLY LISTENING.

IT SEEMS ONLY YESTERDAY THAT AT THIS DINNER, TWO YEARS AGO, I SAW FOUR REGIONAL CHAIRMAN SURROUNDING THE PRIME MINISTER, WHO WAS OUR GUEST SPEAKER THEN, IN LIVELY CONVERSATION.

SUDDENLY THEY ALL TOOK TWO SMART PACES TO THE REAR LOOKING SHOCKED AND METAPHORICALLY GRASPING THEIR SHINS. "WHAT" I ASKED ONE OF THEM AFTERWARDS "WAS THAT ALL ABOUT". "OH!", HE REPLIED, "ONE OF MY COLLEAGUES ASKED HER WHY WE HAD NOT JOINED THE EMS. NOW WE ALL KNOW WHERE WE STAND".

WELL MUCH HAS CHANGED - IN THOSE TWO YEARS - THOUGH NOT THAT - YET.

BUT ON EXCHANGE RATE POLICY INDUSTRY NEEDS TO KNOW WHERE IT STANDS.

IT HAS BEEN A VERY CONSIDERABLE ACHIEVEMENT ON THE PART OF THE GOVERNMENT TO KEEP THE POUND RELATIVELY STABLE AGAINST THE DEUTSCHMARK, AN ACHIEVEMENT WHICH HAS BEEN EXTRAORDINARILY HELPFUL TO BUSINESS AND FOR WHICH BUSINESS HAS BEEN GRATEFUL BOTH TO THE TREASURY AND TO THE BANK OF ENGLAND.

BUT THE MANAGEMENT OF THE ECONOMY ACHIEVING THE RIGHT BALANCE BETWEEN SO MANY DIFFERENT CONSIDERATIONS - THE LEVEL OF STERLING, OF INTEREST RATES, OF INFLATION, OF MONEY SUPPLY - IN THE INTERNATIONAL MARKETS OF THE WORLD IS AN INCREDIBLY COMPLEX DANCE STEP.

SO THOSE HEADLINE GRABBING PHRASES:
"CBI CALLS FOR LOWER INTEREST RATES"
"CBI CALLS FOR LOWER EXCHANGE RATES"

ARE ALWAYS OVERSIMPLE AND BOUND TO LEAD TO MISUNDERSTANDING AND IRRITATION ON ALL SIDES. AND A SHARP KICK ON THE SHINS FROM GOVERNMENT.

JUST AS IT IS IRRITATING TO US - TO PUT IT NO HIGHER - TO BE ON THE RECEIVING END OF OVER SIMPLE COMMENT FROM POLITICIANS OR FROM ECONOMISTS OR EVEN IN OPEN LETTERS TO THE 'TIMES' REFERRING TO THE CBI "BLEATING" ABOUT A STRONG CURRENCY. THIS IS THE KIND OF NONSENSE THAT GENERALLY COMES FROM PEOPLE WHO HAVE NEVER MADE OR EXPORTED ANYTHING IN THEIR LIVES IN COMPETITIVE MARKETS. WHAT WE ALL NEED TO AVOID IS EXCHANGE RATE VOLATILITY. FOR AN OVER SUDDEN APPRECIATION COULD BE THE ONE FACTOR CAUSING OUR VIRTUOUS CIRCLE TO BECOME A VICIOUS ONE.

FOR SOME COMPANIES THOSE FEW PERCENTAGE POINTS WHICH SEEM SO TRIVIAL TO THE ARMCHAIR CRITIC CAN ELIMINATE THEIR TOTAL PROFIT MARGIN ON MANY EXPORT SALES. TWO MEMBERS REPRESENTED HERE TONIGHT - ONE SELLING AIRCRAFT AND THE OTHER CARS, LOSE £3 MILLION FOR EVERY CENT THE DOLLAR FALLS AGAINST THE POUND.

SLAAAK

BUT, LET ME REPEAT FOR THE LAST TIME, BEFORE THE CLOCK STRIKES MIDNIGHT THOSE TABLETS OF STONE FROM THE MOUNTAIN TOP:

OUR MEMBERS NUMBER ONE PRIORITY MUST REMAIN THE CONTINUED REDUCTION IN INFLATION.

DEVALUATION TO ACCOMMODATE INFLATIONARY WAGE SETTLEMENTS MUST NOT BE IN OUR VOCABULARY.

ANY PAY INCREASE, NOT COVERED BY PRODUCTIVITY IS UNACCEPTABLE - (AND THAT MUST GO FOR PUBLIC AS WELL AS PRIVATE SECTORS).

THE DRIVE FOR INTERNATIONAL COMPETITIVENESS MUST REMAIN PARAMOUNT.

THE GERMANS AND THE JAPANESE HAVE PROSPERED VERY WELL WITH STEADILY APPRECIATING CURRENCY - SO TOO CAN WE - BUT NOT ONE I SUGGEST LEFT SOLELY TO MARKET FORCES AND THE ACTIVITIES OF THE SPECULATOR. A STRONG ECONOMY SHOULD BE REFLECTED IN A GRADUALLY STRENGTHENING CURRENCY AND COMPETITIVE COMPARABLE INTEREST RATES.

THUS IT HAS BEEN ONE OF MY MAIN PREOCCUPATIONS OVER THE PAST 2 YEARS TO JUDGE WHEN PUBLIC COMMENT IS APPROPRIATE AND NECESSARY AND WHEN IT IS POSITIVELY COUNTERPRODUCTIVE. AND IF OUR COLLECTIVE KNEE JERKS PUBLICLY EVERY NOW AND THEN, IT IS NOT BECAUSE WE DON'T ENJOY DANCING WITH OUR PARTNER IN GOVERNMENT. SOMETIMES OUR PARTNER STRAYS TOO FAR - ON ELECTRICITY PRICES, FOR EXAMPLE - OR IS IN DANGER OF FALLING OVER - ON LOCAL AUTHORITY RATES, FOR EXAMPLE.

AND, OF COURSE, THE DOCTORS DO ASSURE US THAT A SOLID KNEE JERK IS A SIGN OF EXCELLENT HEALTH.

AND SOMETIMES, IF THE RADIOS IN WESTMINSTER AND WHITEHALL ARE ON TRANSMIT RATHER THAN RECEIVE, WE DO HAVE TO RAISE OUR VOICES TO BE HEARD.

MY SUCCESSOR, TREVOR HOLDSWORTH, I KNOW WILL DO A TREMENDOUS JOB FOR YOU. HE IS THE MAN OF THE MOMENT. IN THIS PERIOD OF REVIVAL FOR BRITAIN, IT IS RIGHT TO HAVE A MANUFACTURING MAN FROM THE MIDLANDS TO TAKE THE WHEEL.

SLAAAK

IN JOHN BANHAM, YOU HAVE AN OUTSTANDING DIRECTOR GENERAL WHO HAS SET OUT THE NEW POSITIVE STRATEGY FOR THE CBI AND IS PUSHING ON WITH VIGOR, PANACHE AND FLAIR TO COMMUNICATE HIS POLICIES TO MEMBERSHIP, GOVERNMENT AND PUBLIC ALIKE.

SO, LADIES AND GENTLEMEN, AS THIS PARTICULAR CINDERELLA HEADS FOR THE DOOR MARKED EXIT, I CAN HONESTLY SAY IT'S BEEN A GREAT PARTY. I HAVE ENJOYED MYSELF HUGELY. IT HAS BEEN THE GREATEST HONOUR AND PRIVILEGE OF MY LIFE TO BE YOUR PRESIDENT.

TO ALL OUR MEMBERS I WOULD LIKE TO SAY A DEEP AND HEARTFELT THANK YOU FOR YOUR SUPPORT AND CONFIDENCE DURING MY TERM OF OFFICE. I LEAVE WITH MIXED FEELINGS - REGRET, YES. RELIEF, YES, BUT ABOVE ALL WITH PRIDE AND GRATITUDE IN THE PERFORMANCE OF CBI MEMBERS AND IN THEIR SUPPORT FOR CBI STAFF.

AND MY FINAL WORDS ARE TO PAY TRIBUTE TO THAT STAFF WHO SERVE OUR MEMBERSHIP SO WELL AND WHO HAVE DONE SO MUCH FOR ME.

BEST WISHES TO YOU ALL AND MAY THE NEXT TWO YEARS BE EVEN MORE SUCCESSFUL FOR BRITISH BUSINESS THAN THE LAST.

SLAAAK

Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332
Facsimile 01-240 1078

From
Sir David Nickson KBE DL
President

John Banham
Director General

CBI

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury

prop

FAX 839 2029

15th March 1988

CONGRATULATIONS! GREAT DAY FOR BRITISH BUSINESS.

David Nickson

John Banham

*This is to be used as a
copy of the original*

*11/7/88
John Banham*

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

HP

David Nickson

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
2130 HRS ON WEDNESDAY
16 MARCH 1988

P.46.88

INDUSTRY SEEKS CONFIDENCE OF STABLE, MANAGED
EXCHANGE RATES - CBI PRESIDENT

Industry will measure the success of the Budget by the extent to which it helps to maintain the momentum of Britain's economic recovery, Sir David Nickson, President of the Confederation of British Industry said tonight (Wednesday).

"The ability of British firms to increase world market share will depend largely on their confidence in the Chancellor's ability to continue his policy of managed exchange rates. Business welcomed the Chancellor's recognition in his Budget speech of the need for stability but a further reassurance that Government policy has not changed, even though the pound has now breached the 3 deutschmark barrier, would not go amiss."

"The Government's former willingness to hold sterling stable between 2.95 and 3 deutschmarks was a major factor in helping businesses to expand their market share. We believe the momentum of economic recovery can and must be maintained but equally we must have confidence about where the exchange rate is going.

"CBI members have repeatedly emphasised that exchange rate stability within a competitive band against European currencies is vital. Sixty per cent of Britain's trade is now with the countries of Western Europe - fifty per cent with the countries of the Community - and it is clear that this is where our future lies. For many businesses, confidence that the level of exchange rates will be managed is even more important than the level of interest rates."

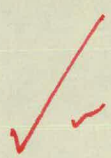
Sir David, who was speaking in London, to members of the Association of British Insurers, continued: "We recognise that control of inflation must continue to be paramount. Interest rates clearly have a major part to play in reducing inflationary pressures. But they also attract currency speculators, particularly when the interest rate differential offers a higher real rate of return if they invest in the pound rather than the deutschmark.

"Business leaders have been full of admiration for the way in which the Government in recent times has achieved stability for sterling by shadowing the exchange rate mechanism of the European Monetary System. The breaching of the 3 deutschmark barrier created uncertainty about whether this policy would continue.

"A managed exchange rate which depends on high interest rates rather than competitiveness may fool some of the speculators some of the time but it will not fool all of them all of the time. Sooner or later market forces will prevail. The inevitable correction, as a worsening trade deficit leads speculators to decline to hold sterling, just as they have the US dollar, will then be much more painful than it need have been.

"That is why the CBI has urged the Government to keep all costs on business - including interest rates - as low as possible," he said.

16 March 1988



	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

TABLE 1A

CBI MONTHLY SURVEY QUESTIONS (OTHER THAN OUTPUT EXPECTATIONS)

PRESENT LEVEL OF ORDER BOOK (Balance of those responding "Above normal" less those responding "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	+ 34	+ 12	+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.

CBI SURVEY QUESTIONS ON OUTPUT: MONTHLY EXPECTATIONS & QUARTERLY OUTTURN

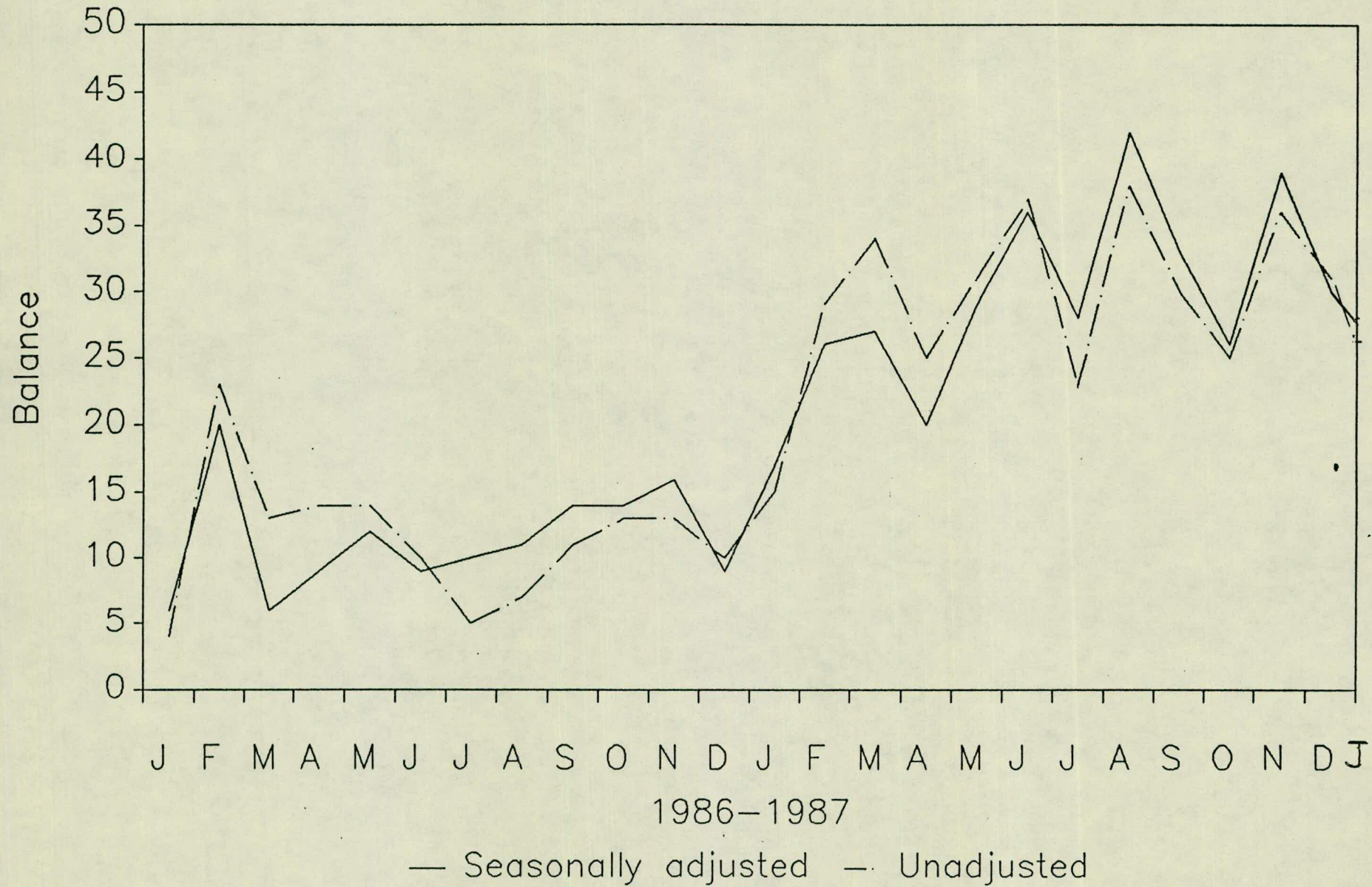
VOLUME OF OUTPUT(Q8)

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

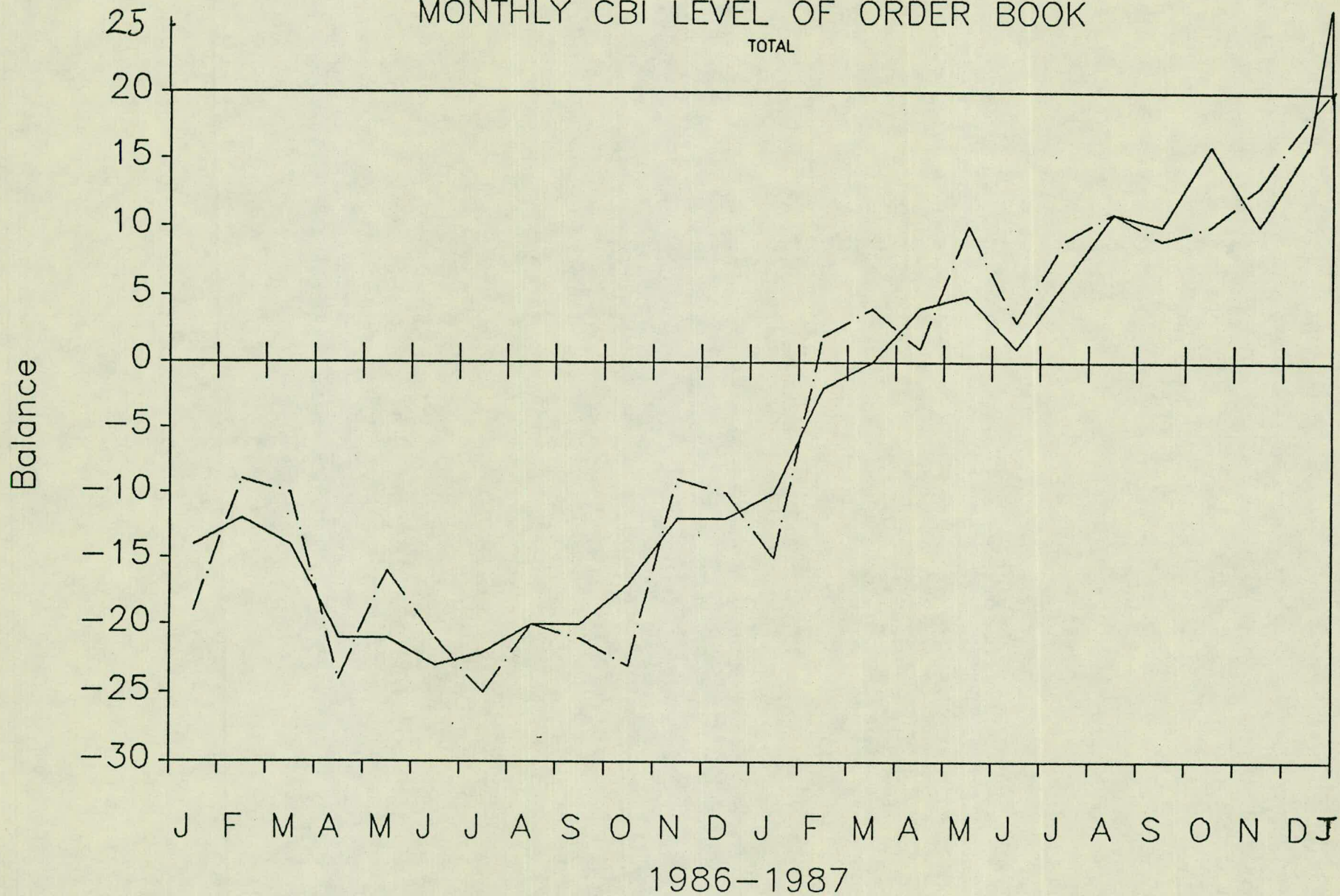
	<u>PAST 4 MONTHS</u>		<u>EXPECTED TREND OVER NEXT 4 MONTHS</u>	
	Reported	Seasonally Adjusted	Reported	Seasonally Adjusted
1986				
May			+14	+12
Jun			+10	+ 9
Jly	- 2	- 2	+ 5	+10
Aug			+ 7	+11
Sep			+11	+14
Oct	- 1	+ 3	+13	+14
Nov			+13	+16
Dec			+10	+ 9
1987				
Jan	+ 9	+10	+15	+17
Feb			+29	+26
Mar			+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



