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PART D

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PO -CH /NL/0323

PART D

PO -CH /NL/0323
PART D

Chancellors (Lawson) Papers:

THE CONFEDERATION OF
BRITISH INDUSTRY
ECONOMIC PROGRESS REPORT

DD's: 25 Years

D Anderson

1/11/95

pm

H M Treasury
Parliament Street London SW1P 3AG
Switchboard 01-270 3000
Direct Dialling 01-270 ....

Sir Peter Middleton KCB
Permanent Secretary

Ch
Main new stuff is Stowe - flagged
AA

Chancellor,

I am not letting you have this formally because I have objected strongly to parts of the Stowe report which is being revised and Robert Armstrongs submission to the PM (not attached) which is also being drafted. So I do not know what the PM knows about some of his ideas. However Robert will be with her as she selects Ministers, and I think you should be forwarned about this.

On Ibbs there is to be a Ministerial meeting later in the month. Before that I suggested to Nigel Wicks that the Prime Minister should discuss both reports with you (and possibly me) before other ministers are brought in

PEM

12/6

Confederation of British Industry
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Director-General
John M M Banham

Secretary
Maurice Hunt

MP

CBI

Mr Peter Lilley MP
Economic Secretary
HM Treasury
Parliament Street
LONDON SW1P 3AG

1 September 1988

ECONOMIC SECRETARY	
REC'D	05 SEP 1988
ACTION	Mr M. Pratt
COPIES TO	PS/CMX PS/CST PS/FST PS/PMG
	Mr Burr Mr Gilhooly
	Mr Nash Mr McManaway-C+E
	PS/C+E

FINANCE (NO. 2) BILL 1988: CLAUSE 8
DISCLOSURE OF IMPORTERS DETAILS

Dear Mr Lilley,

As you are aware, the CBI has been concerned about certain implications of the above proposals and, in particular, their effect on those British exporters who are obliged to import materials and components for use in the manufacture of products sold overseas. With a view to ensuring that the interests of such manufacturers are protected, we have had a friendly and helpful meeting with the Statistical Office of HM Customs and Excise on the way in which they intend to implement the provisions of Clause 8. We were particularly glad to be given the assurance that the country of origin will never be stated as this was a point of major concern to CBI members.

In general, we are satisfied with what the Statistical Office has told us but there are three issues which continue to give us cause for concern.

1. We understand that it is intended to publish lists of commodity codes and to indicate the name and address of every importer of goods against each such code. This, we accept, is in accordance with the intention of the proposed legislation. However, the CBI would consider it to be contrary to both the letter and the spirit of Clause 8 if the marketing agents were to publish the information in inverse form, ie lists of names and addresses of importers against which would be shown the codes relative to all the commodities which they import. In our view, the publication of such lists would be wide open to abuse and misinterpretation.

   We would strongly urge you therefore, to ensure that the contracts under which the statistical marketing agents operate specifically prohibit them from publishing lists of names and addresses of importers as opposed to lists of commodity codes.

.../2

2. We also understand that the existing policy of suppression will continue so that information will be consolidated where necessary to ensure that the volume or value of goods imported by any individual trader cannot be identified. Whilst welcoming this continuing policy of suppression, we are concerned that, by consolidating the present statistics with the new separate lists showing importers by commodity code, the marketing agents or their customers may be able to obtain sensitive information about the activities of an importer which is not presently available.

   Again therefore, we strongly urge you to ensure that the terms of marketing agents' contracts specifically prevent them from publishing information of a nature or in a form which would allow the principles of suppression to be breached.

3. Finally, since Clause 8 represents a new use of the information provided by importers on their Customs import documentation, I sincerely hope that the Government will bring this fact clearly to the attention of British importers. I hope too that the Government publicity will include both information on the implementation of Clause 8 and the reasons behind this move.

   In the CBI we will of course be giving maximum publicity to these changes to assist you in your own campaign. To this end we hope to keep in close touch with your officials so that the CBI campaign compliments your own.

We very much hope that you will be able to accept the above recommendations in the interests of those British manufacturers who, particularly as exporters, make a positive contribution to the UK economy but, to do so, are obliged to import certain of their requirements.