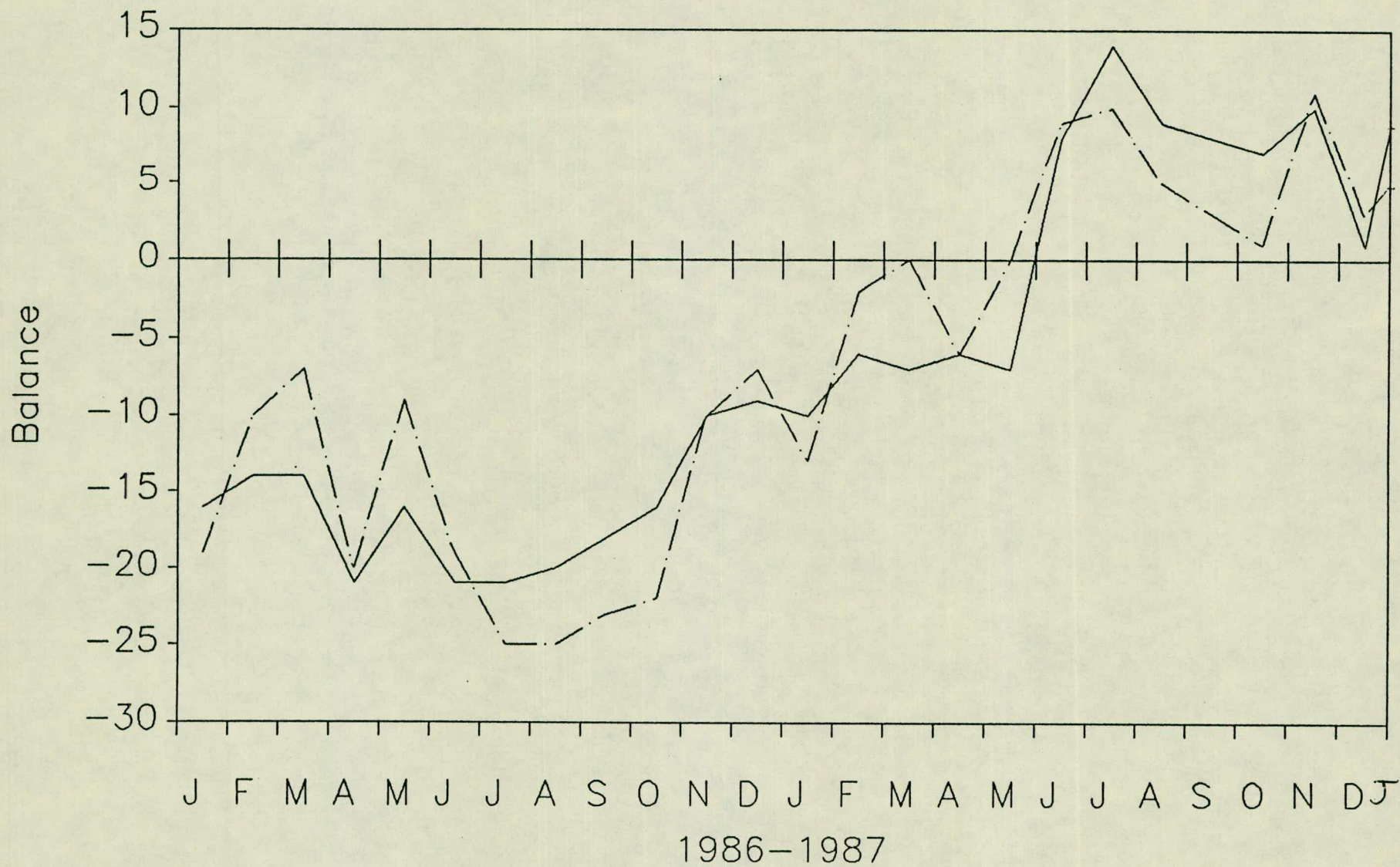
MONTHLY CBI LEVEL OF ORDER BOOK
TOTAL



— Seasonally adjusted — Unadjusted

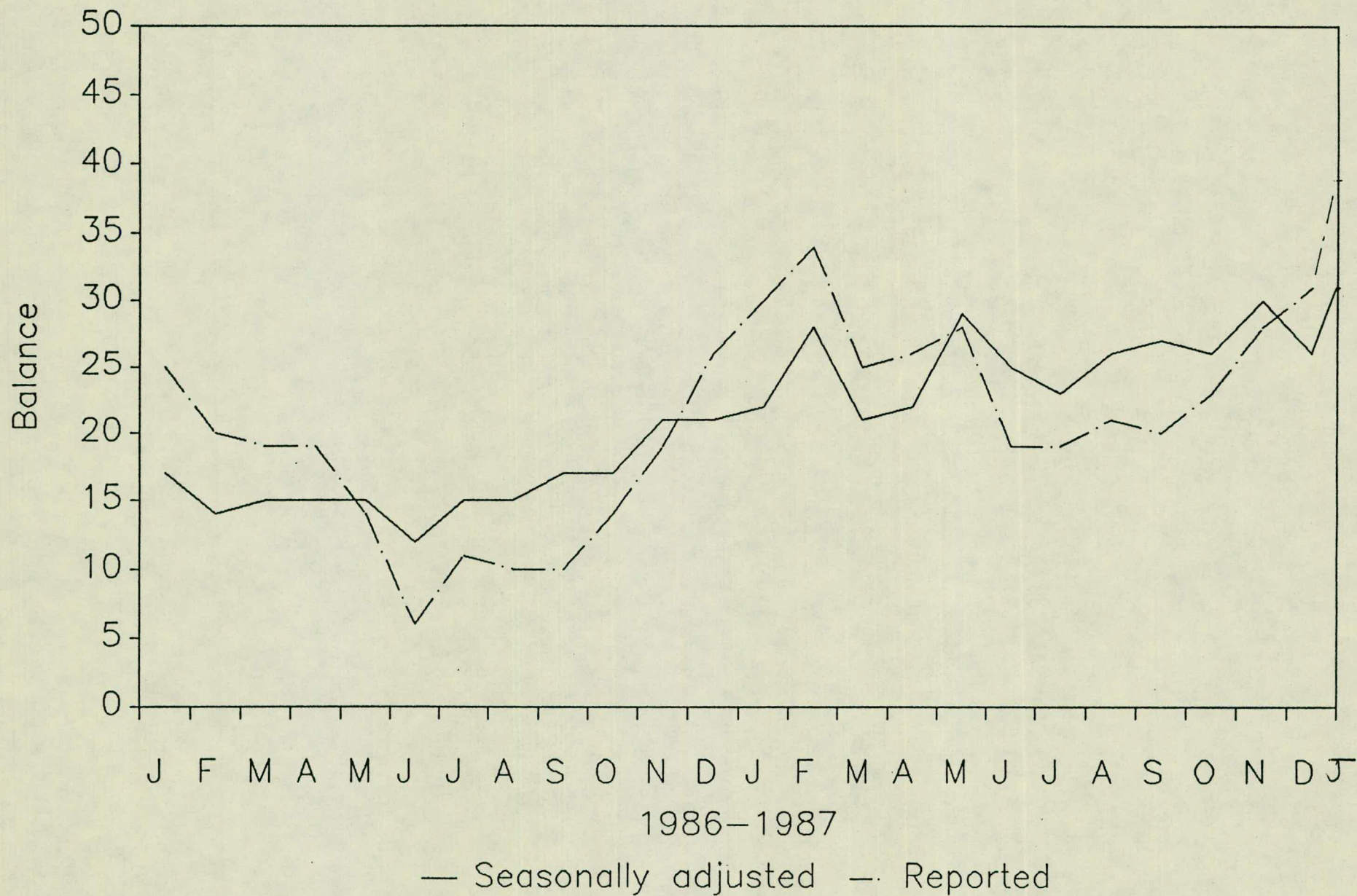
MONTHLY CBI LEVEL OF ORDER BOOK

EXPORT

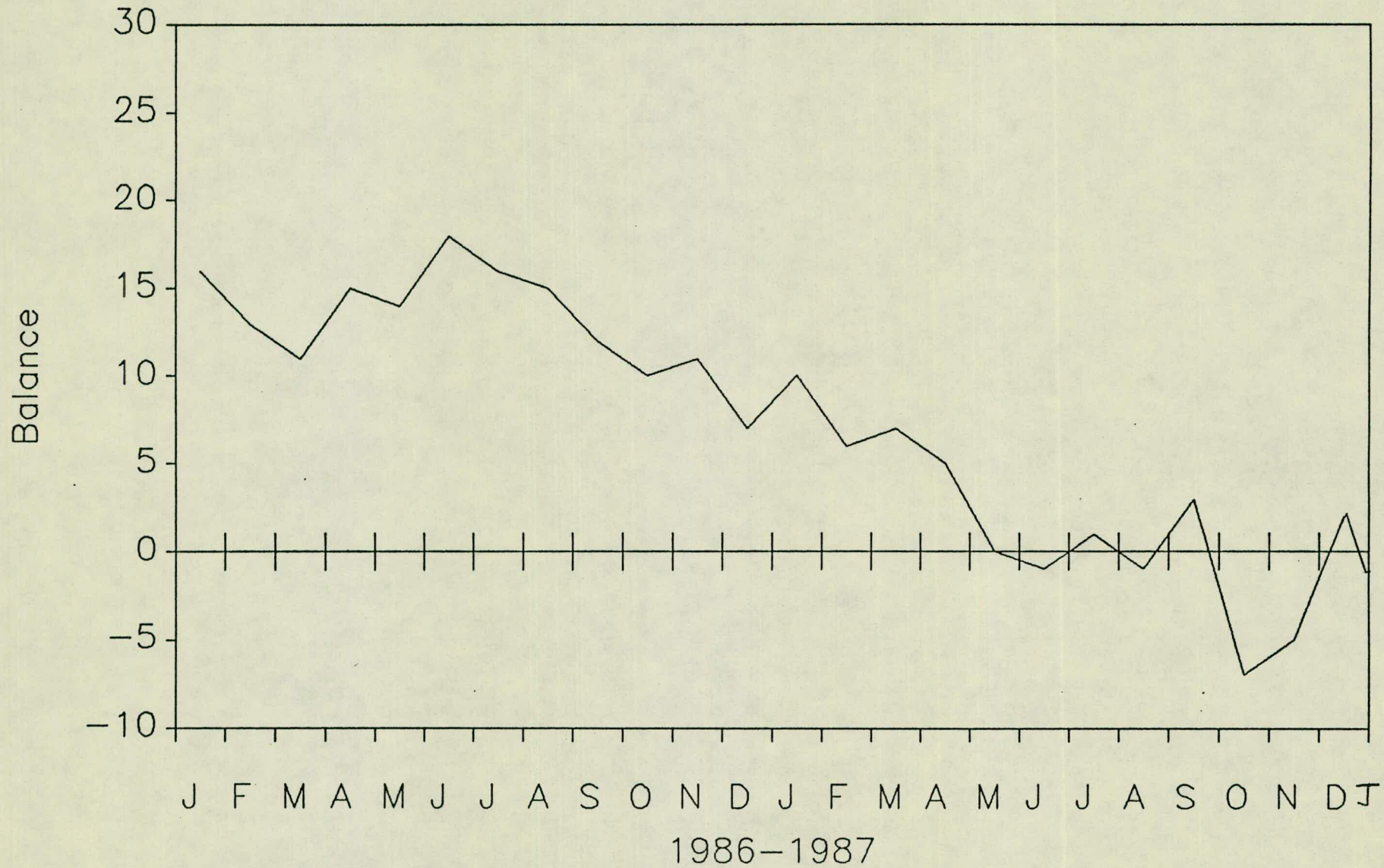


— Seasonally adjusted — Unadjusted

MONTHLY CBI PRICE EXPECTATIONS SA



MONTHLY CBI STOCKS



— Unadjusted

Da Mail 'Exactly what we wanted'

THE bosses gave the Budget a welcome.

"This is the Budget we have been waiting for," said Sir David Nickson, president of the Confederation of British Industry.

"It will help to maintain the momentum of Britain's economic recovery and should boost business confidence."

The Institute of Directors congratulated Mr Lawson on his tax cuts and simplification of the system. And it welcomed his re-statement of the Government's commitment to end inflation.

Businessmen saw the Budget as encouraging private enterprise and helping the individual.

Praise from bosses

By BARRIE DEVNEY

THE bumper Budget was greeted yesterday with delight by industry leaders last night.

Confederation of British Industry president Sir David Nickson said: "This is the one we have been waiting for—it will help maintain the momentum of economic recovery."

The Institute of Directors, led by Sir John Hoskyns, former head of Mrs Thatcher's policy think-tank, enthused: "This is goodbye to a tax dominated economy."

"We commend the Chancellor for a

courageous Budget and congratulate him for making a firm commitment to a further reduction in basic tax rates to 20p as soon as prudent."

Said the Association of British Chambers of Commerce: "We wanted incentives. We have got them. Now let us make them work."

Chemical giant ICI said: "It may harm exports in that there was no reduction in interest rates, and the increased

cost of petrol and derv will not help the competitiveness of British industry against a strengthening pound."

Union chiefs were far more critical. TUC general secretary Norman Willis said: "It should have carried a warning—'This Chancellor will seriously damage your health.'"

And John Daly of local government union NALGO added: "It has the morality of the pig trough where the greedy have shoved the needy aside. 'The Chancellor has passed a death sentence on the NHS—and on many patients.'"

Daily Mail

It suits us just fine say business chiefs

By DIANA WILDMAN
THE men behind Britain's businesses gave Mr Lawson's measures a warm welcome last night.

Martin Taylor, director of Hanson, said: "It is an excellent Budget for the economy. It encourages the wealth-producing process and it will be easier to employ people in the South of England because of the scheme encouraging the building of private rented accommodation."

Expand

Terry Steel, a director of Boots, said he was 'very pleased' with the Budget.

He added: "It has put more discretionary spending power in the hands of the consumer which should improve High Street sales."

Tory MP Michael Grylls, who is also chairman of the Small Business Bureau, described it as 'a big shot in the arm.'

He added: "There will be more money available for small businesses to grow and expand."

ICI chairman Denys Henderson described the Budget as 'the most radical since the war,' but he did have some reservations.

"We are disappointed it does little to promote manufacturing industry and may harm exports because there are no interest rate cuts."

Joe Bradley, boss of the giant Prudential Property Services, criticised the scrapping of the double mortgage system, saying: "There are 250,000 people who have banded together for multiple mortgages and they may now be in a situation from which they cannot escape."

However, Mr Michael Slade, the boss of Helical Bar, hailed it a major

boost 'for business and brains.'

He said: "The UK is now able to compete world-wide for top managers and the tax cuts will keep the brains in Britain. They will also strengthen industry and will enhance the City as a world financial centre."

Mary-Ann Lutyens, investment analyst and corporate director of Peter de Savery's Highland Participant firm, said she was delighted with the Budget.

She said: "Now a woman can have the right of complete tax independence. But the real financial benefit is that all my earnings will no longer be taxed at my husband's top rate of 60 per cent."

THE Sun Just the booster bosses wanted

By PHIL DAMPIER

BRITAIN'S bosses were beaming with delight last night at "the budget we have been waiting for."

Their spokesman Sir David Nickson, president of the CBI, said Mr Lawson's plans would "help maintain the momentum of Britain's economic recovery."

He added: "The Chancellor's cautious approach should help keep inflation down and lead to low interest rates and more competitive rates for sterling."

Costs

"It will promote enterprise and further growth by small firms—and provide greater incentives for everyone in British business."

Sir David said the Budget would also boost business confidence, and added:

"We welcome the Chancellor's recognition of the need for stability in the foreign exchanges, and that unit labour costs in manufacturing have remained under control."

"And we also welcome his emphasis on the need for all costs on business to be kept as low as possible."

Celebrate

Mr Lawson also got a big pat on the back from the Institute of Directors.

A spokesman said: "Business leaders commend the Chancellor for his courageous Budget."

"We welcome the cut in the basic rate of tax to 25p in the £."

"And we congratulate him on making a firm commitment for a further reduction to 20p in the £ as soon as is prudent—and hope that is in the present Parliament."



FROM: A A DIGHT

DATE: 18 March 1988

MR P WYNN OWEN

BALANCE OF CBI MEMBERSHIP

The Chancellor has seen and was grateful for your minute of 10 March.

A handwritten signature in cursive script, appearing to read "A A Dight".

A A DIGHT

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

Thursday
March 23rd

Ch.
By brief on this
Snowy immediately behind.

for all.

JR
25/3

Dear Nigel,

Copies of draft Press releases
in CBI trends and forecasts due out
on Monday enclosed. All very positive
and no signs of confidence falling away
under any of the headings.

In haste

Yours ever

David.

DRAFT

EMBARGOED - NOT FOR
PUBLICATION BEFORE
00.30 HRS ON MONDAY
28 MARCH 1988

ORDERS AND OUTPUT CONTINUE STRONG,
CBI SURVEY SHOWS

Britain's manufacturers report order books remain very high levels in spite of the strength of sterling and they expect output will continue to grow rapidly over the next four months. The monthly trends survey for March, published today (Monday) by the Confederation of British Industry, shows that the high level of demand in the first two months of this year was maintained in March and that the trend in both orders and output remains strong.

The survey is based on replies from 1,549 firms which employ about half the workers in UK manufacturing industry and produce nearly half Britain's manufactured exports. It shows that the strengthening of sterling has so far had little effect on export order books. Twenty eight per cent of firms assess export order books as above normal and 17 per cent as below normal, leaving a balance - the difference between the two - of plus 11. This compares with a balance of plus 12 for February, when 27 per cent said export order books were above normal and 15 per cent below normal.

ORDERS: Total order books were reported as above normal by 36 per cent, against 31 per cent in February, and below normal by 16 per cent, compared with 11 per cent a month ago. The balance of plus 20 per cent was identical with that recorded in both January and February - the highest since the question was first asked in April 1977.

MF

OUTPUT expectations for the next four months were even higher than in February: 47 per cent of firms said they expected output to increase, against only 43 per cent last month, but 10 per cent predicted it will fall, against seven per cent in February. The March balance of plus 37 per cent is the best since last August - the second highest on record.

PRICES are expected to rise more slowly than anticipated at any time since October last year. Thirty one per cent of firms said they expect to raise prices over the next four months, compared with 38 per cent in February, while 62 per cent expected to maintain them at existing levels, against 56 per cent last month. The balance of plus 25 per cent expecting prices to rise is significantly down on the balances recorded in the previous three months, all of which were above 30 per cent.

STOCKS improved during March with 12 per cent of firms reporting them as more than adequate, against 11 per cent in February, and 11 per cent as less than adequate, against 13 per cent of the previous month. The March balance of firms assessing stocks as adequate to meet expected demand at plus one compares with small negative balances in January and February.

Sir David Nickson, President of the CBI, commented, "These results show that the momentum of economic recovery is being maintained. It would be a mistake, however, for City pundits to discern signs of overheating. The continued severity of competition both in home and export markets is reflected in the weakening of expectations of price increases and both output and stock levels are keeping up with demand. Firms are also investing strongly to meet the increase in demand : as the January survey showed, a record proportion expected to expand their capacity this year.

"The Government should be prepared to reduce interest rates, if necessary, to keep sterling competitive and prevent the loss of market share in exports that has been so keenly fought for over the past two years."

25 March 1988

DRAFT PRESS RELEASE

EMBARGOED - NOT FOR
PUBLICATION BEFORE
00.30 HRS ON MONDAY
28 MARCH 1988

CBI FORECASTS MANUFACTURING INVESTMENT WILL RISE
BY NEARLY 10 PER CENT THIS YEAR

Investment in UK manufacturing industry will increase by nearly 10 per cent this year, the Confederation of British Industry predicts today (Monday). This confirms the shift in emphasis from consumer and export-led growth to the kind of investment-led growth the CBI has been advocating.

New forecasts prepared since the Budget by CBI economists suggest that the growth in manufacturing investment will peak this year at 9.8 per cent. This compares with growth of 3.4 per cent last year and a forecast of 7.5 per cent growth in 1989. Last year's figure was distorted by the depressed level of investment in the first quarter because of changes in capital allowances in previous years. Total private investment this year is expected to grow by 12.7 per cent and by another six per cent in 1989.

The CBI forecasts that manufacturing output will rise by 5.5 per cent this year - exactly the same rate as in 1987 - and by a further four per cent in 1989.

Overall, total UK economic output grew by 4.7 per cent last year, the highest rate since 1973. It is expected to rise by 3.3 per cent this year and by a further 2.3 per cent in 1989.

MF

Britain will have to face a worsening current account deficit as world trade slows, exports grow more slowly and sterling remains strong this year. The CBI predicts exports of goods and services, which grew by 6.7 per cent last year, are likely to increase by only 3.1 per cent this year and 3.2 per cent next. Imports, on the other hand, which grew by 7.3 per cent in 1987 will increase by 7.4 per cent this year and a further 6.5 per cent in 1989. The UK current account deficit of £1.7 billion last year will deteriorate to £5.3 billion this year and £5.5 billion in 1989. As a result the sterling index will weaken slightly throughout 1989. World trade is expected to grow by 4.7 per cent this year but to slow to three per cent in 1989.

Growth in consumers' expenditure is likely to continue to moderate, increasing by 4.3 per cent against 4.9 per cent last year, slowing down to 3.9 per cent in 1989.

The creation of more new jobs should bring unemployment down to about 2.5 million by the end of this year but the number of jobless is forecast to rise slightly again next year, reaching about 2.7 million by the end of 1989.

Inflation is likely to be slightly lower this year, at 3.8 per cent, against 4.1 per cent for 1987, and will improve slightly to about 3.6 per cent in 1989. Average earnings are forecast to rise by eight per cent this year, easing to 7.5 per cent in 1989.

25 March 1988

Tony D. re
Chamberlain

FROM: S D KING
 DATE: 24 MARCH 1988

CHANCELLOR

cc Sir P Middleton
 Mr Sedgwick
 Mr R I G Allen
 Mr Hibberd
 Mr Pickford
 Mr Brooks
 Mr Curwen

CBI MONTHLY TRENDS ENQUIRY AND STAFF FORECASTS - MARCH 1988

I attach the results of the CBI's March Enquiry (due to be published at 00.30 am on Monday 28 March) together with our provisional seasonally adjusted estimates. The CBI will emphasise that orders and output remain buoyant, and that there are no signs of overheating.

2. The CBI will publish their latest forecasts at the same time. They assume that interest rates remain at 8½ per cent through the first three quarters of 1988, rising to 9 per cent thereafter. The sterling effective exchange rate is assumed to fall to around 72 by 1989 Q4, in part reflecting current account pressures. The main points are set out below, and compared with the latest Industry Act Forecast.

percentage change on previous year

	<u>GDP</u>		<u>RPI(Q4)</u>		<u>Consumers' Expenditure</u>		<u>Man. Investment</u>		<u>Current Account (fbn)</u>	
	<u>CBI</u>	<u>IAF</u>	<u>CBI</u>	<u>IAF</u>	<u>CBI</u>	<u>IAF</u>	<u>CBI</u>	<u>IAF</u>	<u>CBI</u>	<u>IAF</u>
1988	3.3	3	4.0	4	4.3	4	9.8	11½	-5.3	-4
1989	2.3		3.4		3.9		7.5		-5.5	

3. The CBI's forecast suggests that the impetus for growth will shift from consumption to investment; they are likely to emphasise this point. They will also note that the prospects for inflation remain encouraging.

SK

S D KING
 PS/SIR T BURNS

CBI Monthly Trends Enquiry

RESULTS

FEBRUARY 1988

Manufacturing Industry: 1580 respondents

Conducted between 26 January and 17 February 1988

The figures are percentages based on a weighted sample.

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

- (1) a. Your present total order book is
b. Your present export order book is

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

- (2) Your present stocks of finished goods are

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

- (3) Volume of output
(4) Average prices at which domestic orders are booked.

Above Normal	Normal	Below Normal	N/A
31	58	11	-
27	56	15	2

More than adequate	Adequate	Less than adequate	N/A
11	61	13	15

Up	Same	Down	N/A
43	50	7	-
38	56	5	1

Percentage Balance

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
1a Total Order Book	+ 4	+ 1	+10	+ 3	+ 6	+11	+ 9	+10	+13	+18	+20	+20	+20
b Export Order Book	0	- 6	0	+ 9	+10	+ 5	+ 3	+ 1	+11	+ 4	+ 5	+12	+11
2 Stocks	+ 7	+ 5	0	- 1	+ 1	- 1	+ 3	- 7	- 5	+ 2	- 1	- 2	+1
3 Volume of Output	+34	+25	+31	+37	+23	+38	+30	+25	+36	+31	+26	+36	+37
4 Average Prices	+25	+26	+28	+19	+19	+21	+20	+23	+28	+31	+39	+33	+25

COMMENT

Total order books continue to be buoyant. A balance of +20% report order books above normal, the same as in January. This is the highest balance since the question was first asked in 1977.

Export order books have recovered to the level of November. A balance of +12% of respondents report order books above normal, compared with +4% and +5% respectively in December and January.

Stocks of finished goods are again reported to be slightly less than adequate to meet expected demand. A balance of -2% of respondents indicate that stocks are less than adequate

Further strong growth in manufactured output is expected in the next four months, continuing the recent trend. A balance of +36% of firms expect to increase their output in the coming months, the same as in November 1987.

Manufacturers' average prices are expected to rise at a slightly faster rate than anticipated in November and December of last year. A balance of +33% of respondents expect to raise prices, lower than in January, when the balance has in most years been higher than trend due to seasonal factors.

TABLE 1A

CBI MONTHLY SURVEY QUESTIONS (OTHER THAN OUTPUT EXPECTATIONS)

	PRESENT LEVEL OF ORDER BOOK (Balance of those responding "Above normal" less those responding "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						
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	+ 4	+ 2	+31	+26
1988						
Jan	+20	+26	+ 5	+ 8	+39	+31
Feb	+20	+16	+12	+ 8	+33	+27
Mar	+20	+16	+11	+4	+25	+21

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)

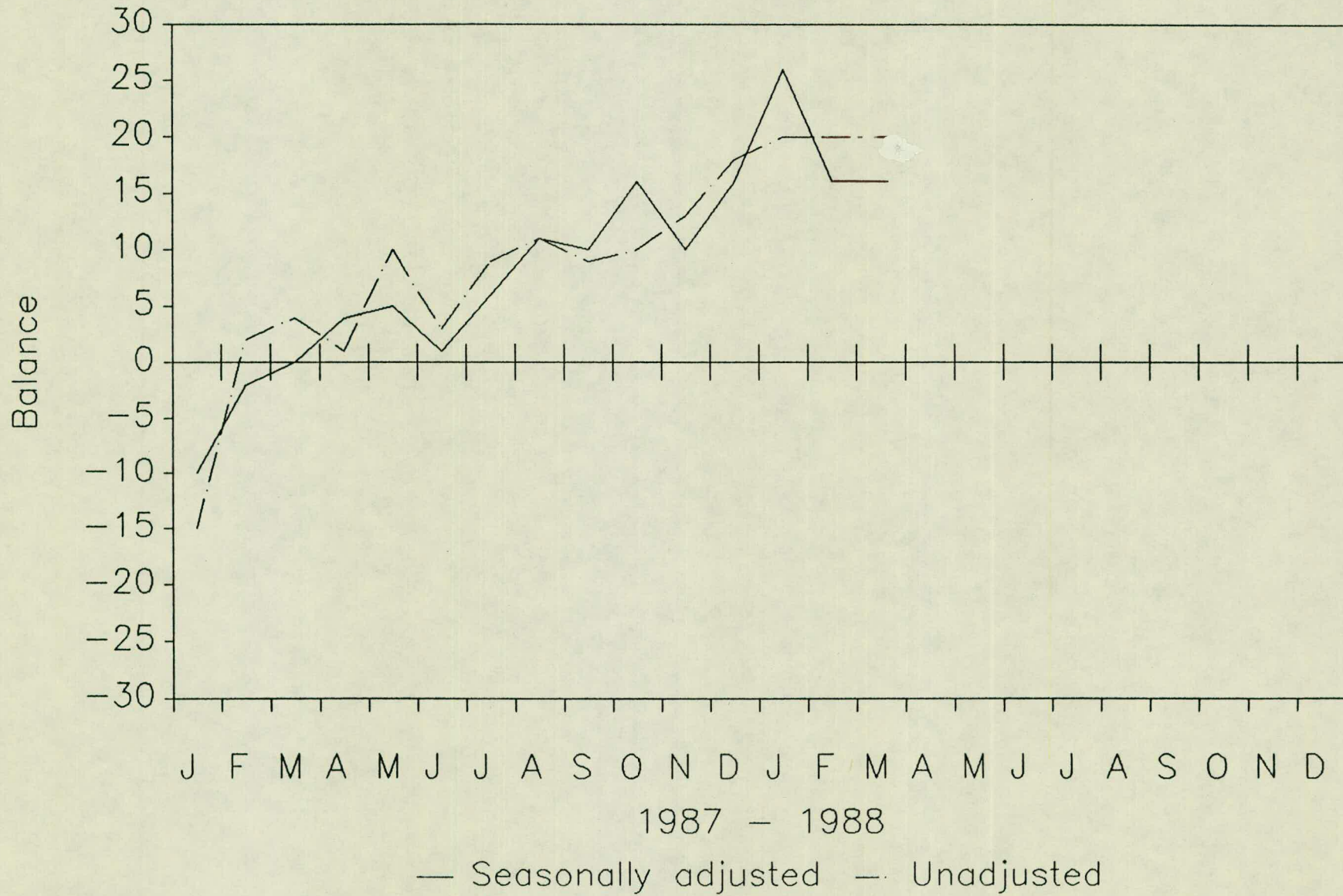
(Balance of those responding "Up" less those responding "Down")

	<u>PAST 4 MONTHS</u>		<u>EXPECTED TREND OVER NEXT 4 MONTHS</u>	
	Reported	Seasonally Adjusted	Reported	Seasonally Adjusted
1986				
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
1988				
Jan	+31	+32	+26	+27
Feb			+36	+33
Mar			+37	+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.

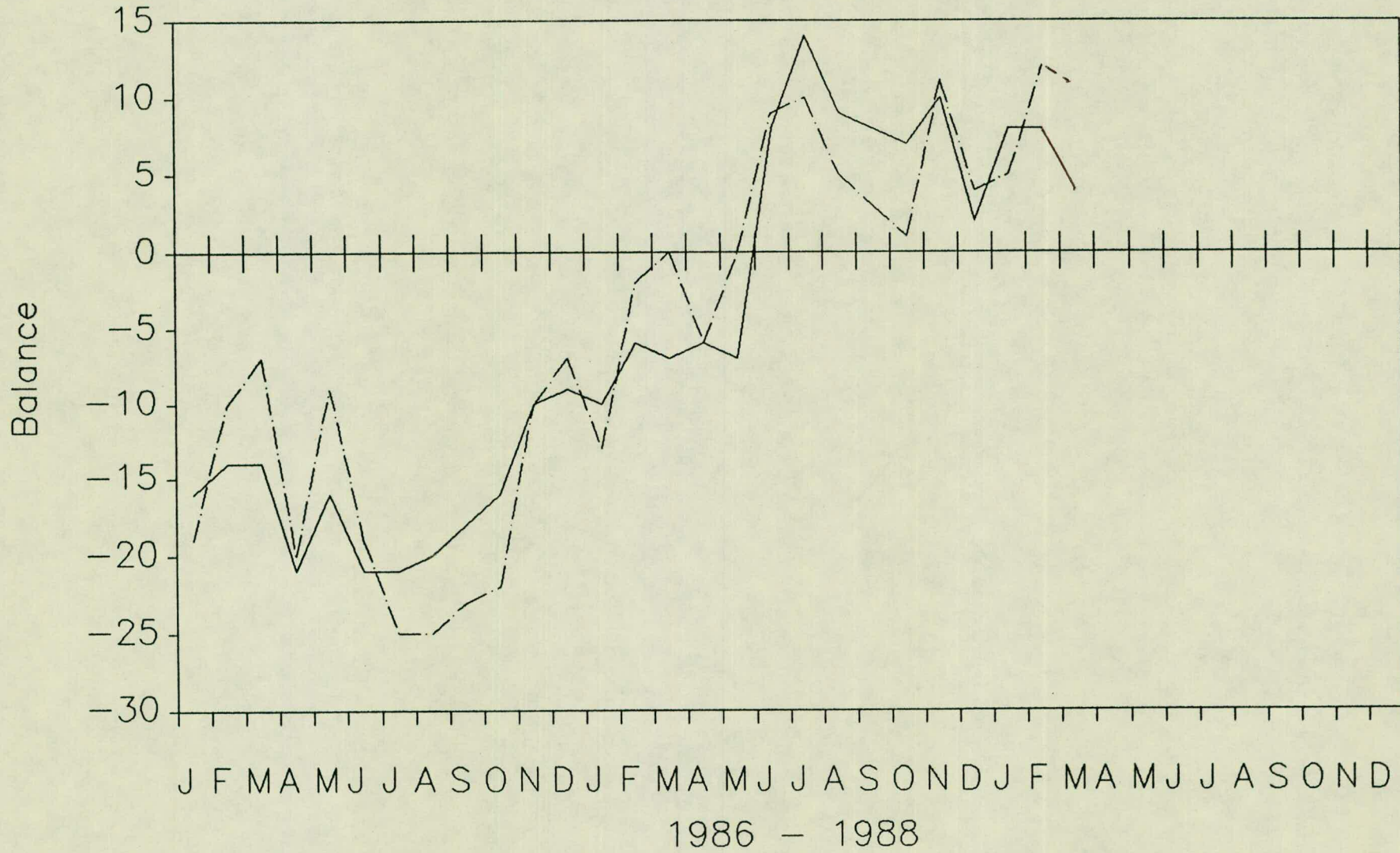
MONTHLY CBI LEVEL OF ORDER BOOK

TOTAL



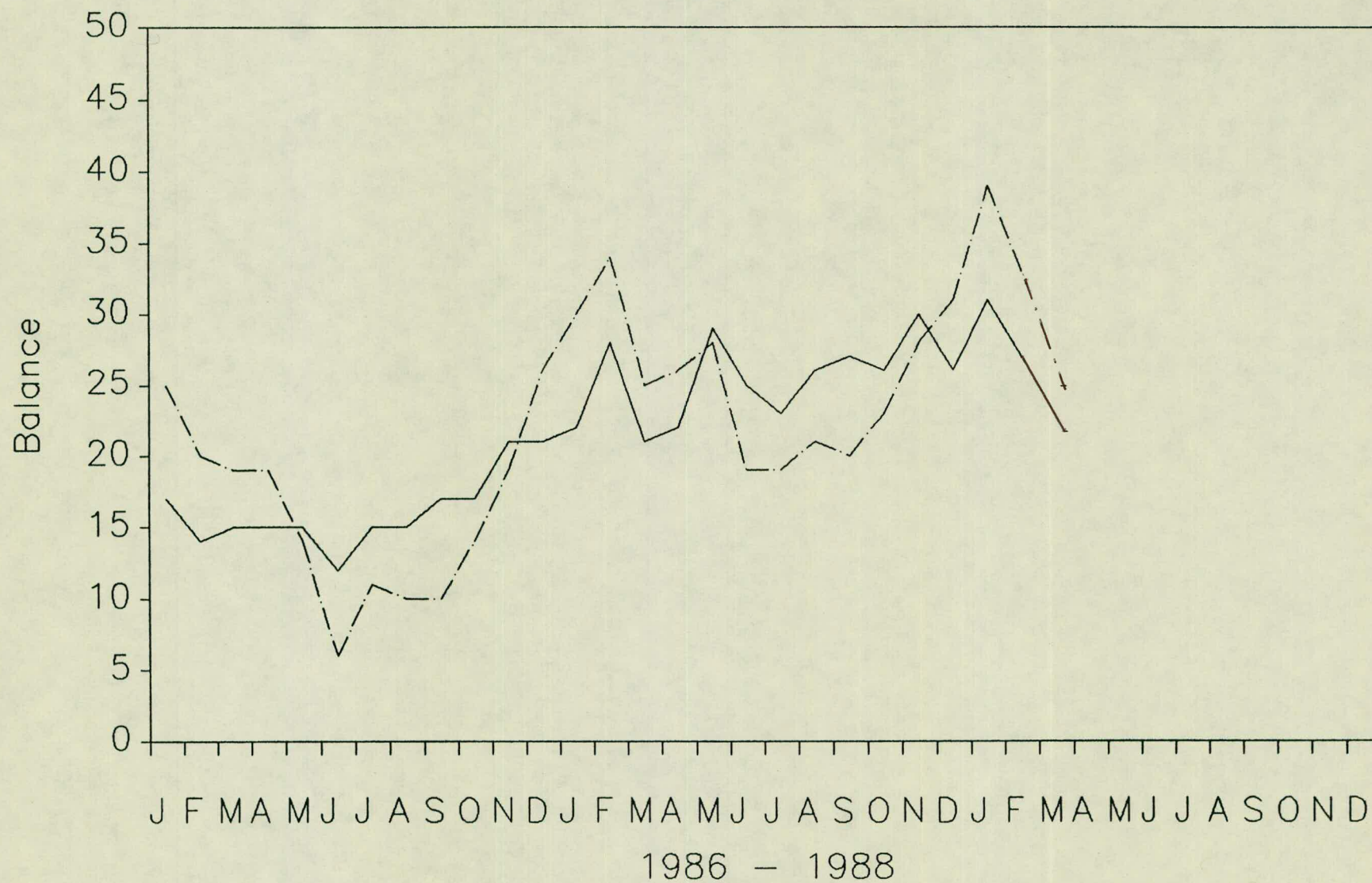
MONTHLY CBI LEVEL OF ORDER BOOK

EXPORT



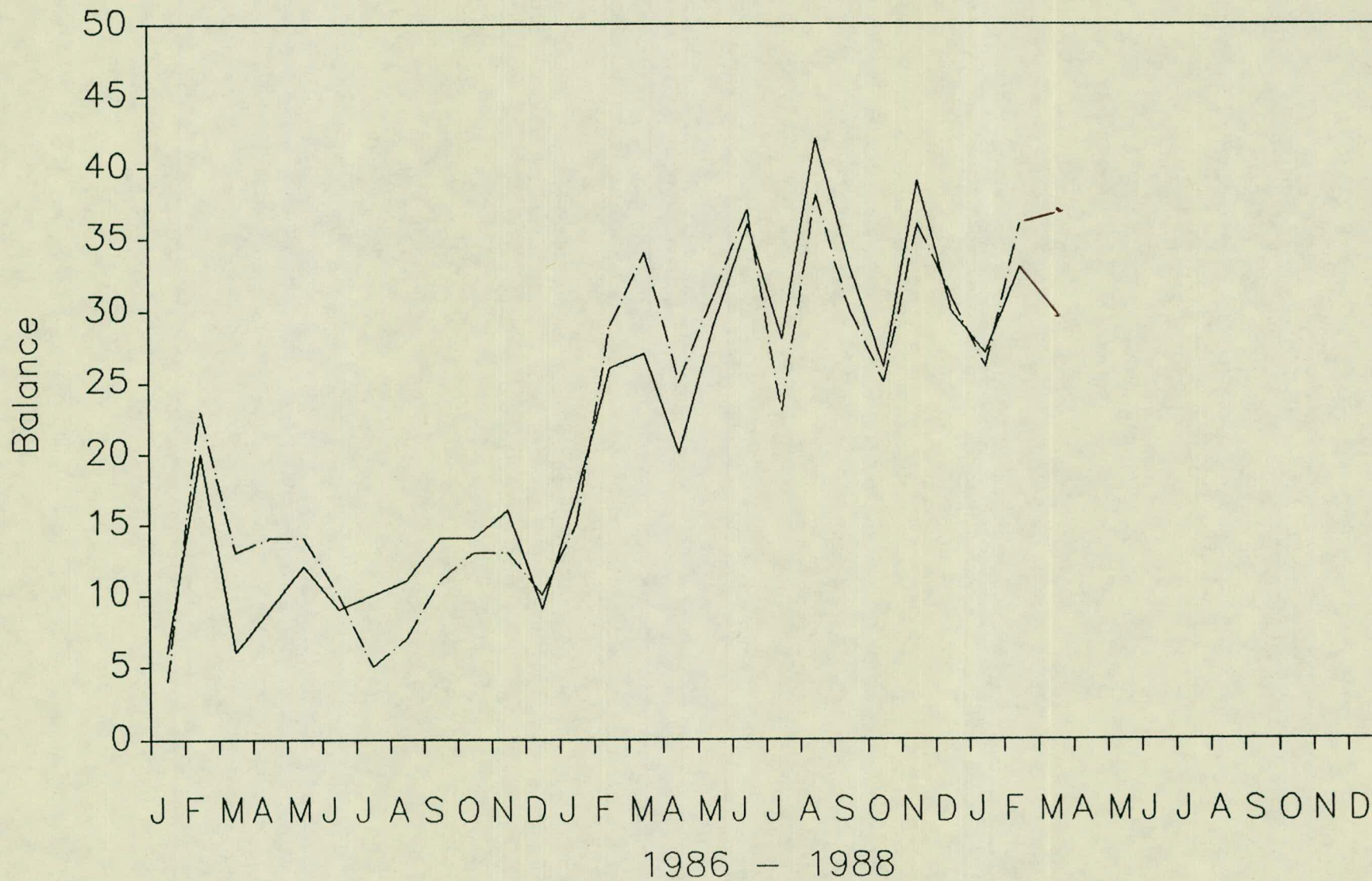
— Seasonally adjusted — Unadjusted

MONTHLY CBI PRICE EXPECTATIONS SA



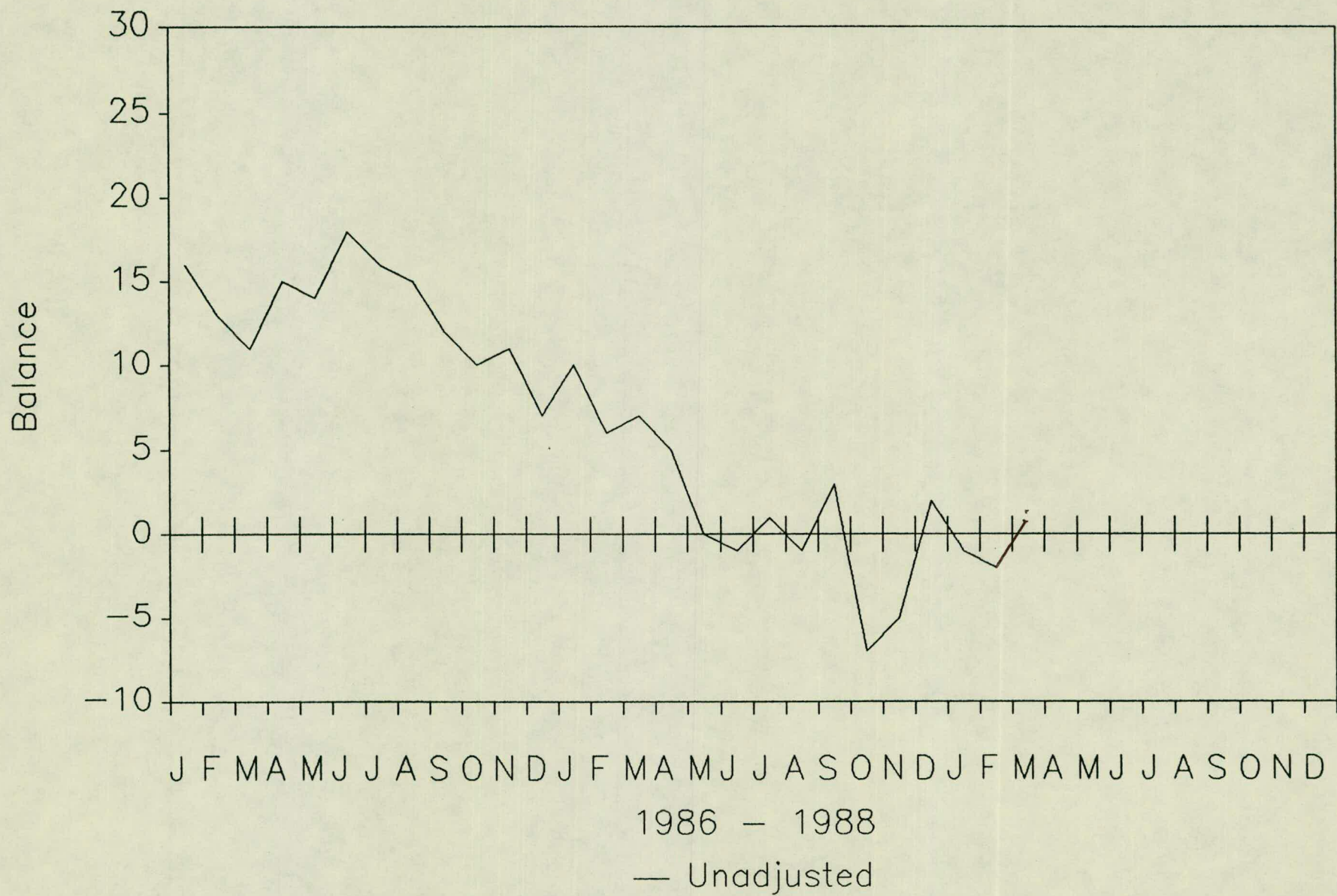
— Seasonally adjusted — Reported

MONTHLY CBI EXPECTED VOLUME OF OUTPUT



— Seasonally adjusted — Unadjusted

MONTHLY CBI STOCKS





FROM: A A DIGHT

DATE: 25 March 1988

MR S D KING

CBI MONTHLY TRENDS ENQUIRY AND STAFF FORECASTS - MARCH 1988

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

A handwritten signature in cursive script, appearing to read "A A Dight".

A A DIGHT

CONFIDENTIAL
 until 00.30 am Monday 28 March 1988
 then UNCLASSIFIED

FROM: **PETER CURWEN**
 DATE: 25 March 1988

1. **MR PICKFORD**
 2. **CHANCELLOR OF THE EXCHEQUER**
 (+1 for No 10)

cc Chief Secretary Mr Allum
 Financial Secretary Mr Brooks
 Paymaster General Mr Hudson
 Economic Secretary Mr Owen
 Sir P Middleton Mr Price
 Sir T Burns Mr Dyer
 Mr Monck Mr Call
 Mr Odling-Smee Mr Cropper
 Mr Scholar Mr Tyrie
 Mr Sedgwick HB/003
 Mr R I G Allen
 Mr Bottrill
 Mr Hibberd
 Miss O'Mara
 Mr Bush

Another good survey. Continuing high
 levels of export orders may help to
 allay some of the fears arising from
 the recent trade figures.

Sp. 2/25/88

CBI MONTHLY TRENDS ENQUIRY AND STAFF FORECASTS: MARCH 1988

The CBI's latest Monthly Enquiry is to be released at 00.30 on Monday 28 March.