Yours Sincerely,

Michael J Booth

Michael J Booth
Chairman
CBI Customs Policy and Procedures Panel

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WC1A 1DU
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Pkg **CBI**

NEWS RELEASE

EMBARGOED : NOT FOR
PUBLICATION BEFORE
1130 HRS ON THURSDAY
8 SEPTEMBER 1988

P.129.88

CONSUMER SALES STILL BUOYANT, BUT CBI CAUTIOUS OVER NEXT YEAR'S PROSPECTS

Shopkeepers and store managers in Britain's High Streets remain optimistic about sales growth in September, following a continuation of strong sales growth in August, Mr Nigel Whittaker, Chairman of the Confederation of British Industry's Distributive Trades Survey Panel, reported today (Thursday). But it is too soon to be confident about prospects for next year, he said.

Introducing the results of the latest CBI/FT Survey of the Distributive Trades, he explained : "In August, retail sales growth continued at a relatively fast pace, reflecting the strong growth of real personal disposable income. Retailers remain optimistic about sales growth in September and are positive about business prospects in the short run.

He added : "The Survey results show that increases in interest rates have, so far, had a limited effect in dampening the growth of consumer demand. This is to be expected as rises in mortgage rates have barely begun to hit the consumer. It remains to be seen how much impact higher interest rates will have in the longer run, but their impact on consumer confidence could be quite substantial. Retailers are becoming increasingly cautious about the prospects for 1989."

MF

** SALES : The Survey results show that 73 per cent of the 232 retailers questioned thought their sales in September would be higher than in September 1987, and only 3 per cent thought sales would be lower. **Shops selling household textiles, furniture and carpets** were the most optimistic about sales growth, with 87 per cent of respondents expecting sales in September to be higher than a year ago. **Clothing** shops also expected good business in September: 82 per cent of these respondents anticipated increased sales.

The Survey also shows that for the 149 wholesalers questioned, growth in sales, relative to 1987 volumes, slowed slightly in August, and a similar rate of sales growth is expected in September. **Builders' merchants** were the most optimistic about sales increases, with 72 per cent anticipating higher sales than in September last year.

Motor traders reported significantly faster sales growth in August than July, and sales were also much better for the time of year, suggesting that traders had a particularly good August, as the new "F" registration became operative. Motor traders, however, expected slower sales growth in September.

** IMPORTS : Motor traders reported significantly stronger growth in import penetration in August than in previous Surveys. In wholesaling too, respondents reported a pick up in the growth of import penetration. The Survey shows the fastest growth in import penetration in wholesaling since November 1985. Retailers, however, reported no growth in import penetration in August.

MF

** BUSINESS PROSPECTS : Distributors expected a greater improvement in their overall business situation over the next three months in August than they did in May. Retailers and wholesalers were more optimistic about their short-run business prospects in August than in May, with retailers more positive compared with previous Surveys. Motor traders still expected business to improve in the next three months, though were less positive in August than in the May Survey.

** PRICES : Average selling prices in distribution showed no sign of accelerating, though the experiences amongst the three sectors covered by the Survey were mixed. Wholesalers reported slower price rises in August than in May; retailers' prices rose a little faster than in the previous Survey; while motor traders reported only marginally faster growth in selling prices in August. Over coming months, retailers and motor traders expect price rises to moderate slightly, while wholesalers anticipated marginally faster price increases.

** INVESTMENT : Distributors' expectations regarding capital expenditure remained steady in August. Retailers expect to increase investment over the next twelve months, but the Survey shows the least positive response for five years. Motor traders continued to have relatively strong investment expectations, while wholesalers expected to authorise less capital expenditure in the next twelve months than they did over the past year.

** EMPLOYMENT : Growth in employment in distribution remained steady in August, relative to last year's levels. Full-time employment growth slowed down a little further in August, while the rate of increase in part-time jobs continued to accelerate. Distributors' expectations for coming months suggest that the best job prospects are for part-time workers in retailing and for full-time workers in the car showrooms.

8 September 1988

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John M M Banham

Secretary
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CBI

CH/EXCHEQUER
REC. 09 SEP 1988 9/9
ACTION Mr Monck - We spoke. AHH
COPIES TO Sir P Middleton, Mr Lankester, Mr Burgner, Mr RIG Allen, Mr Burr, Mr Grieve, Miss Simpson, Ms Young (IAE3), Mr Tyrie, Mr Call

PWP

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON SW1P 3AG

8th September 1988

Dear Mr Lawson,

The Director General of the CBI, John Banham, has asked me to chair and direct the CBI's 1992 Initiative. We believe this unique business resource on 1992 will bring a wealth of information to businesses throughout Great Britain.

The Department of Industry's 1992 Single Market advertising campaign has been extremely successful in creating awareness amongst British companies of the significance of 1992 but the CBI now aims to build on that success by providing a resource on specific subjects of the highest quality.