Enquiry results

2. The Monthly Enquiry into manufacturing - full results given in the attachment and summarised in the table below - asks only five of the questions in the quarterly survey: current levels of home and export orders and of stocks, and expected trend over the next four months in output and domestic prices. The Enquiry was conducted between 26 February and 16 March, covering 1,549 respondents.

3. The balances on the order book and output series remained broadly unchanged between February and March. The three series are all at historically high levels. The expected rate of growth of output prices has fallen back for the second successive month and is now significantly lower than its high January level. The main results are outlined below in the table to the left. This month, for the first time, the CSO have produced seasonally adjusted figures for the stocks series. A revised seasonal adjustment has been applied to the other 4 series. The new estimates (NOT PUBLISHED) are contained in the table to the right.

	PUBLISHED			SEASONALLY ADJUSTED : (NOT PUBLISHED)		
	January	February	March	January	February	March
Total order books	+20	+20	+20	+27	+16	+15
Export order books	+5	+12	+11	+9	+8	+5
Stocks	-1	-2	+1	-3	-1	0
Volume of output	+26	+36	+37	+31	+30	+29
Average domestic prices	+39	+33	+25	+30	+27	+21

Points to note

4. Another good survey. The output and order book series continue to indicate a buoyant manufacturing sector while the stocks and prices series provide evidence against the overheating school. The balance on total order books, unchanged for the third successive month, remains at its highest ever level. Export order books also remain very healthy compared with the experience of the past decade and the CBI note that 'the recent strength of the pound does not yet appear to have had a significant adverse effect on exports.' However the March balance, when seasonally adjusted, does seem to have fallen back slightly from the high average balance recorded over the previous 9 months. On the basis of the order book and output series the CBI expect output to 'continue to grow rapidly' and 'across the whole range of manufacturing'. The falling balance of respondents expecting to increase prices over the next 4 months has moved the CBI to remark (in marked contrast to last month) that 'the rate of price increases is now slowing'

Staff forecasts

5. The staff forecast for 1988 summarised below is broadly in line with the FSBR and is described by the CBI as 'encouraging'.

	Percentage change as seen earlier		
	1988		1989
	CBI	FSBR	CBI
GDP(O)	3.3	3	2.3
Consumers' expenditure	4.3	4	3.9
Fixed investment	10.8	6½	5.0
Exports of goods and services	3.1	3	3.2
Imports of Goods and Services	7.4	6½	6.5
Manufacturing: output	5.5	5	4.0
: investment	9.8	11½	7.5
Inflation (Q4)	3.8	4	3.6
Unemployment (Q4 adult millions)	2.5	-	2.7
Current account (£ billion)	-5.3	-4	-5.5
PSBR (FY £ billion)	-3.1	-3	-2.7

6. The CBI forecast is for output growth - GDP(O) - of approaching $3\frac{1}{2}$ per cent with fourth quarter inflation of just under 4 per cent. Investment growth is expected 'to sustain demand during 1988' as growth in consumer spending moderates. The expected change in the composition of domestic demand was noted in the FSR. However the CBI's forecast of 10.8 per cent growth in whole economy fixed investment is significantly greater than the $6\frac{1}{2}$ per cent growth in the FSR, despite the CBI forecasting slightly slower growth in manufacturing investment. This is because the CBI are forecasting much faster growth in non-manufacturing non-oil private business investment. Forecast export growth is in line with the FSR, but the stronger growth in domestic demand envisaged by the CBI feeds through into faster import growth and helps to produce a larger current account deficit than the £4 billion Budget forecast.

7. Looking ahead to 1989 the CBI expect slower output growth (2.3 per cent), lower fourth quarter inflation (3.6 per cent) and, within domestic demand, investment growth again out-pacing consumption growth. Unemployment after reaching a low of 2.47 million in 1988Q3 is expected to rise thereafter reaching 2.74 million in 1989Q4. The current account deficit is expected to remain broadly unchanged at £5.5 billion.

Peter S. Curwen

PETER CURWEN

CBI INDUSTRIAL TRENDS ENQUIRY

March 1987
Manufacturing industry: 1549 respondents

The figures are percentages based on a weighted sample.

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

- (1) a. Your present total order book is
b. Your present export order book is
(firms with no order book are requested to estimate the level of demand)

Above Normal	Normal	Below Normal	N/A
36	48	16	+
28	54	17	1

- (2) Your present stocks of finished goods are

More than adequate	Adequate	Less than adequate	N/A
12	66	11	11

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

- (3) Volume of output
(4) Average prices at which domestic orders are booked.

Up	Same	Down	N/A
47	43	10	-
31	62	6	1

Percentage Balance

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
1a Total Order Book	+ 1	+10	+ 3	+ 6	+11	+ 9	+10	+13	+18	+20	+20	+20
b Export Order Book	- 6	0	+ 9	+10	+ 5	+ 3	+ 1	+11	+ 4	+ 5	+12	+11
2 Stocks	+ 5	0	- 1	+ 1	- 1	+ 3	- 7	- 5	+ 2	- 1	- 2	+ 1
3 Volume of Output	+25	+31	+37	+23	+38	+30	+25	+36	+31	+26	+36	+37
4 Average Prices	+26	+28	+19	+19	+21	+20	+23	+28	+31	+39	+33	+25



prop

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

28 March 1988

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

John Lawson

Thank you for your letter of 23 March, enclosing your draft press releases for the CBI trends and forecasts material. These are most encouraging.

John Lawson

NIGEL LAWSON

CONFIDENTIAL

mp

FROM: SIR T BURNS
DATE: 21 APRIL 1988

CHANCELLOR

cc Sir P Middleton
Mr Sedgwick
Mr Pickford

CBI ECONOMIC TRENDS SURVEY

I attach the results of the CBI's latest survey, which was handed to me this afternoon by John Caff. It will be published next Tuesday. You will also find some provisional seasonally adjusted figures. I shall give more thought to the results overnight.

T.B.

*Thanks.
Not too good.
(Mussell)*

T BURNS

NOT FOR PUBLICATION
BEFORE 11.30 AM, TUESDAY
26 APRIL 1988

THE APRIL 1988 QUARTERLY INDUSTRIAL TRENDS SURVEY

NO 108

Total Response:1317 Trade Response:897

Conducted between 25 March and 13 April 1988

The April Industrial Trends Survey shows business confidence remaining high with good prospects for sustainable economic growth. Strong demand has been met by increased manufacturing output though both are now expected to slow. There are few signs of overheating and investment intentions have strengthened considerably. Price rises are expected to remain moderate though unit costs are to pick up from a modest rate of growth. Further gains in manufacturing employment are expected.

During the Survey period the pound averaged \$1.86 and DM3.114, compared with \$1.83 and DM2.978 over the January Survey period. Sterling's effective exchange rate rose by 2.9% between the Survey periods.

Summary

- Business confidence remains high. A balance of +19% of respondents indicated they were more optimistic than in January.
- Growth in demand strengthened in the past four months. Order books are now reported to be +14% above normal, the second highest balance since this question was first asked. The rate of growth in orders is expected to slow in the next four months.
- The rate of growth in manufacturing output has accelerated for the second consecutive survey. A balance of +36% of respondents recorded an increase in output over the past four months, with +29% expecting output to rise over the next four months. The moderation of output growth to more sustainable levels is anticipated in most sectors of industry, although the consumer goods industries expect strong growth to continue.
- The proportion of firms operating below capacity has fallen to 32%. But there are still few signs of overheating. Investment intentions have strengthened substantially and 86% of firms report their capacity at least adequate to meet expected demand. Though fixed capacity as a constraint on output has risen slightly, to 26%, from 21% in January, the proportion of firms whose output is constrained by shortages of plant capacity is comparable to a year ago.
- For the third successive survey an upturn in employment is indicated. A balance of +8% report an increase in their workforce over the past four months, and +7% expect job gains over the coming four months. The fastest growth in employment remains among small firms.
- Unit costs have increased more slowly over the past four months than expected in January. Factory gate prices picked up slightly and a moderate rate of growth is expected in the next four months. The rate of increase in unit costs is expected to rise from the modest growth over the last four months.
- Optimism about exports continues to decline. A balance of -5% in April compares with -7% recorded in January, although the rate of growth in export orders picked up in the past four months. Export prices rose by less than anticipated, and are expected to slacken further over the next four months.

CBI INDUSTRIAL TRENDS SURVEY: SUMMARY OF RESULTS FROM JANUARY 1987 TO APRIL 1988

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

TOTAL TRADE		Jan 87	Apr 87	Jul 87	Oct 87	Jan 88	Apr 88
1	Optimism re business situation	+12	+29	+25	+23	+11	+19
3	12 month forecast of capital expenditure authorisations compared with previous 12 months on:						
	a buildings	-10	- 3	+ 1	- 3	+ 1	+ 6
	b plant and machinery	+10	+13	+20	+17	+20	+32
4	Firms working below capacity ¹	50	49	45	41	35	32
6	Numbers employed						
	- past 4 months	-16	-10	- 7	+ 4	+ 9	+ 8
	- next 4 months	- 9	- 4	- 3	+ 2	+ 8	+ 7
7	Volume of new orders						
	- past 4 months	+14	+26	+24	+25	+26	+31
	- next 4 months	+20	+25	+25	+25	+16	+23
8	Volume of output						
	- past 4 months	+ 9	+24	+23	+19	+31	+36
	- next 4 months	+15	+25	+23	+25	+26	+29
10a	Stocks of raw materials						
	- past 4 months	- 8	- 6	+ 3	0	- 1	+ 2
	- next 4 months	- 6	- 6	- 3	- 8	- 1	0
b	Stocks of work in progress						
	- past 4 months	- 8	- 5	+ 6	+ 7	+ 7	+ 1
	- next 4 months	- 5	- 6	+ 1	+ 1	- 3	- 3
c	Stocks of finished goods						
	- past 4 months	- 6	- 7	- 4	- 7	- 8	+ 1
	- next 4 months	- 5	- 8	- 5	- 8	- 2	- 4
11	Average unit costs						
	- past 4 months	+15	+25	+10	+22	+16	+10
	- next 4 months	+29	+18	+11	+19	+33	+23
12a	Average domestic prices						
	- past 4 months	+13	+20	+16	+18	+18	+28
	- next 4 months	+30	+26	+19	+23	+39	+31
14	Four month forecast of factors likely to limit output						
	Orders or sales	82	72	69	65	67	68
	Skilled labour	9	12	18	19	20	19
	Other labour	1	2	3	5	4	3
	Plant capacity	15	25	22	24	21	26
	Credit or finance	3	4	3	3	3	2
	Materials/components	5	4	6	8	8	9
	Other	2	2	4	2	3	2

EXPORT GRADE		Jan 87	Apr 87	Jul 87	Oct 87	Jan 88	Apr 88
2	Optimism re export prospects	+20	+24	+24	+14	- 7	- 5
7b	Volume of new export orders						
	- past 4 months	+ 7	+15	+23	+ 9	+14	+18
	- next 4 months	+21	+20	+17	+17	+ 7	+ 9
9b	Volume of export deliveries						
	- past 4 months	+ 7	+15	+23	+13	+22	+20
	- next 4 months	+21	+22	+21	+21	+11	+11
12b	Average export prices						
	- past 4 months	+ 9	+18	+ 9	+ 6	+11	+10
	- next 4 months	+29	+15	+13	+21	+26	+ 8

15 Four month forecast of factors likely to limit export orders

Prices	61	59	60	56	56	70
Delivery dates	13	15	12	15	17	14
Credit or finance	9	9	13	6	11	8
Quota and licence	11	10	13	11	12	10
Political/economic conditions abroad	26	25	28	28	29	24
Other	10	10	9	13	10	10

1 Percentage Figures

CBI Monthly Trends Enquiry: Time Series of results from May 1987 to April 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.

		May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
1a	Total Order Book (Q.5a)*	+10	+ 3	+ 6	+11	+ 9	+10	+13	+18	+20	+20	+20	+14
1b	Export Order Book (Q.5b)	0	+ 9	+10	+ 5	+ 3	+ 1	+11	+ 4	+ 5	+12	+11	+ 2
2	Stocks (Q.5c)	0	- 1	+ 1	- 1	+ 3	- 7	- 5	+ 2	- 1	- 2	+ 1	+ 2
3	Volume of Output (Q.8)	+31	+37	+23	+38	+30	+25	+36	+31	+26	+36	+37	+29
4	Average Prices (Q.12a)	+28	+19	+19	+21	+20	+23	+28	+31	+39	+33	+25	+31

* 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'.

Number of RESPONDENTS: Total Trade Questions 1317
Export Trade Questions 897

Number of RESPONDENTS in each employment size group:

(a) 0-199 740 (b) 200-499 297 (c) 500-4,999 248 (d) 5,000 and over 32

1 Are you more, or less, optimistic than you were four months ago about the general business situation in your industry

More	Same	Less
27	65	8

2 Are you more, or less, optimistic about your export prospects for the next twelve months than you were four months ago

More	Same	Less	N/A
19	56	24	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
b. plant and machinery

More	Same	Less	N/A
28	37	22	13
48	35	16	1

4 Is your present level of output below capacity (i.e. are you working below a satisfactory full rate of operation)

Yes	No	N/A
32	66	2

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

Above Normal	Normal	Below Normal	N/A
31	51	17	1
25	51	23	1

a. Your present total order book is
b. Your present export order book is
(firms with no order book are requested to estimate the level of demand)

c. Your present stocks of finished goods are

More than Adequate	Adequate	Less than Adequate	N/A
15	60	13	12

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:

- 6 Numbers employed
- 7 Volume of total new orders
of which: a. domestic orders
 b. export orders
- 8 Volume of output
- 9 Volume of: a. domestic deliveries
 b. export deliveries
- 10 Volume of stocks of: a. raw materials and brought in supplies
 b. work in progress
 c. finished goods

Trend over PAST FOUR MONTHS				Expected trend over NEXT FOUR MONTHS			
Up	Same	Down	N/A	Up	Same	Down	N/A
30	48	22	+	26	54	19	+
44	41	13	2	32	56	9	2
41	46	11	2	28	63	6	3
33	50	15	2	24	59	15	2
46	44	10	+	38	52	9	+
42	46	11	1	35	59	6	1
33	53	13	1	28	54	17	1
20	58	18	4	16	64	16	4
20	58	19	4	14	65	17	4
19	52	18	11	14	58	18	11

PAST FOUR MONTHS, and what are the expected trends for the NEXT FOUR MONTHS, with regard to:

11 Average costs per unit of output

12 Average prices at which: a. domestic orders are booked
b. export orders are booked

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

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

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.

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

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

to increase efficiency

for replacement

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

Inadequate net return on proposed investment

Shortage of internal finance

Inability to raise external finance

Cost of finance

PAST FOUR MONTHS				NEXT FOUR MONTHS			
Up	Same	Down	N/A	Up	Same	Down	N/A
27	54	17	1	30	61	7	1
35	57	7	1	35	60	4	1
25	58	15	2	22	62	14	2

Less than 1	1-3	4-6	7-9	10-12	13-18	More than 18	N/A
15	45	16	4	3	2	+	15

Orders or Sales	Skilled Labour	Other Labour	Plant Capacity	Credit or Finance	Materials or Components	Other
68	19	3	26	2	9	2

Prices (compared with overseas competition)	Delivery Dates	Credit or Finance	Quota & Import Licence Restrictions	Political or Economic Conditions Abroad	Other
70	14	8	10	24	10

More than adequate	adequate	Less than adequate
26	60	14

39

other (please specify)

9

76

N/A

3

45

44

Uncertainty about demand

31

20

Shortage of labour including Managerial and Technical Staff

6

2

Other (please specify)

4

5

N/A

12

uk

The full analysis of the results is available on a subscription basis. The annual subscription is £140 (CBI members £90) and can be arranged through CBI Industrial Trends and Economic Forecasting Dept.

Printed by Spice Visual Presentations (Litho), 24-28 Hatton Wall, EC1N 8JP.

Published by Confederation of British Industry, Industrial Trends Department, Centre Point, 103 New Oxford Street, London WC1A 1DU.

Business optimism

Volume of new orders

Volume of Stocks of raw Materials

Compared to 4 months ago
(Balance of those saying
"More Optimistic" less
those saying "Less
Optimistic")

Trend over past 4 months
(Balance of those responding
"Up" less those responding
"Down")

Trend over next 4 months
(Balance responding "Up"
less balance responding
"Down")

(Question 1)

(Question 7)

(Question 10A)

	Unadjusted	Seasonally Adjusted	Unadjusted	Seasonally Adjusted	Unadjusted	Seasonally Adjusted
--	------------	---------------------	------------	---------------------	------------	---------------------

1986

Jan	-1	-3	-2	-1	-13	-13
Apr	+8	-6	0	-9	-12	-16
July	-9	-2	-6	-4	-17	-16
Oct	0	+9	0	+6	-19	-15

1987

Jan	+12	+10	+14	+15	-6	-6
Apr	+29	+15	+26	+17	-6	-10
July	+25	+32	+24	+26	-3	-2
Oct	+23	+31	+26	+32	-8	-4

1988

Jan	+11	+9	+26	+27	-1	-1
Apr	+19	+5	+31	+22	0	-4

4/22/78

TABLE 1A

CBI MONTHLY SURVEY QUESTIONS (OTHER THAN OUTPUT EXPECTATIONS)

	PRESENT LEVEL OF ORDER BOOK (Balance of those responding "Above normal" less those responding "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	Reported	Seasonally Adjusted
1986						
Oct	-23	-17	-22	-15	+14	+17
Nov	- 9	- 9	-10	-11	+19	+20
Dec	-10	-12	- 7	- 7	+26	+21
1987						
Jan	-15	- 8	-13	- 9	+30	+21
Feb	+ 2	- 2	- 2	- 6	+34	+28
Mar	+ 4	- 1	0	- 6	+25	+21
Apr	+ 1	+ 2	- 6	- 4	+26	+23
May	+10	+ 5	0	- 8	+28	+29
Jun	+ 3	+ 1	+ 9	+ 6	+19	+25
Jul	+ 6	+11	+10	+ 8	+19	+24
Aug	+11	+12	+ 5	+10	+21	+26
Sep	+ 9	+11	+ 3	+ 9	+20	+27
Oct	+10	+16	+ 1	+ 8	+23	+26
Nov	+13	+13	+11	+ 9	+28	+29
Dec	+18	+16	+ 4	+ 4	+31	+26
1988						
Jan	+20	+27	+ 5	+ 9	+39	+30
Feb	+20	+16	+12	+ 8	+33	+27
Mar	+20	+15	+11	+ 5	+25	+21
Apr	+14	+15	+ 2	+ 4	+31	+28

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")

	<u>PAST 4 MONTHS</u>		<u>EXPECTED TREND OVER NEXT 4 MONTHS</u>	
	Reported	Seasonally Adjusted	Reported	Seasonally Adjusted
1986				
Oct	- 1	+ 3	+13	+15
Nov			+13	+16
Dec			+10	+11
1987				
Jan	+ 9	+10	+15	+20
Feb			+29	+24
Mar			+34	+26
Apr	+24	+19	+25	+20
May			+31	+29
Jun			+37	+34
Jul	+23	+23	+23	+29
Aug			+38	+42
Sep			+30	+33
Oct	+19	+23	+25	+27
Nov			+36	+39
Dec			+31	+32
1988				
Jan	+31	+32	+26	+31
Feb			+36	+30
Mar			+37	+29
Apr	+36	+31	+29	+24

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.

CONFIDENTIAL
until 11.30am Tuesday 26 APRIL 1988
then UNCLASSIFIED

FROM: PETER CURWEN
DATE: 25 APRIL 1988

- 1. MR PICKFORD
- 2. CHANCELLOR (+1 for No. 10)

- | | | |
|----|---------------------|--------------|
| cc | Chief Secretary | Mr MacAuslan |
| | Financial Secretary | Miss O'Mara |
| | Paymaster General | Mr Bush |
| | Economic Secretary | Mr Allum |
| | Sir Peter Middleton | Mr Brooks |
| | Sir Terence Burns | Mr Dyer |
| | Mr Scholar | Mr Hudson |
| | Mr Monck | Mr Owen |
| | Mr Odling-Smee | Mr Price |
| | Mr Sedgwick | Mr O'Brien |
| | Mr R I G Allen | Mr Cropper |
| | Mr Hibberd | Mr Tyrie |
| | | Mr Call |
| | | HB/003 |

Another survey suggesting continued growth with low inflation. Export optimism remains low, but investment intentions are at their highest level for 15 years.

Thanks. I have ^{Sent} ~~sent~~ ^{25/4} ~~sent~~ ^{slated} ~~slated~~ ^a ~~a~~

CBI QUARTERLY INDUSTRIAL TRENDS SURVEY - APRIL 1988

line taken. No price rises - overheating question, GP u x.

The CBI's latest quarterly Survey of manufacturing industry will be released at 11.30am on Tuesday 26 April. The Survey was conducted between 25 March and 13 April. During the Survey period, sterling averaged \$1.86 and DM3.114 compared with \$1.83 and DM2.978 over the January Survey period. Sterling's effective exchange rate rose by 2.9 per cent between the two Survey periods.

2. The Survey results give further confirmation of the buoyant state of industry although there are some indications of weakening in the export sector, perhaps reflecting the recent strength of sterling. Capacity utilisation remains high but there are again few signs of overheating in the survey results. The general picture is one of a prospective slackening of growth, but from a rate faster than expected in the January Survey.

3. The CBI are taking an optimistic line in describing the Survey results, "business confidence remaining high with good prospects for sustainable economic growth" although output and demand are both now expected to slow. There are "few signs of overheating" and "investment intentions have strengthened considerably" with "further gains in manufacturing employment" expected. They also report that "price rises are expected to remain moderate though unit costs are to pick up from a modest rate of growth".

Survey results in summary

4. Overall business confidence remains strong, with the CBI noting that the 'rising trend in optimism' is broadly based. Export optimism though has again fallen back, possibly reflecting the recent appreciation in the value of sterling. 70 per cent of respondents cited prices as the most important factor limiting the ability to obtain export orders. Excluding two similar percentages seen at the end of 1985 and the start of 1986, this is the highest level since the beginning of 1982.

5. Expectations of output and order books over the next 4 months have been revised down slightly but the balances are still high by historical standards, suggesting continued healthy growth. On the basis of the orders and output series the CBI suggest that growth accelerated over the past 4 months, while over the next 4 months some slackening in the pace of growth might be expected to 'the rates observed in the preceding three surveys'. This analysis of recent performance seems at variance with the recent signs of slower growth in manufacturing output (and particularly February's figure).

6. The proportion of firms working below capacity has fallen back for the fifth successive survey and is now at its lowest since the question was first asked in 1958. The percentage of firms citing plant capacity as a factor likely to limit output has risen to its highest level since 1973. Nevertheless, 86 per cent of respondents indicate that fixed capacity is at least adequate to meet demand. However in the light of these results and also the 'sustained growth in output' the CBI point out that there is a 'need for investment in industrial capacity'. Industry though seems to be responding already. Investment intentions in plant and machinery have strengthened substantially since January with a balance of +32 per cent expecting to authorise increased capital expenditure over the next 12 months, the highest since October 1973.

Per cent balances (unless stated).

					Seasonally adjusted figures (NOT PUBLISHED)			
	Jan	Feb	Mar	Apr	Jan	Feb	Mar	Apr
Business optimism	11			19	9			5
Export optimism	-7			-5	-10			-14
Order Books:								
Total	20	20	20	14	27	16	15	15
Export	5	12	11	2	9	8	5	4
Investment intentions	20			32	21			28
Firms working below capacity (1)	35			32	33			31
Factors likely to limit output: (1)								
- orders or sales	67			68	65			69
- skilled labour	20			19	21			19
- plant capacity	21			26	23			25
Stocks	-1	-1	1	2				
Trend over past 4 months:								
- volume of output	31			36	32			31
- employment	9			8	9			6
- unit costs	16			10	14			8
- domestic prices	18			28	20			20
Trend over next 4 months:								
- volume of output	26	36	37	29	31	30	29	24
- employment	8			7	7			2
- unit costs	33			23	23			24
- domestic prices	39	33	25	31	30	27	21	28

(1) percentage of respondents.

7. Other particular points to note are:-

(a) Optimism. The balance of firms reporting an increase in optimism about the business situation is positive for the sixth quarterly Survey in succession. Export optimism has deteriorated sharply since October after improving for five Surveys running. The balance of firms reporting an increase in optimism has fallen from +24 per cent in the July Survey to +14 per cent in October and is now -5 per cent.

(b) Order books. A balance of +14 per cent report total order books above normal, a fall from +20 per cent recorded in each of the last 3 months. However this is still one of the highest balances recorded (for both monthly and quarterly surveys) since the question was first asked in April 1977. [The same is also true on a seasonally adjusted basis]. The balance of respondents reporting export order books above normal has fallen back from the levels of February and March. However, this is partly seasonal and it has only been bettered on a handful of previous occasions.

(c) Investment intentions in plant and machinery are particularly strong. The balance of +32 per cent of firms now reporting an intention to increase capital expenditure over the next 12 months is the highest figures since 1973. Increasing efficiency continues to be the most frequently cited reason for authorisation of capital expenditure, but the proportion of firms citing expansion of capacity although lower than in January is the second highest since this question was first asked in October 1979.

(d) Capacity utilisation. A shortage of orders or sales continues to be the major constraint on output with 68 per cent of firms citing this factor, which is close to an average level over the past year. The proportion of firms mentioning a shortage of skilled labour has remained steady over the past 4 surveys and is close to its long-term average.

(e) Employment. The Survey provides further evidence that the trend in manufacturing employment has stabilised. Indeed the CBI suggest that the 'trend in manufacturing employment continues to be upward' with 'employment growth apparent in most sections of industry'.

Forecasts for manufacturing industry

8. The results of this survey are used by the CBI to forecast short-term trends in manufacturing industry. On this basis, the CBI expect the following:

- manufacturing output growth on an annual basis to slow from 5.7 per cent in 1988Q1 to 5.3 per cent in 1988Q2.
- manufacturing investment in 1988 as a whole to rise by 10.8 per cent in 1987.
- manufacturing employment expected to rise in 1988Q1 with further growth in 1988Q2.

Economic Assessment

9. The CBI have a short economic assessment which considers whether the recent appreciation of sterling and a possible pick-up in unit labour costs will bring the resurgence of profits to a halt. They conclude that such a fear is 'probably exaggerated', since the strength of sterling 'could soon be undermined by the current account position' and continued strong productivity growth should 'contain the rate of growth in unit labour costs'. However given the 'rapid rise in profit margins over the last three years' some slowdown is now expected.

10 The CBI warn that although allowing the exchange rate to rise may help reduce inflation in the short-term, in the longer-term 'fixed investment and training may be discouraged' thereby undermining 'future business competitiveness'.

Line to take (on Industrial Trends Survey):

Another good Survey. Results show buoyant output, employment and order books, strong investment intentions ~~with little sign of overheating~~ and inflation remaining low. Confirmation that British industry is sound and strong and thus well placed to perform well in 1988.

Survey results consistent with slower growth of manufacturing output in 1988 after above trend growth in 1987. Also suggests some slowdown of export growth, as expected in Budget forecast.

Peter S. Curwen

PETER S CURWEN

CBI INDUSTRIAL TRENDS SURVEY

Summary of results from January 1987 to April 1988

TOTAL TRADE		Jan 87	Apr 87	Jul 87	Oct 87	Jan 88	Apr 88
1	Optimism re business situation	+12	+29	+25	+23	+11	+19
3	12 month forecast of capital expenditure authorisations compared with previous 12 months on:						
a	buildings	-10	-3	+1	-3	+1	+6
b	plant and machinery	+10	+13	+20	+17	+20	+32
4	Firms working below capacity ¹	50	49	45	41	35	32
<hr/>							
6	Numbers employed						
	- past 4 months	-16	-10	-7	+4	+9	+8
	- next 4 months	-9	-4	-3	+2	+8	+7
7	Volume of new orders						
	- past 4 months	+14	+26	+24	+25	+26	+31
	- next 4 months	+20	+25	+25	+25	+16	+23
8	Volume of output						
	- past 4 months	+9	+24	+23	+19	+31	+36
	- next 4 months	+15	+25	+23	+25	+26	+29
<hr/>							
10a	Stocks of raw materials						
	- past 4 months	-8	-6	+3	0	-1	+2
	- next 4 months	-6	-6	-3	-8	-1	0
b	Stocks of work in progress						
	- past 4 months	-8	-5	+6	+7	+7	+1
	- next 4 months	-5	-6	+1	+1	-3	-3
c	Stocks of finished goods						
	- past 4 months	-6	-7	-4	-7	-8	+1
	- next 4 months	-5	-8	-5	-8	-2	-4
11	Average unit costs						
	- past 4 months	+15	+25	+10	+22	+16	+10
	- next 4 months	+29	+18	+11	+19	+33	+23
12a	Average domestic prices						
	- past 4 months	+13	+20	+16	+18	+18	+28
	- next 4 months	+30	+26	+19	+23	+39	+31
<hr/>							
14	Four month forecast of factors likely to limit output ¹						
	Orders or sales	82	72	69	65	67	68
	Skilled labour	9	12	18	19	20	19
	Other labour	1	2	3	5	4	3
	Plant capacity	15	25	22	24	21	26
	Credit or finance	3	4	3	3	3	2
	Materials/components	5	4	6	8	8	9
	Other	2	2	4	2	3	2

EXPORT TRADE		Jan 87	Apr 87	Jul 87	Oct 87	Jan 88	Apr 88						
2	Optimism re export prospects	+20	+24	+24	+14	-7	-5						
7b	Volume of new export orders												
	- past 4 months	+7	+15	+23	+9	+14	+18						
	- next 4 months	+21	+20	+17	+17	+7	+9						
9b	Volume of export deliveries												
	- past 4 months	+7	+15	+23	+13	+22	+20						
	- next 4 months	+21	+22	+21	+21	+11	+11						
12b	Average export prices												
	- past 4 months	+9	+18	+9	+6	+11	+10						
	- next 4 months	+29	+15	+13	+21	+26	+8						
<hr/>													
15	Four month forecast of factors likely to limit export orders ¹												
	Prices	61	59	60	56	56	70						
	Delivery dates	13	15	12	15	17	14						
	Credit or finance	9	9	13	6	11	8						
	Quota and licence	11	10	13	11	12	10						
	Political/economic conditions abroad	26	25	28	28	29	24						
	Other	10	10	9	13	10	10						
<hr/>													
1 Percentage Figures													
CBI Monthly Trends Enquiry: Time Series of results from May 1987 to April 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.													
		May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
1a	Total Order Book (Q.5a)*	+10	+3	+6	+11	+9	+10	+13	+18	+20	+20	+20	+14
1b	Export Order Book (Q.5b)	0	+9	+10	+5	+3	+1	+11	+4	+5	+12	+11	+2
2	Stocks (Q.5c)	0	-1	+1	-1	+3	-7	-5	+2	-1	-2	+1	+2
3	Volume of Output (Q.8)	+31	+37	+23	+38	+30	+25	+36	+31	+26	+36	+37	+29
4	Average Prices (Q.12a)	+28	+19	+19	+21	+20	+23	+28	+31	+39	+33	+25	+31
* 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'.

UNCLASSIFIED



mp

FROM: MISS M P WALLACE
DATE: 26 April 1988

MR CURWEN

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir T Burns
Mr Monck
Mr R I G Allen
Mr Pickford

CBI QUARTERLY INDUSTRIAL TRENDS SURVEY - APRIL 1988

The Chancellor was grateful for your minute of 25 April. He would slightly amend the line to take, deleting the words: "with little sign of overheating", as he thinks there is no need to raise the overheating question.

M.P. Wallace

MOIRA WALLACE

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

10th May 1988

Dear Nigel,

It was very kind of you to suggest that I came in for a drink to say au revoir this week. I much appreciated it. Unfortunately I have got very tied up and I am sorry that I couldn't manage to come at a time that suited us both.

I have no doubt that we shall see each other off and on from time to time but I would particularly like to thank you for your help and encouragement during the last two years at CBI. I have very much valued and appreciated this and I am sure that the same relationship will continue with my successor, Trevor Holdsworth.

I attach a copy of the speech I shall be making on Thursday night in which you will see some references to the exchange rate. - pp6-8

Yours ever

David

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3AG

P.S. I gather we have a date for 5.30 on 26 May - I greatly look forward to that.

W/ don't miss p5!

*mpw
12/5*

PAM10



cc Mr Lynn Owen
[Handwritten signature]

11 DOWNING STREET
WHITEHALL SW1A 2AB

PERSONAL

17 May 1988

Sir David Nickson KBE
Chairman
Scottish & Newcastle Breweries plc
Abbey Brewery
Holyrood Road
EDINBURGH
EH8 8YS

[Handwritten signature]

Many thanks for your 10 May letter.

I'm glad we've been able to find a date for a drink later this month. But I was going to write anyway, to say how much I appreciate all you have done during an outstanding stint as President of the CBI. You have done an invaluable job in focusing the attention of the CBI - and, through that, British industry - much more closely on the practical things, such as improving quality, design, and training, which are so vital to our economic success. I am also most grateful for your work on the NEDC.

So let us keep in touch.

[Handwritten signature]

NIGEL LAWSON

CONFIDENTIAL

FROM: SIR T BURNS
DATE: 20 MAY 1988

CHANCELLOR

cc Sir P Middleton
Mr Sedgwick
Mr Pickford

CBI MONTHLY SURVEY

*Thanks.
On the whole
better than we expected.
Mr.*

John Caff rang this afternoon to give me the results for the May Monthly Survey. They have just come off the computer and will not be published until Tuesday 31 May. The reported figures are attached together with our estimates of the seasonally adjusted figures.

2. He also reported some discussion about exchange rates at yesterday's Economic Situation Committee. Apparently there was some difference of view between the large multinational firms and the medium to smaller size companies. Multinational firms said that on the whole they were not being seriously affected by the rising exchange rate; they had managed to insulate themselves to some extent. However, it emerged that some of the insulation was achieved by sourcing part of their product from other countries. The medium to smaller size firms were finding it hard going, mainly because of the competitive pressures they were being placed under as sub-contractors. The larger companies were trying to force price reductions down the chain. In particular profit margins of exports were much tighter.

3. The message that he had come away with was one of relative buoyancy of the economy. The general feeling was that growth was continuing and members did not see much evidence of the pause in output growth that has appeared in the CSO's figures.

4. Looking at the numbers on either a reported or a seasonally adjusted basis the picture is one of continued buoyancy although there are signs of weakness in the export orders figure.

5. Possibly the most startling result is the figure for prices, where, on a seasonally adjusted basis, the balance of firms expecting to raise prices is down to a level not seen since the end of 1986.

T Burns
T BURNS

1 Percentage Figures

CBI Monthly Trends Enquiry: Time Series of results from May 1987 to April 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.

		May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
1a	Total Order Book (Q.5a)*	+10	+ 3	+ 6	+11	+ 9	+10	+13	+18	+20	+20	+20	+14
1b	Export Order Book (Q.5b)	0	+ 9	+10	+ 5	+ 3	+ 1	+11	+ 4	+ 5	+12	+11	+ 2
2	Stocks (Q.5c)	0	- 1	+ 1	- 1	+ 3	- 7	- 5	+ 2	- 1	- 2	+ 1	+ 2
3	Volume of Output (Q.8)	+31	+37	+23	+38	+30	+25	+36	+31	+26	+36	+37	+29
4	Average Prices (Q.12a)	+28	+19	+19	+21	+20	+23	+28	+31	+39	+33	+25	+31

* question number in quarterly survey

May
+21
+4
-3
+34
+18

* 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'.

CBI MONTHLY SURVEY QUESTIONS (OTHER THAN OUTPUT EXPECTATIONS)

	PRESENT LEVEL OF ORDER BOOK (Balance of those responding "Above normal" less those responding "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						
Nov	- 9	- 9	-10	-11	+19	+20
Dec	-10	-12	- 7	- 7	+26	+21
1987						
Jan	-15	- 8	-13	- 9	+30	+21
Feb	+ 2	- 2	- 2	- 6	+34	+28
Mar	+ 4	- 1	0	- 6	+25	+21
Apr	+ 1	+ 2	- 6	- 4	+26	+23
May	+10	+ 5	0	- 8	+28	+29
Jun	+ 3	+ 1	+ 9	+ 6	+19	+25
Jul	+ 6	+11	+10	+ 8	+19	+24
Aug	+11	+12	+ 5	+10	+21	+26
Sep	+ 9	+11	+ 3	+ 9	+20	+27
Oct	+10	+16	+ 1	+ 8	+23	+26
Nov	+13	+13	+11	+ 9	+28	+29
Dec	+18	+16	+ 4	+ 4	+31	+26
1988						
Jan	+20	+27	+ 5	+ 9	+39	+30
Feb	+20	+16	+12	+ 8	+33	+27
Mar	+20	+15	+11	+ 5	+25	+21
Apr	+14	+15	+ 2	+ 4	+31	+28
May	+21	+16	+4	-4	+18	+19

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				
Oct	- 1	+ 3	+13	+15
Nov			+13	+16
Dec			+10	+11
1987				
Jan	+ 9	+10	+15	+20
Feb			+29	+24
Mar			+34	+26
Apr	+24	+19	+25	+20
May			+31	+29
Jun			+37	+34
Jul	+23	+23	+23	+29
Aug			+38	+42
Sep			+30	+33
Oct	+19	+23	+25	+27
Nov			+36	+39
Dec			+31	+32
1988				
Jan	+31	+32	+26	+31
Feb			+36	+30
Mar			+37	+29
Apr	+36	+31	+29	+24
May			+34	+32

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.



Pmp

FROM: J M G TAYLOR

DATE: 23 May 1988

SIR TERENCE BURNS

cc Sir P Middleton
Mr Sedgwick
Mr Pickford

CBI MONTHLY SURVEY

The Chancellor was grateful for your minute of 20 May.

2. He has commented that on the whole the results of the survey are better than might have been expected.

JMG

J M G TAYLOR

FROM: PETER CURWEN
DATE: 27 May 1988

- 1. MR PICKFORD
- 2. CHANCELLOR
(+1 for No 10)

- 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 Gieve
- Mr Hibberd
- Miss O'Mara
- Mr Bush
- Mr Allum
- Mr Brooks
- Mr Dyer
- Mr Hudson
- Mr Owen
- Mr Price
- Mr Cropper
- Mr Tyrie
- Mr Call
- HB/003

Although the published unadjusted figures probably overstate industrial confidence, nevertheless this survey points to continuing buoyant activity.

Sp. info 27/5

Mark
Tony D
minute

CBI MONTHLY TRENDS ENQUIRY: MAY 1988

The CBI's latest Monthly Enquiry is to be released at 00.30 on Tuesday 31 May.

Enquiry results

2. The Monthly Enquiry into manufacturing asks only five of the questions in the quarterly survey: current levels of home and export orders and of stocks, and expected trend over the next four months in output and domestic prices. The Enquiry was conducted between 26 April and 18 May, covering 1,501 respondents.

3. Full results, given in the attached sheet, are summarised in the table below. They show the balances on the total order book and output series recovering from the low April figures. Export order books also show an increase. The expected rate of growth of output prices has fallen back from the levels of recent months. Seasonally adjusted figures, produced by the CSO but not published, are shown in the table to the right.

	PUBLISHED			SEASONALLY ADJUSTED: (NOT PUBLISHED)		
	Mar	Apr	May	Mar	Apr	May
Total order books	+20	+14	+21	+15	+15	+16
Export order books	+11	+ 2	+ 4	+ 5	+ 4	- 4
Stocks	+ 1	+ 2	- 3			
Volume of output	+37	+29	+34	+29	+24	+32
Average domestic prices	+25	+31	+18	+21	+28	+19

Points to note

4. This is an encouraging survey. The message from the published figures is one of continuing strong growth in output and order books with little sign that this is feeding through into higher inflation. On the demand side only the export order book series shows any sign of weakening and the CBI attribute this, in part, to the recent strength of sterling. The balance on the total order book series is at its highest level since the question was first asked in April 1977 and the balance on the output series has been bettered on only a handful of other occasions. However at the same time there has been a sharp drop in the balance of respondents expecting to increase prices over the next four months.

5. NOT FOR USE: The perceived strength in output and orders is partly a result of favourable seasonal factors. On a seasonally adjusted basis the export order books in particular fell back sharply - the balance is now negative for the first time in 12 months- while the balance on total order books has been remarkably flat over the past four months.

6. This month the Trends Enquiry is released as part of an "Economic Situation Report" which also contains an economic assessment and a number of special articles. The assessment concentrates on the current state of official statistics. Doubt is cast on the reliability of the estimated saving ratio, the balance of payment statistics and the latest manufacturing output figures. The CBI helpfully note that the manufacturing output figures conflict with their recent Industrial Trends Surveys which indicate that output "accelerated during the first quarter of 1988and is expected to proceed at a strong pace over the coming months." They also remark that "prospects for the remainder of the year are looking increasingly encouraging" and provided that strong investment intentions are realised then "recent growth rates will be more sustainable."

Peter S. Curwen

PETER CURWEN

CBI INDUSTRIAL TRENDS ENQUIRY

May 1988

Manufacturing industry: 1501 respondents

The figures are percentages based on a weighted sample.

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

- (1) a. Your present total order book is
 b. Your present export order book is
(firms with no order book are requested to estimate the level of demand)

Above Normal	Normal	Below Normal	N/A
33	54	12	1
25	52	21	2

- (2) Your present stocks of finished goods are

More than adequate	Adequate	Less than adequate	N/A
10	62	13	15

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

- (3) Volume of output
 (4) Average prices at which domestic orders are booked.

Up	Same	Down	N/A
40	54	6	+
23	71	5	1

Percentage Balance

- 1a Total Order Book
 b Export Order Book
 2 Stocks
 3 Volume of Output
 4 Average Prices

	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
1a	+ 3	+ 6	+11	+ 9	+10	+13	+18	+20	+20	+20	+14	+21
b	+ 9	+10	+ 5	+ 3	+ 1	+11	+ 4	+ 5	+12	+11	+ 2	+ 4
2	- 1	+ 1	- 1	+ 3	- 7	- 5	+ 2	- 1	- 2	+ 1	+ 2	- 3
3	+37	+23	+38	+30	+25	+36	+31	+26	+36	+37	+29	+34
4	+19	+19	+21	+20	+23	+28	+31	+39	+33	+25	+31	+18



FROM: A A DIGHT

DATE: 1 June 1988

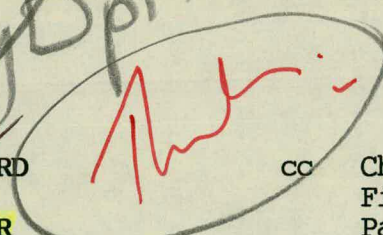
MR P CURWEN

CBI MONTHLY TRENDS ENQUIRY: MAY 1988

The Chancellor has seen and was grateful for your minute of 27 May.

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

A A DIGHT

Tony Dpi


FROM: PETER CURWEN
 DATE: 17 June 1988

- 1. MR PICKFORD cc Chief Secretary Miss O'Mara
- 2. CHANCELLOR Financial Secretary Mr Bush
 (+1 for No 10) Paymaster General Mr Allum
 Economic Secretary Mr Brooks
 Sir P Middleton Mr Dyer
 Sir T Burns Mr Hudson
 Mr Monck Mr Owen
 Mr Odling-Smee Mr Price
 Mr Scholar Mr Cropper
 Mr Sedgwick Mr Tyrie
 Mr Gieve Mr Call
 Mr Hibberd HB/003

This survey is in line with recent trends, but suggests some slight easing in activity.

Smilhe 17/6

CBI MONTHLY TRENDS ENQUIRY: JUNE 1988

The CBI's latest Monthly Enquiry is to be released at 00.30 on Monday 20 June.

Enquiry results

2. The Monthly Enquiry into manufacturing asks only five of the questions in the quarterly survey: current levels of home and export orders and of stocks, and expected trend over the next four months in output and domestic prices. The Enquiry was conducted between 27 May and 15 June, covering 1,357 respondents.