This Initiative has been entirely funded by the private sector and within the space of only 2 months, a total of £1 million has been raised to finance the whole project. We have also secured the commitment of 10 leading companies to contribute their expertise to 13 seminars which will run through 1989, one in each region, making a total of 130 seminars in all. Each company will deal with one aspect of the single market about which they have a specialist knowledge.

A series of books, one on each subject, will also be available. We believe these will be used as a major reference on the most important issues addressed.

I believe the CBI 1992 Initiative is a unique opportunity that should be offered to British business to secure their success in the single market. I would, therefore, welcome an early opportunity to discuss with you the possibility of your participating as a speaker at the launch of our seminar on Financing Growth in Europe.

I will telephone your private office to arrange a suitable date for a meeting.

C.
To note. I have asked N. Monck to explore this with the CBI, without commitment, in the first instance.
AHH

Yours sincerely

Alan J Lewis
Chairman, CBI Initiative 1992

Noted. Not willing Nm.

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

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

TOTAL TRADE

		Jul 87	Oct 87	Jan 88	Apr 88	Jul 88	Oct 88
1 Optimism re business situation		+25	+23	+11	+19	+ 8	+ 6
3 12 month forecast of capital expenditure authorisations compared with previous 12 months on:							
a buildings		+ 1	- 3	+ 1	+ 6	- 6	- 4
b plant and machinery		+20	+17	+20	+32	+19	+21
4 Firms working below capacity[1]		45	41	35	32	31	+31
6 Numbers employed	- past 4 months	- 7	+ 4	+ 9	+ 8	+ 8	+ 4
	- next 4 months	- 3	+ 2	+ 8	+ 7	+ 9	+ 4
7 Volume of new orders	- past 4 months	+24	+25	+26	+31	+24	+21
	- next 4 months	+25	+25	+16	+23	+23	+24
8 Volume of output	- past 4 months	+23	+19	+31	+36	+27	+21
	- next 4 months	+23	+25	+26	+29	+27	+24
10a Stocks of raw materials	- past 4 months	+ 3	0	- 1	+ 2	+ 8	+ 1
	- next 4 months	- 3	- 8	- 1	0	- 5	- 1
b Stocks of work in progress	- past 4 months	+ 6	+ 7	+ 7	+ 1	+ 7	+ 5
	- next 4 months	+ 1	+ 1	- 3	- 3	- 3	- 6
c Stocks of finished goods	- past 4 months	- 4	- 7	- 8	+ 1	+ 5	- 8
	- next 4 months	- 5	- 8	- 2	- 4	- 7	- 5
11 Average unit costs	- past 4 months	+10	+22	+16	+10	+24	+22
	- next 4 months	+11	+19	+33	+23	+19	+25
12a Average domestic prices	- past 4 months	+16	+18	+18	+28	+21	+26
	- next 4 months	+19	+23	+39	+31	+23	+32
14 Four month forecast of factors likely to limit output[1]							
Orders or sales		69	65	67	68	60	56
Skilled labour		18	19	20	19	22	28
Other labour		3	5	4	3	6	4
Plant capacity		22	24	21	26	26	29
Credit or finance		3	3	3	2	2	2
Materials/components		6	8	8	9	9	9
Other		4	2	3	2	4	3

not too good -

EXPORT TRADE

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

	Jul 87	Oct 87	Jan 88	Apr 88	Jul 88	Oct 88
15 Four month forecast of factors likely to limit export orders[1]						
Prices	60	56	56	70	61	61
Delivery dates	12	15	17	14	14	21
Credit or finance	13	6	11	8	5	7
Quota and licence	13	11	12	10	5	7
Political/economic conditions abroad	28	28	29	24	18	14
Other	9	13	10	10	13	16

1 Percentage Figures

CBI Monthly Trends Enquiry: Time Series of results from November 1987 to October 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.

		Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct
1a Total Order Book	(Q.5a)*	+13	+18	+20	+20	+20	+14	+21	+13	+14	+17	+15	+11
1b Export Order Book	(Q.5b)	+11	+ 4	+ 5	+12	+11	+ 2	+ 4	+ 2	+ 6	- 2	+ 2	- 2
2 Stocks	(Q.5c)	- 5	+ 2	- 1	- 2	+ 1	+ 2	- 3	- 1	+ 1	0	0	+ 1
3 Volume of Output	(Q.8)	+36	+31	+26	+36	+37	+29	+34	+30	+27	+33	+31	+24
4 Average Prices	(Q.12a)	+28	+31	+39	+33	+25	+31	+18	+21	+23	+22	+26	+32

* 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'.