3. Full results, given in the attached sheet, are summarised in the table below. They show the balances on the order book and output series easing back from the strong May figures. The expected rate of growth of output prices has risen slightly since May but is still below the average level of recent months. Seasonally adjusted figures, produced by the CSO but NOT PUBLISHED, are shown in the table to the right.

	PUBLISHED			SEASONALLY ADJUSTED: (NOT PUBLISHED)		
	Apr	May	June	Apr	May	June
Total order books	+14	+21	+13	+15	+16	+11
Export order books	+ 2	+ 4	+ 2	+ 4	- 4	+ 0
Stocks	+ 2	- 3	- 1			
Volume of output	+29	+34	+30	+34	+32	+27
Average domestic prices	+31	+18	+21	+28	+19	+27

Points to note

4. There are indications that demand, although remaining healthy, could now be easing back from the levels experienced over recent months. The balance on total order books has fallen and the balance on the export order book series is, as the CBI remark, 'below the balances recorded in the early months of the year'. Nonetheless export order books remain strong by historical standards. The CBI also note, on the basis of the output series, 'manufacturing output is expected to grow more slowly than indicated last month'. This series has been quite erratic over recent months but the average balance over the 3 months to June is slightly below that of the previous 3 months. After dropping sharply last month the balance on the prices series has shown some bounce-back (particularly on a seasonally adjusted basis). However the published balance is, as the CBI note, 'below the balances reported earlier in the year and similar to expectations a year ago.' [NOT FOR USE: Anecdotal evidence supplied by respondents indicates that competitive pressures may mean that firms raise prices by less than the responses to this question would suggest.]

Peter S. Curwen

PETER CURWEN

CBI Monthly Trends Enquiry

RESULTS

JUNE 1988

Manufacturing Industry: 1357 respondents

Conducted between 27 May and 15 June 1988

The figures are percentages based on a weighted sample.

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

- (1) a. Your present total order book is
 b. Your present export order book is
 (firms with no order book are requested to estimate the level of demand)

Above Normal	Normal	Below Normal	N/A
28	56	15	+
23	55	21	1

- (2) Your present stocks of finished goods are

More than adequate	Adequate	Less than adequate	N/A
14	61	15	10

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

- (3) Volume of output
 (4) Average prices at which domestic orders are booked.

Up	Same	Down	N/A
37	56	7	+
27	66	6	1

Percentage Balance

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun.
1a Total Order Book	+ 6	+11	+ 9	+10	+13	+18	+20	+20	+20	+14	+21	+13
b Export Order Book	+10	+ 5	+ 3	+ 1	+11	+ 4	+ 5	+12	+11	+ 2	+ 4	+ 2
2 Stocks	+ 1	- 1	+ 3	- 7	- 5	+ 2	- 1	- 2	+ 1	+ 2	- 3	- 1
3 Volume of Output	+23	+38	+30	+25	+36	+31	+26	+36	+37	+29	+34	+30
4 Average Prices	+19	+21	+20	+23	+28	+31	+39	+33	+25	+31	+18	+21

COMMENT

The strength of demand observed last month has not been sustained in June. A balance of +13% of respondents report total order books to be above normal, compared with +21% in May, the lowest balance since November 1987.

Export orders have weakened slightly. A balance of +2% of firms report export order books to be above normal compared with +4% in May and below the balances recorded in the early months of this year.

Stocks of finished goods remain slightly less than adequate in relation to expected demand. A balance of -1% of respondents compares with -3% in May and is close to the balances observed earlier in the year.

Manufactured output is expected to grow more slowly than indicated last month. A balance of +30% of firms expect to increase their output in the coming months compared with +34% in May and higher balances reported in February and March.

Average prices at which domestic orders are booked are expected to rise slightly faster over the next four months than anticipated in May. But the balance of +21% of respondents expecting to raise average prices is still below the balances reported earlier in the year and similar to expectations a year ago.

PWP



FROM: A A DIGHT
DATE: 20 June 1988

MR P CURWEN

CBI MONTHLY TRENDS ENQUIRY: JUNE 1988

The Chancellor has seen and was grateful for your minute of 17 June.

A A Dight
A A DIGHT

BF 27/6

FROM: P F L ALLUM

DATE: 24 June 1988

1. MR SEDGWICK

2. **CHANCELLOR**

cc Sir Peter Middleton
Sir Terence Burns
Mr Scholar
Mr Odling-Smee
Mr Hibberd
Mr Pickford
Mr Brooks o/r
Mr Patterson
Mr Cropper
Mr Tyrie
Mr Call

P.M.J.
24.6
Tony D pl.
[Red signature]

CBI INDICATORS AND THE STATE OF THE ECONOMY

The attached note assesses the relationship between CBI survey results and the profile of manufacturing production over the last six years, and considers in particular whether the CBI and CSO are telling compatible stories.

2. The latest survey results point to some moderation of output growth in the manufacturing sector since last Autumn. There are, however, no signs of any sharp downturn in activity, and the weak first quarter manufacturing output figures seem likely, in retrospect, to prove erratic.

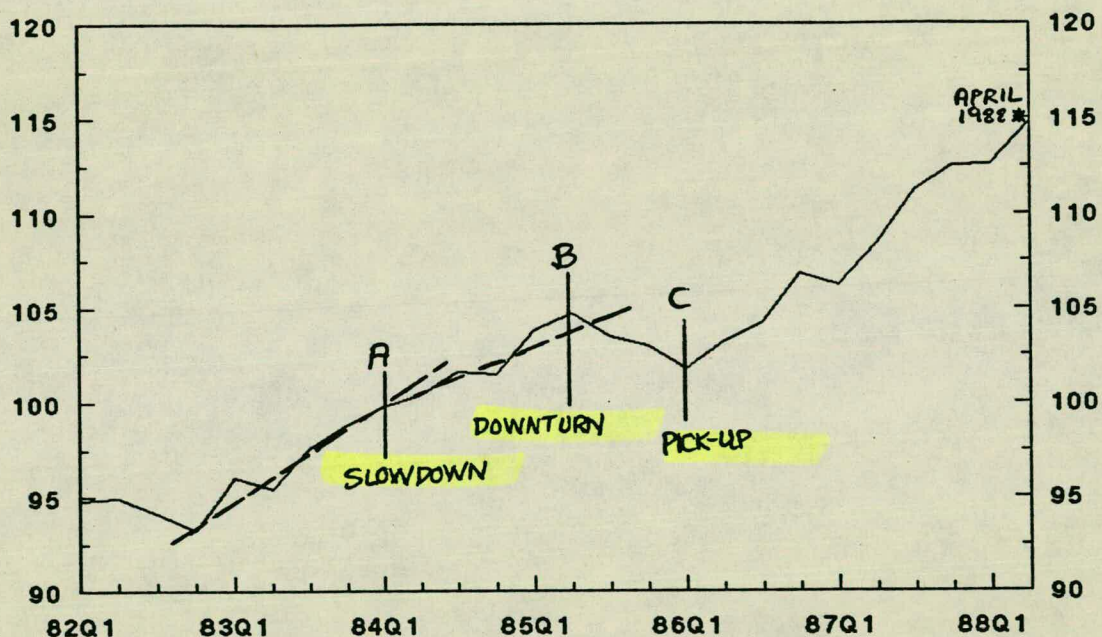
P F L Allum

P F L ALLUM

CBI INDICATORS AND THE STATE OF THE ECONOMY

1. Chart 1 shows the quarterly profile of recorded manufacturing output since 1982. Output fell a little through 1982 but picked up sharply in 1983. (Output in 1983Q4 was 6 per cent higher than a year earlier.) Growth moderated to around 4 per cent at an annual rate through 1984 and early 1985. In mid-1985 output fell back temporarily, but by the second quarter of 1986 growth had resumed. Growth during 1987 was particularly strong, though the 1987Q4 increase was lower than in several of the preceding quarters and output is estimated to have fallen somewhat during the first quarter of 1988 prior to bouncing back in April.

CHART 1 INDEX OF MANUFACTURING OUTPUT (1980=100)



2. Three points are highlighted in chart 1.

- "A" represents the end of the rapid pick-up in output growth through 1983 and the start of more modest growth through 1984 and early 1985. (The dotted lines through "A" show the reduction in trend growth between 1983 and 1984).

- "B" represents the start of the 1985 downturn.

- "C" represents the start of the subsequent upturn in early 1986.

3. Analysis of monthly output figures suggests a deceleration of growth ("A") around January 1984, a downturn in activity ("B") around July 1985, and the subsequent recovery ("C") around April 1986. These points are, of course, to some extent approximate, especially the switch from rapid growth through 1983 to somewhat more modest expansion through 1984.

4. Charts 2 to 4 show seasonally adjusted monthly CBI survey results for

- the expected trend in output volumes
- the level of order books (total)
- the level of order books (exports)

In each chart points A, B and C are provided for reference. The correlation between the profile of manufacturing output shown in chart 1 and the CBI results appears to be relatively good. Various features are noted below:

A. Early 1984 deceleration of growth: Output expectations, having peaked in late 1983 edged downwards and then levelled off, but still at a relatively high level. The sharp rise in order books ended, and orders then remained broadly flat. Export orders continued to rise but at a slower rate than during 1983. (Exports made a disproportionate continuation to manufacturing output growth through 1984).

B. Mid-1985 downturn: Output expectations started to edge slowly downwards; total order books fell significantly; export orders, having peaked in early 1985, now started to fall too.

CHART 2: MONTHLY CBI EXPECTED VOLUME OF OUTPUT

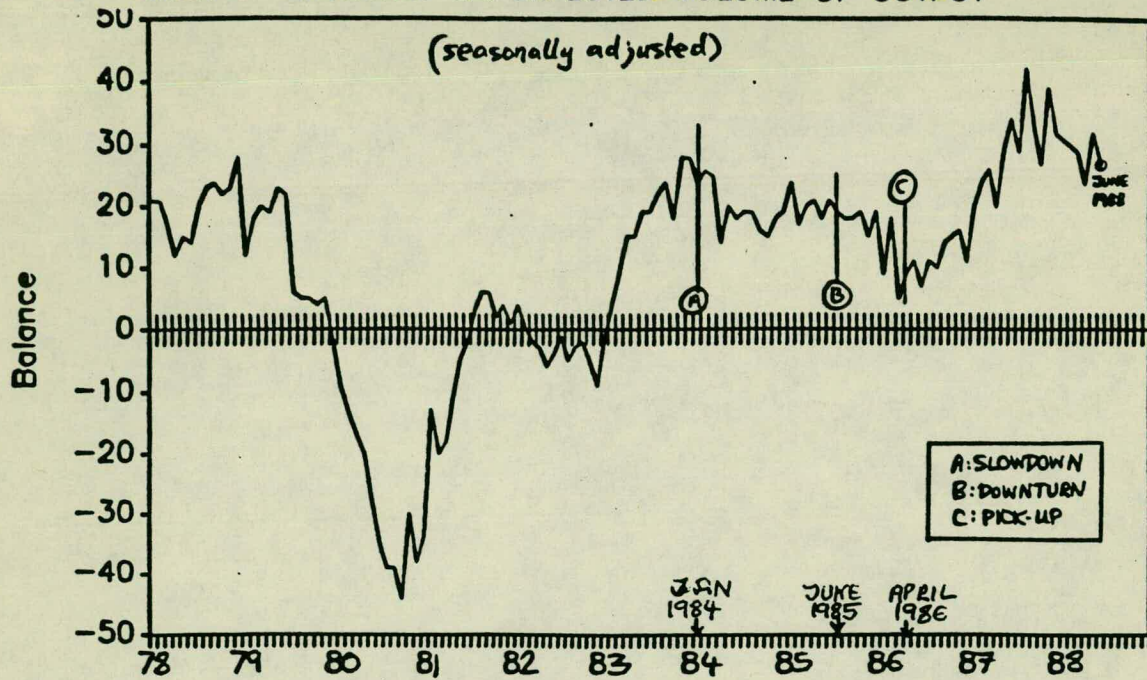


CHART 3: MONTHLY CBI LEVEL OF ORDER BOOK (TOTAL)

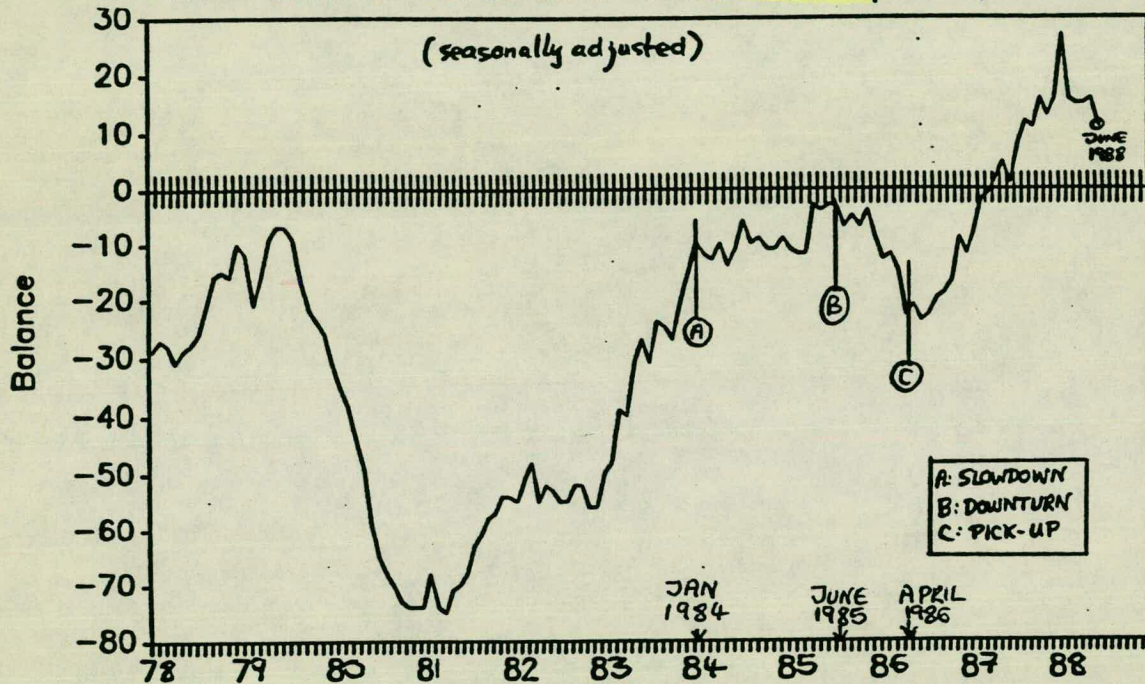
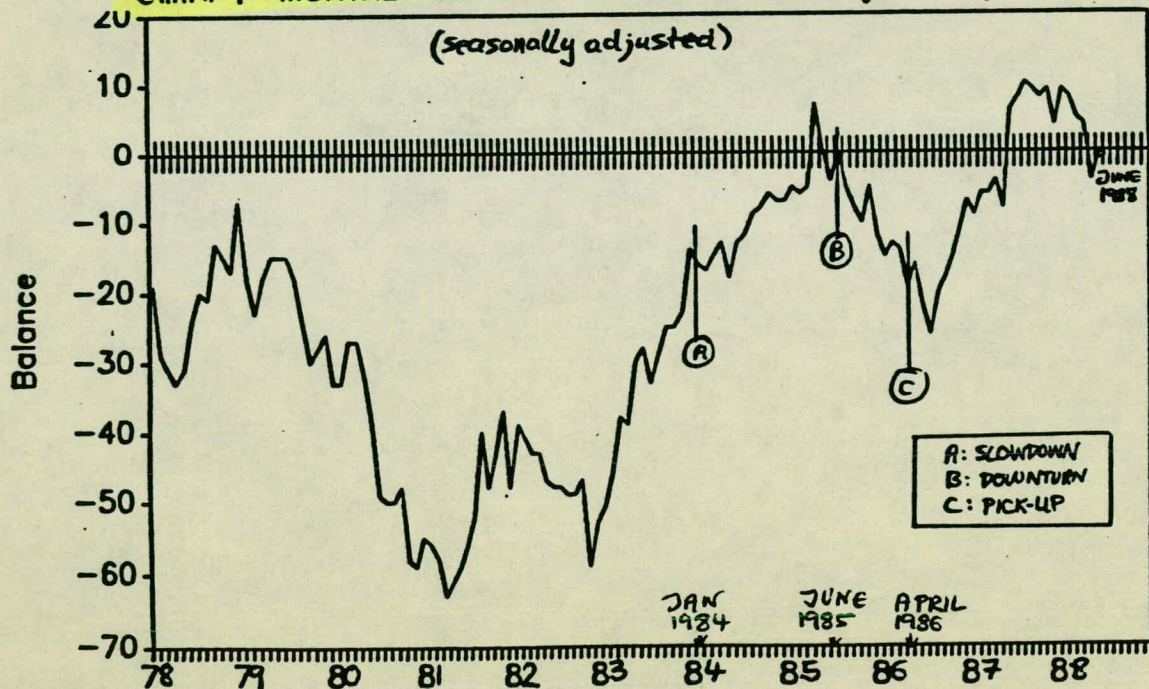


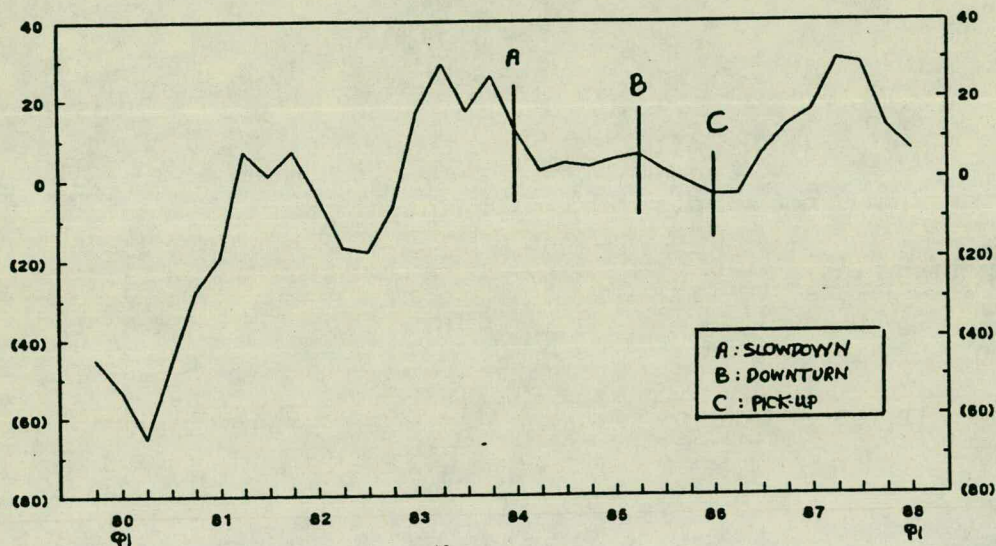
CHART 4: MONTHLY CBI LEVEL OF ORDER BOOK (EXPORT)



C. Early 1986 upturn: Output expectations and order books recovered strongly from early 1986 and rose to reach peak levels by end 1987/early 1988.

5. Chart 5 shows the quarterly seasonally adjusted CBI series for overall business optimism. This shows a broadly similar profile to charts 2 to 4, though the mid-1985 downturn does not show up as clearly as in the monthly enquiry series.

CHART 5 : BUSINESS OPTIMISM
(Seasonally adjusted, quarterly survey)



6. Charts 1 to 5 suggest that the survey information provided by the CBI, once seasonally adjusted, has had a reasonable relationship with developments in the manufacturing sector as a whole. There are, however, some problems. For example, in late 1985 the balance of survey respondents continued to report a rising trend in output (chart 2) despite a downward trend in CSO's recorded output series (chart 1). This may reflect either mis-recording in the published output series or the simplicity of the CBI survey. Survey respondents are asked to report 'upward' or 'downward' output trends but not the relative strength of these movements. Thus, while the majority of respondents may have seen continued output growth through 1985, the minority may have experienced disproportionately large falls in output, sufficient in aggregate to reduce the recorded level of production.

7. Taking this and other imperfections of the CBI survey into account, what do the latest CBI surveys ~~infer~~ ^{imply} about current conditions in the manufacturing sector? The latest outturns are summarised below:

- all four CBI series are currently at high (even near peak) levels. Total order books are significantly above previous outturns, both during the current upswing and during the 1979-80 peak in activity. Output expectations, export orders and business optimism are also high, but less markedly above outturns either earlier in the current upswing or in 1979.

- all four series were lower in recent months than at end 1987/early 1988. The extent of the latest reduction varies across indicators. The clearest downward shift is for export order books and business optimism where, in retrospect, the peak may have been around mid-1987. For total order books and output expectations there is more of a case for some levelling off, rather than - as yet - any downturn.

8. The observation that all four series have levelled off, and that some have started to edge downwards suggests, on past evidence, that we have entered a period - however brief - of slower manufacturing output growth. The evidence does not, however, as yet suggest a significant downturn in the level of activity such as experienced in late 1985. We would have to see a downturn in total order books on a significant scale before this was likely. However, even if output continues to rise steadily, though more slowly than in 1987, we may see order books edge down further from current peak levels.

9. Evidence from CSO estimates of manufacturing output supports this analysis. Table 1 below, providing monthly output estimates, shows that even prior to the fall-back in recorded output in February and March of this year there had been some deceleration in growth since the Autumn of 1987. The January 1988 figure - prior to the weaker February and March outturns - stood just 1½ per cent higher than the previous August, an annual rate of

increase of 3½ per cent, in contrast to an increase of 8½ per cent in the year to August 1987. In light of the still relatively buoyant CBI returns, the recorded fallback in output during the first quarter of 1988 appears to have been either erratic, the result of measurement error, or some combination of the two. In fact, the average level of first quarter output, which originally showed a fall of 1½ per cent from fourth quarter levels, has now been revised to show output unchanged. Furthermore, the output index showed a sharp recovery in April, to stand 1 per cent higher than the previous peak outturn in January.

TABLE 1: MANUFACTURING OUTPUT ESTIMATES (MONTHLY INDICES)

	<u>Index</u>	<u>% change on 3 months earlier</u>	<u>column 2 expressed as annual growth rates</u>
1987 Jan*	104.4	- 1.6	- 6.2
Feb	107.1	0.1	0.4
Mar	107.0	- 0.2	- 0.8
Apr	107.9	3.4	14.3 STRONGEST
May	108.6	1.4	5.7 GROWTH
June	108.7	1.6	6.6
July	110.2	2.1	8.7
Aug	112.2	3.3	13.9
Sept	111.1	2.2	9.1
Oct	112.0	1.6	6.6
Nov	112.7	0.4	1.6 MORE
Dec	112.8	1.5	6.1 MODERATE GROWTH
1988 Jan	113.8	1.6	6.6
Feb	110.9	- 1.6	- 6.2
Mar	112.8	0.0	0.0
Apr	114.8	0.9	3.6

* January 1987 output figure depressed by abnormally cold weather.

10. The erratic nature of the output estimates for the first quarter would, in fact, have been more marked had the output indices not been adjusted for likely under-recording. The published output figures reflect both BSO's initial estimate of the level of output together with a correction for bias, based on past experience. This bias adjustment is calculated using CBI survey results for output expectations. Although this series (chart 2) has edged downwards it is still at a historically high

level, and contributes a substantial bias adjustment to the recorded output index. As the figures below indicate, the sluggish growth of output in the first quarter would be recorded as a significant fall if the bias adjustment were not taken into account.

	Published index	Excluding bias adjustments
1987Q1	106.2	106.2
Q2	108.4	108.4
Q4	111.2	111.2
Q4	112.5	112.4
1988Q1	112.5	111.5
April	114.8	113.3

Conclusion

11. Both CBI survey responses and the recorded index of manufacturing production provide evidence, though as yet only preliminary, of some moderation in the rate of growth in the manufacturing sector. But this deceleration is probably not as severe as currently suggested by the weak first quarter output index. More specifically, there is no evidence of any prospective downturn in the level of manufacturing output. This, on the whole, is consistent with projections for manufacturing activity in the June forecast.



Handwritten signature

FROM: A A DIGHT
DATE: 27 June 1988

MR P F L ALLUM

CBI INDICATORS AND THE STATE OF THE ECONOMY

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

Handwritten signature of Anthony Dight

ANTHONY DIGHT

Jonathan

FINANCIAL TIMES

Tax cut on deferred gains

By Tom Lynch

12

A CLAUSE halving the tax payable on most capital gains deferred from before March 31, 1982 was inserted last night into the Finance (No 2) Bill, which implements the Budget.

MPs approved the Government proposal by a majority of 114 (287-173) during the report stage of the bill, which is expected to complete its Commons stages today.

Mr Norman Lamont, the Financial Secretary to the Treasury, said the clause was designed to meet concern that the bill's rebasing of CGT would not extend to gains rolled over from before 1982, even though many of those gains were brought about by the high inflation of the 1970s.

He told MPs the Government faced the choice of giving the benefit of rebasing where computations could be done, or introducing an arbitrary, across-the-board provision. It had decided to halve the charge on any deferred gain where it could be established that all or part of that gain related to the disposal of an asset before March 31, 1982.

"The solution involves a degree of rough justice," he said.

For the Opposition, Mr Nicholas Brown said the Government had a third option — to do nothing. The number of CGT payers had fallen from 225,000 in 1978-79 to 120,000 in 1983-84 in spite of rising capital gains, yet the Government was giving a further £50m concession to people who were mainly rich.

Mr Alistair Darling (Lab, Edinburgh Central) said those who had had the benefit of rollover relief were now to get a 50 per cent exemption, while those who divested themselves of assets before 1982 without rolling their relief over would get nothing. "People who have already been catered for are being catered for again."

Mr Lamont told Mr Philip Oppenheim (C, Amber Valley) — who argued for 100 per cent relief — that the alternative to the Government proposal would have been to follow every case, with possibly incomplete documentation, while inaction would have been unjust to those faced with tax on inflationary gains.

Director-general of CBI says Lawson's tax cuts a mistake

Financial Staff

THE director-general of the Confederation of British Industry, Mr John Banham, said yesterday the Chancellor's budget tax cuts were a mistake and called for investment rather than consumption.

In what is likely to prove a controversial speech among some of the CBI's more politically sensitive members, Mr Banham also likened South London to one of the most depressed and riot-torn inner city areas of the United States.

Mr Banham lambasted an uncompetitive school system by international standards, growing skill shortages, traffic mov-

ing at the same pace "as it was in the horse and carriage era", and "the southside of Chicago coming to South London".

He told an American Chamber of Commerce lunch at the Savoy Hotel that more could be spent on long-term projects without increasing public expenditure so long as there was a clampdown on waste.

"The most pressing concern of the leaders of British business is future competitiveness" he said.

"They see the need to invest on a massive scale — in education, skill training, the infrastructure, inner cities. The balance could be shifted in favour of capital expenditure rather than day-to-day spending."

[Handwritten signature]

THE TIMES

CBI chief attacks rates threat to investment

By Derek Harris, Industrial Editor

26-

Mr John Banham, director-general of the Confederation of British Industry (CBI), has attacked what he described as uncompetitive interest rates which hit manufacturing profitability and threatened much-needed investment.

Mr Banham, in a London speech, said: "Having spent the last six months preventing the financial markets talking us into recession, we now have to prevent them talking us into inflation." Retail price inflation, excluding housing and the nationalized industries, in May this year was 3.9 per cent, almost exactly what it was a year ago, he said.

A similar situation existed with the annual rate of increase in manufacturing output prices (4.8 per cent up against 4.5 per cent a year ago).

He added: "It is unlikely that any inflationary upsurge will come from the manufacturing sector where competitive pressures are still strong."

"Our advice to the Government is to avoid over-reacting. They should continue to put faith in the very real improvement in manufacturing performance over the last decade."

The Budget tax cuts were a mistake because they fuelled consumer spending, he said.

Daily Telegraph

Employees' rights

SIR — Under the new pensions legislation an employee is compelled to pay for his pension through the company scheme under threat of forfeiting that part of his wages called the "employers' contribution".

For many, the company scheme is inferior to that available on the free market. At the moment, when an employee does opt out of the company pension scheme the employer is laughing all the way to the bank, with the Treasury laughing loudest of all.

Should it not be made illegal for any employer to penalise an employee if he or she opts for all the pension contributions to go to the free market?

P. J. TOMLIN
Birmingham

RESTRICTED

FROM: N MONCK

DATE: 15 July 1988

CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton
Mr Burgner
Mrs Lomax
Mr Burr
Mr Wynn Owen
Mr Call**LORD PLOWDEN'S DINING CLUB**

Seeing Mr Fray's brief for this dinner and the guest list makes me wonder whether it would be worthwhile for you to raise the question of EC Regulation of Mergers with this group. This would obviously have to be done in a rather interrogative way since your approach differs from that of Lord Young who is in the lead and resolution of this difference seems a good way off.

2. It may well be, too, that several of those present were members of the CBI Committee which advises the President when the CBI decided in the autumn of 1987 to switch to support European merger regulation in principle. I believe the European Federation of Employers has done the same thing. You may also find that some of them have taken part in the rising numbers of bids by UK companies for continental firms in the early months of this year.

3. All the same I think you could raise the issue by making the following points:

- (a) you had noticed that John Banham had recently made two speeches arguing that control by the Commission should "take precedence over national regulations" (on 7 July and 13 July - see press release and FT cutting attached to top copy only);
- (b) this is a tricky area because other EC countries are far less open to takeovers than the UK for various reasons which have nothing to do with control by the Government or public competition authorities. Have they seen or heard what the Prime Minister said after the Hanover EC Summit about the reasons why the Government does not like the present Commission proposals? (transcript attached to top copy)
- (c) Have they considered whether it makes sense to back precedence for the Commission over national regulations before the asymmetrical non-Government barriers have been removed?



N MONCK

MONCK
15/7

25/16
Confederation of British Industry
Centre Point
103 New Oxford Street
London
WC1A 1DU
Telephone: 01-379 7400

CBI



P.93.88

'KEY PRINCIPLES FOR EUROPEAN MERGER
CONTROL' - JOHN BANHAM

Mr John Banham, Director General of the Confederation of British Industry, today (Thursday) called for a clarification of the role of the UK's Monopolies and Mergers Commission - along with that of the national authorities of other member states of the European Community - in the wider process of European merger control.

He said : "Once the European Commission has taken jurisdiction to examine a merger, national authorities should stand aside even if it decides to take no action." He told directors of European industrial federations : "In our view, it is essential that regulation is based on the following general principles. It should

** PROMOTE the competitiveness of European business in world markets

** ASSESS mergers solely on the basis of the effect on competition and prices within the Community and define clearly and objectively the legal and economic criteria on which controls are based.

** OPERATE speedily and efficiently, and

** TAKE precedence over national regulations and make national controls for European mergers unnecessary.

MF

"Takeovers are just one form of inward investment, albeit a form that sometimes causes much controversy. If counter-productive xenophobic arguments about hostile takeovers are to be avoided, it is essential that clear ground rules are set and observed. The only pan-European agency able to ensure fair play in a freer market is the European Commission. The elevation of its role in evaluating international mergers would clearly involve some loss of sovereignty by all member states. Our problem in the UK has been the lack of a coherent competition policy. National laws, which enable the British Government to intervene in international mergers on grounds of 'national interest', now seem likely to be invoked only in defence matters."

Mr Banham added : "Yet British manufacturers have been unable to combine, in preparation for 1992, for fear of falling foul of British law, while at the same time being unable to penetrate some overseas markets because of the lack of 'effective reciprocity'. Order in the market-place has not been ensured because the Commission currently has an unspecified role.

"We need a competition policy which does not frustrate Britain's or Europe's need for the creation of more internationally competitive companies with resources comparable to the giants of the United States and Japan. We also need such a policy in Europe if business is to be able to reap one of the most important benefits of the completion of the Single European Market - the ability to achieve large economies of scale.

"Mergers and acquisitions need to be more successful in the long-term, where companies come together in the same field. Competition policy - and not only in Britain - has been a barrier because it takes too narrow and usually a nationalistic view of the market-place. Too often, companies face the contradiction that if you know something about the business you want to acquire, you are not allowed to acquire it."

CBI chief repeats call for European takeover rules

BY RICHARD DONKIN

FT: 14/7/88

THE DIRECTOR GENERAL of the Confederation of British Industry, Mr John Banham, placed himself squarely in the European camp yesterday by reinforcing his support for European takeover controls.

He told members of the American Chamber of Commerce at a lunch in London that in order to cope with the new competitive environment that would exist after 1992 it was essential for the European Commission to have responsibility for competition policy and the control of cross-border mergers.

While supporting in principle the proposed European merger regulation, he singled out reciprocity, particularly with respect to bids from companies outside the EC, as one of the key elements that needed to be addressed.

He said: "This is not to say bids from outside should be impossible; this would not be in the interests of the Community. But the playing field must be

level, free and fair."

The CBI was concerned, said Mr Banham, that the revised draft regulation appeared to reintroduce rather than eliminate the obstacle of double barriers.

He said: "It is vital that the role of national authorities in the process of European merger control is clarified."

He pointed to the growing number of cross-border mergers and said that during the first four months of 1988, UK companies launched 62 bids to take over continental firms.

That was almost twice the number undertaken in the comparable period of 1987.

Mr Banham said: "Our objective must be to tear down the walls of protectionism."

He added: "The creation of a single European market implies freedom to invest as well as trade on equal terms."

"Unless that happens, there will be political pressure for open markets to copy the protection of the less liberal countries."

Extract from the Prime Ministers's statement post-Hanover - 28 June 1988

With regard to the ~~merger control~~, we do not like the present proposals. I think there is a great danger which they do not fully face: that there are in Europe a number of covert barriers to mergers. There are all kinds of bank shareholdings; there are all kinds of special shareholdings in companies which enables them to prevent a merger, some of which we do not have, and it would be possible, therefore, for us to be caught and to be rendered liable to mergers from Europe when at the same time they, by various covert methods, were not in fact open to mergers from us, and we have to look at this very carefully indeed, and therefore, I made it quite clear that we are not in favour of the present proposals and that a lot of work must be done upon them.

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

P.101.88



20/7/88

CBI

BF/27/17
[Handwritten signature]

CHANCELLOR SHOULD IGNORE ECONOMIC
SOOTHSAYERS, SAYS CBI

"The Chancellor is right not to pay too much attention to economic soothsayers on either side of the Atlantic," Mr John Banham, Director General of the Confederation of British Industry, said today (Wednesday). "They must not be allowed to jeopardise the industrial investment which is so vital to maintaining the momentum of our economic recovery.

"We had to go to considerable lengths to prevent them talking us into a recession after last October's fall in share prices. Now they seem hell-bent on turning their perception of worsening inflation into a self-fulfilling prophecy."

Mr Banham, who was speaking after the monthly meeting of the CBI Council in London, added, "The CBI has always stood four-square behind the Government in its endeavours to curb inflation. We supported the policy that worked well last year of shadowing the deutschmark. We must now avoid treating the wrong symptoms inadequately.

"Last Autumn sterling was at the top end of its acceptable range against the deutschmark and that the priority should be investment rather than consumption, if the momentum of the economic recovery was to be maintained.

Ms Seaman cc Mr Grieve
Mr Richford

The Banham release,
as promised. As I mentioned,
the Chancellor's comment
was that we need a line
on X on p 3.

Mairi Wallace

"Last night, sterling closed at DM 3.15, compared to DM 2.99 last October - when commentators were not claiming that sterling was undervalued. The effect of an overvalued currency will be, in the first instance, to make imports more attractive and to sharply reduce in profits on export sales which will in turn affect investment.

"So far as business is concerned, the recent news has been good:

- excluding increases in nationalised industries', prices, and local authority rates and water rates, the inflation rate in June was of the order of 3.7 per cent;
- capacity utilisation is high, the capacity constraints remain manageable at present;
- estimated increases in unit labour costs in manufacturing for the first quarter of 1988 have been revised downwards (to 1.5 per cent a year) reflecting an increase in manufacturing output: as shown in CBI Trends Surveys;
- settlements are edging downwards and the official earnings figures for the first quarter have also been revised downwards by a quarter of a percentage point to an annual rate of eight-and-a-half per cent;
- business investment intentions remain strong.

"There are concerns about the balance of payments deficit as well as skill shortages and escalating prices in the housing and construction sectors in particular. There have also been some increases in commodity prices, although these are thought likely to be temporary.

"The risk remains that increases in interest rates will not have the hoped-for dampening effect on consumer demand for imported goods, and on property prices; while the effect on sterling will be to keep the currency at non-competitive levels. It is difficult to see how the balance of payments situation will be eased by making exports less competitive, and imports more attractive.

"The CBI believes that the underlying causes of inflation will need to be treated directly. These include lack of investment in skill training by employers, excessive increase in local authority and water rates and nationalised industry prices, excess consumer credit (particularly for house purchases) and inflationary wage settlements in the public sector that are not paid for by productivity gains. Average settlements in the public service over the last twelve months have been of the order of nine per cent with no measurable gains in productivity to offset them," he said.

20 July 1988



FROM: J M G TAYLOR

DATE: 20 July 1988

MR MONCK

cc Mr Burgner
Mr Burr
Mr Wynn Owen**LORD PLOWDEN'S DINING GROUP: EC MERGERS**

The Chancellor raised the subject of EC mergers control at Lord Plowden's Dining Group on 18 July.

2. There was general concern around the table about the effect of the EC proposals on the 'level playing field'. The strength of the concern varied: Sir Christopher Hogg was extremely worried, and thought we should firmly resist the proposals; others were more relaxed.

3. One suggestion was that we should seek to negotiate some kind of "national interest" over-ride. You may like to consider whether this is at all practicable. Another suggestion was that member states should be able to rule out any mergers if there were good defence/security reasons for doing so.

A handwritten signature in black ink, appearing to be 'J M G Taylor'.

J M G TAYLOR

CONFIDENTIAL

FROM: N MONCK

DATE: 22 July 1988

CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton
Mr Anson
Mr Burgner
Mr Odling-Smee
Miss O'Mara

TALK WITH SIR TREVOR HOLDSWORTH ON MONDAY, 25 JULY

I suggest your aims might be:

- (a) to outline your approach to current prospects for inflation and the current account, stressing the need for firm monetary policy and the avoidance of depreciation. The process^{of} adjustment is likely to take some time;
- (b) to recognise the different roles of the Government and CBI but say that the CBI should minimise high profile comments that can be exploited by the Government's critics whose interests are not in fact the same as the CBI's;

- (c) to welcome the approach in Sir Trevor Holdsworth's letter of 27 June of bringing his concerns about the exchange rate

"to your attention directly rather than through those irritating and over-simplistic headlines which are turning out to be the bane of my life and our Director General!";

and establish a pattern of private meetings. (Miss O'Mara submitted a formal draft reply on 18 July);

- and (d) perhaps, if you did not exhaust the subject at the Plowden dinner, to ask whether it makes sense to back precedence for the Commission on EC mergers over national regulation before the asymmetrical non-Government barriers to hostile bids in other countries have been removed or substantially reduced (see my brief of 15 July for Banham's two July speeches on this).

2. There are other points you could make on Banham's public statements. Although he seems to have been supportive on economic management according to yesterday's Times, his speeches are hit and miss and include damaging points, some of them straight errors:

In folder
behindMONCK
TALK WITH
SIR T.
HOLDSWORTH
22/7behind - but as MOM rang up
to point out - "a bit over the
top".

- (a) he has said the Budget tax cuts were a mistake, although the Budget was fulsomely welcomed by the CBI at the time (see A in annex);
- (b) in a recent speech he claimed that the real growth in Government spending since 1978 ($1\frac{1}{2}$ per cent a year) was not very different from that through the 1970s. In fact the growth rate halved. GGE excluding privatisation rose in real terms by 3 per cent^{a year} between 1970-71 and 1980-81 compared with growth of 1.3 per cent between 1980-81 and 1987-88. In the same speech he lumped together local authorities, Civil Service and national health manpower growth at $1\frac{1}{2}$ per cent since 1978-79, ignoring the central government cut of about 18 per cent (see B in annex);
- (c) he continually claims that company investment is held back by the growth of tax payments etc to the Government, ignoring the large recent and prospective financial surplus of industrial and commercial companies as a whole: they have a lot of money left over after payments to the Government and financing investment which they are using to buy financial assets.

Nm

N MONCK

Thursday, July 14, 1988

The Guardian

A

Director-general of CBI says Lawson's tax cuts a mistake

Financial Staff

THE director-general of the Confederation of British Industry, Mr John Banham, said yesterday the Chancellor's budget tax cuts were a mistake and called for investment rather than consumption.

In what is likely to prove a controversial speech among some of the CBI's more politically sensitive members, Mr Banham also likened South London to one of the most depressed and riot-torn inner city areas of the United States.

Mr Banham lambasted an uncompetitive school system by international standards, growing skill shortages, traffic mov-

ing at the same pace "as it was in the horse and carriage era", and "the southside of Chicago coming to South London".

He told an American Chamber of Commerce lunch at the Savoy Hotel that more could be spent on long-term projects without increasing public expenditure so long as there was a clampdown on waste.

"The most pressing concern of the leaders of British business is future competitiveness" he said.

"They see the need to invest on a massive scale — in education, skill training, the infrastructure, inner cities. The balance could be shifted in favour of capital expenditure rather than day-to-day spending."

Thursday June 30 1988

B

Daily Telegraph

Public sector 'must be more efficient'

By John Petty, Commercial Correspondent

BRITAIN will go into decline unless Mrs Thatcher swings the axe on the Civil Service and other parts of the public sector, it was stated last night by Mr John Banham, director general of the Confederation of British Industry.

Private industry and the unions had been in the crucible and now it must be the turn of the public services, he said.

Productivity gains in manufacturing had been running at five per cent a year or more, but in the public sector they seemed conspicuous by their absence.

"Local authorities, Civil Service and the National Health Service have only 1.5 per cent less staff than in 1978-79," he said in his the Redcliffe-Maude memorial lecture in London.

Some of the reductions appeared to be simply transfers to another payroll — "the Civil

Service equivalent of creative accounting".

Excluding proceeds from privatisation, the real growth in Government spending since 1978 had averaged 1.5 per cent a year, not very different from that through the 1970s.

Mr Banham said that as a former management consultant who had been used to seeing overheads cut by 20 per cent or more, he found the collective performance of the public sector less than impressive. "It looks like an organisation on autopilot," he said.

Most of the inflationary pressures seemed to be coming from the public sector. Many companies had seen their electricity bills rise by nine per cent this year yet in reality electricity prices should have fallen, Mr Banham said.

"At present heavy users in Britain pay 20 per cent or more above terms enjoyed by their French, Belgian and Italian competitors," he said.

There was a management problem in education, public housing, prisons and the National Health Service that had to be tackled. As much power and responsibility as possible should be devolved to the local level, with a maximum of work contracted out.

Awkward questions had to be raised, such as whether free public libraries should continue and whether mortgage tax relief was helping to fuel inflation in house prices.

Business was paying an extra £30 billion a year in taxes. "Business rates alone rose by £800 million in April with no commensurate benefit," Mr Banham said.

All this restricted the amount industry could invest. Manufacturing industry in Britain invested less than £2,000 a year per worker in fixed capital compared with £2,650 in Germany, £2,800 in the United States and £3,200 in France.

A turnround in manufacturing had stopped Britain from being the "sick man of Europe" but there was a risk that Britain would start to believe its own publicity and slip back.

"Despite very considerable progress in recent years, the average productivity of British manufacturing industry is still 35 per cent below that of Germany, 25 per cent behind France and even 15 per cent below Italy," he said.

There were some very competitive companies in Britain but overall the standard had to be raised. The private sector was still trying to break out of a vicious spiral of relatively low productivity.

FROM: PETER CURWEN
DATE: 25 JULY 1988

*Another buoyant survey,
though some signs of tightening
capacity.*

*Jim Hibberd
25/7.*

- 1. MR HIBBERD
- 2. CHANCELLOR

- cc:
- | | |
|---------------------|------------|
| Chief Secretary | Mr Bush |
| Financial Secretary | Mr Brooks |
| Paymaster General | Mr Dyer |
| Economic Secretary | Mr Hudson |
| Sir Peter Middleton | Mr Owen |
| Sir Terence Burns | Mr Price |
| Mr Scholar | Mr O'Brien |
| Mr Monck | Mr Tyrie |
| Mr Odling-Smee | Mr Call |
| Mr Sedgwick | HB/003 |
| Mr Burr | |
| Mr Gieve | |
| Miss O'Mara | |
| Mr Pickford | |

CBI QUARTERLY INDUSTRIAL TRENDS SURVEY - JULY 1988

The CBI's latest quarterly Survey of manufacturing industry will be released at 11.30am on Tuesday 26 July. It was conducted between 24 June and 13 July when sterling averaged \$1.70 and DM3.113. This compares with \$1.86 and DM3.114 over the April Survey period. Sterling's effective exchange rate fell by 3.2 per cent between the two Survey periods. (Base rates started to rise at the beginning of June, and rose from 9 per cent to 10 per cent during the Survey period.)

2. The CBI are taking broadly the same line they adopted in describing the April Survey results, although their tone may be more optimistic than the results would seem to warrant. "Business confidence remains good with growth moderating towards a more sustainable rate." The Survey reveals "few signs of overheating". They acknowledge that capacity utilisation is high but point out that the "vast majority of firms do not regard capacity as being a constraint to output". Investment intentions have fallen back but remain strong. In addition, unit costs have "picked up" but are now "expected to slow"; prices are expected to "rise moderately".

Survey results in summary

3. Overall, business confidence remains good, and the CBI note that although the rise in confidence is "less uniform than previously" it remains "broadly based". Export optimism, which fell back in the previous two Surveys, has "recovered sharply". But the "trendvaries markedly between sectors", with chemicals and electrical and instrument engineering showing increasing optimism and textiles and metal products reporting "sharp falls".

The balances on output and order books over the past 4 months are lower than in the April Survey but in line with their respective average balances over the previous year. As the CBI point out, this might indicate some moderation of growth in recent months. Expectations of output and demand over the next 4 months are little changed from the April results and may indicate that growth in demand is now levelling off, albeit at a high level.

5. Despite the CBI's sanguine assessment of capacity constraints there are indications of some tightening. The proportion of firms working below capacity has fallen back for the sixth successive survey; it is now lower than at any time since the question was first asked in 1958. The percentage of firms citing plant capacity as a factor likely to limit output has stayed at the level cited in April - the highest level since 1973. The balance of respondents reporting present fixed capacity to be more than adequate has fallen to +3. This is the lowest balance since the question was first published in October 1979. However, 82 per cent of respondents indicated that fixed capacity is at least adequate to meet expected demand over the next twelve months. In the light of these results and a background of "sustained growth in demand and output", the CBI remark on the 'need for further investment in industrial capacity'. A positive balance of 19 per cent expect to authorise increased spending on plant and machinery over the next 12 months - this is a little lower than in April but a high positive balance by historical standards.

6. A balance of +24 per cent reported an upward trend in unit costs over the past 4 months, up from +10 per cent in April. The CBI remark that this was expected in the April Survey and reflects the rise in the cost of materials and fuels purchased by manufacturing industry. The outlook for the next 4 months is for some slowing of growth. Despite the pick-up in costs, average prices over the past 4 months rose more slowly than was expected in April.

Per cent balances (unless stated).

					Seasonally adjusted figures (NOT PUBLISHED)			
	Apr	May	Jun	Jul	Apr	May	Jun	Jul
Business optimism	19			8	7			13
Export optimism	-5			8	-11			12
Order Books:								
Total	14	21	13	14	15	16	11	15
Export	2	4	2	6	4	-4	0	4
Investment intentions	32			19	28			22
Firms working below capacity (1)	32			31	30			34
Factors likely to limit output: (1)								
- orders or sales	68			60	70			61
- skilled labour	19			22	20			21
- plant capacity	26			26	24			27
Stocks	2	-3	-1	1				
Trend over past 4 months:								
- volume of output	36			27	31			27
- employment	8			8	7			10
- unit costs	10			24	3			26
- domestic prices	28			21	19			22
Trend over next 4 months:								
- volume of output	29	34	30	27	24	32	27	33
- employment	7			9	3			12
- unit costs	23			19	24			26
- domestic prices	31	18	21	23	28	19	27	28

(1) percentage of respondents.

7. Other particular points to note are:-

(a) Optimism. For the seventh successive quarterly Survey there is a positive balance of firms reporting an increase in optimism about the business situation. This is the longest sustained positive balance since the early 1970s. Export optimism, which fell in both January and April, improved sharply in July.

(b) Order books. A balance of +14 per cent report total order books above normal. After taking seasonal factors into account this is in line with recent monthly enquiries and also the April quarterly survey. The balance of respondents reporting export order books above normal has improved. Even after taking seasonal factors into account the balance is better than in recent months. Both order book series are at historically high levels.

(c) Investment intentions in plant and machinery are high. The balance of +19 per cent of firms now reporting an intention to increase capital expenditure over the next 12 months has fallen back since April. Increasing efficiency continues to be the most frequently cited reason for authorisation of capital expenditure. But the proportion of firms citing expansion of capacity, unchanged since April, remains the second highest since this question was first asked in October 1979.

(d) Capacity constraints. A shortage of orders or sales remains the major constraint on output with 60 per cent of firms citing this factor. However, this is the lowest proportion since 1974. The proportion of firms mentioning a shortage of skilled labour has risen slightly and at 22 per cent is at its highest level since 1979. The proportion citing plant capacity, although showing no change from the April Survey, is at its highest level since 1973.

Forecasts for manufacturing industry

8. The CBI use these survey results to forecast short-term trends in manufacturing industry. They expect:

- manufacturing output to grow, on an annual basis, at 6.2 per cent in the second and third quarters of this year.
- manufacturing investment in 1988 to be up 9.6 per cent on 1987. [This is lower than the 10.8 per cent forecast in the April Survey.]
- manufacturing employment to rise in 1988Q3, but to a level still slightly below that of a year earlier.

Economic Assessment

9. The CBI have prepared a short economic assessment which looks at whether the recent strong growth of demand will lead to the 'emergence of a more serious inflationary problem'. They conclude that inflation this year may "edge-up a little", but there is "little indication that it is out of control". However, they point out that "excessive growth of domestic demand" is likely to be

reflected in a larger current account deficit than previously expected. Part of this deterioration is the result of strong growth in investment, which reflects "growing pains as Britain moves into the next phase of the economic recovery". However, they also note that part of the deterioration in the current account is associated with low saving. If consumer spending does not slow down the "Government may be forced to do more saving on consumers' behalf by tightening fiscal policy and running an even bigger (budget) surplus".

30th Anniversary

10. This edition marks the 30th anniversary of the first CBI Industrial Trends Survey. In a preface, Sir John Banham remarks on its reliability "at a time when there is so much uncertainty over the quality of official statistics". He goes on briefly to contrast the current state of manufacturing with that in 1958. He notes that British business 30 years on is in 'better competitive shape than at any time since the Second World War', with 'manufacturing industry currently enjoying the longest period of sustained productivity growth of the post-war period'. He says "the recovery of manufacturing industry has represented the crucial difference between Britain being presented as the sick man of Europe and being widely perceived as an economic miracle."

Line to take (on Industrial Trends Survey):

Another good survey. It confirms the buoyant industrial position with optimism, output and order books remaining high and little sign of overheating.

Peter S. Curwen

PETER S CURWEN

CBI INDUSTRIAL TRENDS SURVEY: SUMMARY OF RESULTS FROM APRIL 1987 TO JULY 1988

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

TOTAL TRADE		Apr 87	Jul 87	Oct 87	Jan 88	Apr 88	Jul 88
1	Optimism re business situation	+29	+25	+23	+11	+19	+ 8
3	12 month forecast of capital expenditure authorisations compared with previous 12 months on:						
a	buildings	- 3	+ 1	- 3	+ 1	+ 6	- 6
b	plant and machinery	+13	+20	+17	+20	+32	+19
4	Firms working below capacity ¹	49	45	41	35	32	31
6	Numbers employed						
	- past 4 months	-10	- 7	+ 4	+ 9	+ 8	+ 8
	- next 4 months	- 4	- 3	+ 2	+ 8	+ 7	+ 9
7	Volume of new orders						
	- past 4 months	+26	+24	+25	+26	+31	+24
	- next 4 months	+25	+25	+25	+16	+23	+23
8	Volume of output						
	- past 4 months	+24	+23	+19	+31	+36	+27
	- next 4 months	+25	+23	+25	+26	+29	+27
10a	Stocks of raw materials						
	- past 4 months	- 6	+ 3	0	- 1	+ 2	+ 8
	- next 4 months	- 6	- 3	- 8	- 1	0	- 5
b	Stocks of work in progress						
	- past 4 months	- 5	+ 6	+ 7	+ 7	+ 1	+ 7
	- next 4 months	- 6	+ 1	+ 1	- 3	- 3	- 3
c	Stocks of finished goods						
	- past 4 months	- 7	- 4	- 7	- 8	+ 1	+ 5
	- next 4 months	- 8	- 5	- 8	- 2	- 4	- 7
11	Average unit costs						
	- past 4 months	+25	+10	+22	+16	+10	+24
	- next 4 months	+18	+11	+19	+33	+23	+19
12a	Average domestic prices						
	- past 4 months	+20	+16	+18	+18	+28	+21
	- next 4 months	+26	+19	+23	+39	+31	+23
14	Four month forecast of factors likely to limit output ²						
	Orders or sales	72	69	65	67	68	60
	Skilled labour	12	18	19	20	19	22
	Other labour	2	3	5	4	3	6
	Plant capacity	25	22	24	21	26	26
	Credit or finance	4	3	3	3	2	2
	Materials/components	4	6	8	8	9	9
	Other	2	4	2	3	2	4

<u>EXPORT TRADE</u>		<u>Apr 87</u>	<u>Jul 87</u>	<u>Oct 87</u>	<u>Jan 88</u>	<u>Apr 88</u>	<u>Jul 88</u>
2	Optimism re export prospects	+24	+24	+14	- 7	- 5	+ 8
7b	Volume of new export orders						
	- past 4 months	+15	+23	+ 9	+14	+18	+12
	- next 4 months	+20	+17	+17	+ 7	+ 9	+12
9b	Volume of export deliveries						
	- past 4 months	+15	+23	+13	+22	+20	+19
	- next 4 months	+22	+21	+21	+11	+11	+20
12b	Average export prices						
	- past 4 months	+18	+ 9	+ 6	+11	+10	+ 8
	- next 4 months	+15	+13	+21	+26	+ 8	+ 7

15	Four month forecast of factors likely to limit export orders ¹						
	Prices	59	60	56	56	70	61
	Delivery dates	15	12	15	17	14	14
	Credit or finance	9	13	6	11	8	5
	Quota and licence	10	13	11	12	10	5
	Political/economic conditions abroad	25	28	28	29	24	18
	Other	10	9	13	10	10	13

1 Percentage Figures

CBI Monthly Trends Enquiry: Time Series of results from August 1987 to July 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.

		Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
1a	Total Order Book (Q.5a)*	+11	+ 9	+10	+13	+18	+20	+20	+20	+14	+21	+13	+14
1b	Export Order Book (Q.5b)	+ 5	+ 3	+ 1	+11	+ 4	+ 5	+12	+11	+ 2	+ 4	+ 2	+ 6
2	Stocks (Q.5c)	- 1	+ 3	- 7	- 5	+ 2	- 1	- 2	+ 1	+ 2	- 3	- 1	+ 1
3	Volume of Output (Q.8)	+38	+30	+25	+36	+31	+26	+36	+37	+29	+34	+30	+27
4	Average Prices (Q.12a)	+21	+20	+23	+28	+31	+39	+33	+25	+31	+18	+21	+23

* 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'.



FROM: J M G TAYLOR

DATE: 26 July 1988

A large, stylized handwritten signature in dark ink, likely belonging to J. M. G. Taylor.

MR CURWEN

cc Mr Hibberd

CBI QUARTERLY INDUSTRIAL TRENDS SURVEY - JULY 1988

The Chancellor was grateful for your minute of 25 July.

A smaller handwritten signature in dark ink, likely belonging to J. M. G. Taylor.

J M G TAYLOR

CONFIDENTIAL
until 0030 hrs
on Tuesday 30 August

RP

FROM: PETER PATTERSON
DATE: 24 AUGUST 1988

CHANCELLOR

cc Sir T Burns
Mr Peretz
Mr Sedgwick
Mr Owen

CBI MONTHLY TRENDS ENQUIRY: AUGUST

We have just received this month's CBI survey results, to be published at 0030 hrs on Tuesday 30 August. The results are shown below, along with the CSO's estimates of seasonally adjusted figures (which are NOT PUBLISHED).

	PUBLISHED			SEASONALLY ADJUSTED (NOT PUBLISHED)		
	Jun	Jul	Aug	Jun	Jul	Aug
Total order books	+13	+14	+17	+11	+15	+18
Export order books	+ 2	+ 6	- 2	0	+ 4	+ 3
Stocks	- 1	+ 1	0			
Volume of output	+30	+27	+33	+27	+33	+37
Average domestic prices	+21	+23	+22	+27	+28	+27

2. The results continue to show strong output and order books. The export order book series has fallen back a little, but some of this may be seasonal and it remains at a historically high level. The prices series remains close to average levels over the past 18 months. The expected trend in the volume of output over the next 4 months has risen in August.

Peter Patterson

P L PATTERSON

CONFIDENTIAL
until 00.30 on Tuesday 30 August 1988
then UNCLASSIFIED

FROM: PETER PATTERSON
DATE: 26 August 1988

CHIEF SECRETARY

cc Chancellor (+1 for No 10) Mr Pickford
Financial Secretary Mr Bush
Paymaster General Mr Darlington
Economic Secretary Mr Dyer
Sir P Middleton Mr Hudson
Sir T Burns Mr Owen
Mr Monck Mr Price
Mr Scholar Ms Turk
Mr Odling Smee Mr Tyrie
Mr Sedgwick Mr Call
Mr Gieve HB/003
Mr Hibberd
Miss O'Mara

CBI MONTHLY TRENDS ENQUIRY: AUGUST 1988

The CBI's latest Monthly Enquiry is to be released at 00.30 on Tuesday 30 August, together with the CBI's latest staff forecast. This was of course completed before the release of the July trade figures.

Enquiry results

2. The Monthly Enquiry into manufacturing asks only five of the questions in the quarterly survey: current levels of total and export order books and of stocks, and the expected trend over the next four months in output and in average domestic prices. The Enquiry was conducted between 26 July and 17 August, covering 1528 respondents.

3. Full results, given in the attached sheet, are summarised in the table below. They show the balances on the order book and output series continuing at a very high level. Export order books fell back a little but also remain high. The expected rate of growth of output prices has fallen slightly since July and is still close to the average level of recent months. Seasonally adjusted figures, produced by the CSO but NOT PUBLISHED, are also shown in the table.

	PUBLISHED			SEASONALLY ADJUSTED: (NOT PUBLISHED)		
	June	July	Aug	June	July	Aug
Total order books	+13	+14	+17	+11	+15	+18
Export order books	+ 2	+ 6	- 2	0	+ 4	+ 3
Stocks	- 1	+ 1	0			
Volume of output	+30	+27	+33	+27	+33	+37
Average domestic prices	+21	+23	+22	+27	+28	+27

Points to Note

4. The results of this month's enquiry provide further confirmation of continuing strong growth in demand and output. The balance on the total order books and volume of output questions both rose between July and August and continue at high levels. [Using the unpublished, seasonally adjusted series, both balances are close to their highest levels since 1977]. The CBI say that "demand for UK manufactures remains buoyant while output is expected to continue to grow at the strong pace seen so far this year". The response to the question on export order books fell in August, but the adjusted series suggests that the bulk of this may be seasonal. In any case the balance remains at a historically high level, albeit a little below its average over the past year. The CBI report that smaller companies continue to report a weaker export position than larger companies. The prices series fell marginally in August and remains close to its average value since the beginning of 1987. Very low price expectations are indicated by the capital goods industries, but sharp price increases are expected in 'food, drink and tobacco'.

Staff forecast

5. The forecast is summarised below:

Percentage change on previous year	1988	1989
GDP (Q)	4.2	3.2
of which: manufacturing	7.2	4.0
Consumers' expenditure	6.2	4.0
Fixed investment	12.8	4.4
- of which: manufacturing	9.6	6.9
Exports (goods & services)	3.3	7.5
Imports (goods & services)	12.3	7.4
Retail price inflation (Q4)	5.2	5.0
Unemployment (Q4, adult, million)	2.3	2.7
Current account (£ billion)	-11.1	-8.7
PSBR (FY, £ billion)	-7.7	na

5. The general picture is a familiar one of output growth slowing from the 5 per cent rate recorded in early 1988 to 3.2 per cent in 1989. Consumer's spending slows down along with real income growth plus a recovery in the saving ratio to over 7 per cent in 1989. Total fixed investment is expected to be especially strong in 1988, rising by nearly 13 per cent—the highest annual increase since 1964—with investment in dwellings particularly buoyant. Manufacturing investment is forecast to rise by 9.6 per cent this year, rather below the 16 per cent projected in the DTI's June Investment Intentions Survey. The CBI expect manufacturing output growth of as much as 7 per cent in 1988 as a whole. Unemployment falls to 2.3 million by the end of 1988 and starts to rise during 1989.

7. The CBI assume that interest rates remain at the then current level of 11 per cent until spring 1989, remaining stable at 10.5 per cent thereafter. Together with the recent pick-up in commodity prices and earnings growth of 8-8½ per cent, this produces a rise in retail price inflation to nearly 6 per cent in 1989Q1 before slackening to around 5 per cent by the end of next year.

8. In 1989 export growth is expected to rise as a result of healthy world trade growth and sterling eases against other currencies. Import growth slackens as domestic demand growth moderates. The current account deficit is therefore projected to fall from £11.1 billion this year to only £8.7 billion next.

CBI's Economic Assessment

9. The CBI ask whether it is fair to describe the UK economy as "overheating". On the basis of its past Survey results, showing no widespread capacity constraints and strong growth in investment, it concludes that "it is incorrect to speak of overheating". However there are some clouds on the horizon. The main concern is not inflation, which the CBI say appears to be under control—the increase in producer output prices is unchanged since a year ago and the rise in retail price inflation is due to the distorting effects of higher house prices and mortgage costs. Rather it is "the prospect that a strong pound coupled with rapid growth in domestic demand will cause a further deterioration in the balance of payments". If consumer demand does not slow, a harder landing than indicated in the CBI's forecasts could be in prospect.

Other articles

10. In a comment written in a personal capacity by Douglas Godden, one of the CBI's economists, it is argued that the main cause of Britain's worsening trade deficit is a loss of cost competitiveness brought about by sterling appreciation, and not "overheating". Current policy therefore is more likely to hinder than help any return to current account balance.

Peter Patterson

P L PATTERSON

CBI INDUSTRIAL TRENDS ENQUIRY

August 1988

Manufacturing industry: 1,528 respondents

The figures are percentages based on a weighted sample.

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

- (1) a. Your present total order book is
 b. Your present export order book is
(firms with no order book are requested to estimate the level of demand)

Above Normal	Normal	Below Normal	N/A
31	55	14	+
20	55	22	2

- (2) Your present stocks of finished goods are

More than adequate	Adequate	Less than adequate	N/A
14	61	14	11

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

- (3) Volume of output
 (4) Average prices at which domestic orders are booked.

Up	Same	Down	N/A
40	53	7	+
28	65	6	1

Percentage Balance

	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
1a Total Order Book	+ 9	+10	+13	+18	+20	+20	+20	+14	+21	+13	+14	+17
b Export Order Book	+ 3	+ 1	+11	+ 4	+ 5	+12	+11	+ 2	+ 4	+ 2	+ 6	- 2
2 Stocks	+ 3	- 7	- 5	+ 2	- 1	- 2	+ .1	+ 2	- 3	- 1	+ 1	0
3 Volume of Output	+30	+25	+36	+31	+26	+36	+37	+29	+34	+30	+27	+33
4 Average Prices	+20	+23	+28	+31	+39	+33	+25	+31	+18	+21	+23	+22

PWP



FROM: SARAH MURPHY

DATE: 31 August 1988

MR PATTERSON

cc: Sir T Burns
Mr Peretz
Mr Sedgwick
Mr Owen

CBI MONTHLY TRENDS ENQUIRY AUGUST

The Chancellor has seen and was grateful for your minute of 24 August 1988.

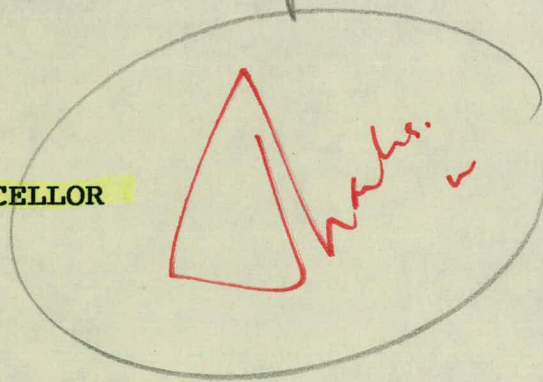
A handwritten signature in cursive script that reads "Sarah Murphy".

SARAH MURPHY

CONFIDENTIAL
until 0030 hrs
on Tuesday 30 August

Sarah pl minute Thanks - m

CHANCELLOR



FROM: PETER PATTERSON
DATE: 24 AUGUST 1988

cc Sir T Burns
Mr Peretz
Mr Sedgwick
Mr Owen

CBI MONTHLY TRENDS ENQUIRY: AUGUST

We have just received this month's CBI survey results, to be published at 0030 hrs on Tuesday 30 August. The results are shown below, along with the CSO's estimates of seasonally adjusted figures (which are NOT PUBLISHED).

	PUBLISHED			SEASONALLY ADJUSTED (NOT PUBLISHED)		
	Jun	Jul	Aug	Jun	Jul	Aug
Total order books	+13	+14	+17	+11	+15	+18
Export order books	+ 2	+ 6	- 2	0	+ 4	+ 3
Stocks	- 1	+ 1	0			
Volume of output	+30	+27	+33	+27	+33	+37
Average domestic prices	+21	+23	+22	+27	+28	+27

2. The results continue to show strong output and order books. The export order book series has fallen back a little, but some of this may be seasonal and it remains at a historically high level. The prices series remains close to average levels over the past 18 months. The expected trend in the volume of output over the next 4 months has risen in August.

Peter Patterson

P L PATTERSON