DTRENDS1P

Dec 1986

United Kingdom

DERATION OF
H INDUSTRY

Number of RESPONDENTS: Total Trade Questions 1245

Export Trade Questions 855

Number of RESPONDENTS in each employment size group:

(a) 0–199 704 (b) 200–499 288 (c) 500–4,999 228 (d) 5,000 and over 25

		More	Same	Less	
1	Are you more, or less, optimistic than you were four months ago about the general business situation in your industry	20	66	14	

		More	Same	Less	N/A
2	Are you more, or less, optimistic about your export prospects for the ~~next twelve~~ months than you were four months ago	21	61	14	3
3	Do you expect to authorise more or less capital expenditure in the next twelve months than you authorised in the past twelve months on: a. buildings	21	36	25	18
	b. plant and machinery	40	38	19	3

		Yes	No	N/A
4	Is your present level of output below capacity (i.e. are you working below a satisfactory full rate of operation)	31	69	1

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

	Above Normal	Normal	Below Normal	N/A
a. Your present total order book is	25	61	14	1
b. Your present export order book is *(firms with no order book are requested to estimate the level of demand)*	20	55	22	3

	More than Adequate	Adequate	Less than Adequate	N/A
c. Your present stocks of finished goods are	16	55	15	14

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

	Trend over PAST FOUR MONTHS				Expected trend over NEXT FOUR MONTHS			
	Up	Same	Down	N/A	Up	Same	Down	N/A
6 Numbers employed	26	52	22	–	20	63	16	–
7 Volume of total new orders	37	45	16	2	33	55	9	3
of which: a. domestic orders	36	48	14	2	29	60	9	3
b. export orders	28	49	19	4	29	53	12	6
8 Volume of output	33	55	12	+	31	60	7	2
9 Volume of: a. domestic deliveries	36	50	13	1	31	60	8	2
b. export deliveries	28	53	15	4	34	48	13	5
10 Volume of stocks of: a. raw materials and brought in supplies	19	61	18	2	14	68	15	3
b. work in progress	19	62	14	5	12	64	18	6
c. finished goods	13	53	21	14	13	55	18	14

UK

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

		Trend over PAST FOUR MONTHS				Expected trend over NEXT FOUR MONTHS			
		Up	Same	Down	N/A	Up	Same	Down	N/A
11	Average costs per unit of output	33	55	11	1	33	57	8	1
12	Average prices at which: a. domestic orders are booked	29	66	3	1	34	62	2	1
	b. export orders are booked	16	74	6	5	27	63	5	5

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

Less than 1	1-3	4-6	7-9	10-12	13-18	More than 18	N/A
14	43	17	3	3	+	4	15

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

Orders or Sales	Skilled Labour	Other Labour	Plant Capacity	Credit or Finance	Materials or Components	Other
56	28	4	29	2	9	3

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

Prices (compared with overseas competition)	Delivery Dates (compared with overseas competition)	Credit or Finance	Quota & Import Licence Restrictions	Political or Economic Conditions Abroad	Other
61	21	7	7	14	16

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

More than adequate	adequate	less than adequate
21	59	20

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

to expand capacity	42	other *(please specify)*	3
to increase efficiency	73	N/A	6
for replacement	43		

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

Inadequate net return on proposed investment	44	Uncertainty about demand	30
Shortage of internal finance	18	Shortage of labour including Managerial and Technical Staff	12
Inability to raise external finance	1	Other *(please specify)*	3
Cost of finance	14	N/A	13

INDUSTRY GROUPS IN CBI INDUSTRIAL TRENDS SURVEY FOR SCOTLAND

Food, Drink and Tobacco
Chemicals, Coal and Petroleum Products
Metals and Metal Manufacture
Mechanical, Instrument, Electrical and Vehicle Engineering
Textiles
Other Manufacturing

THE OCTOBER 1988 QUARTERLY INDUSTRIAL TRENDS SURVEY

No 110

Total Response: 1245, Trade Response: 855

Conducted between 23 September and 12 October 1988

The October Industrial Trends Survey shows business confidence remains good with growth of demand and output moderating in the four months to October. Both are now expected to grow at broadly similar rates. Investment intentions have strengthened, but some capacity problems have appeared with exceptionally high rates of capacity utilisation. Unit costs, having slowed, are now expected to pick up, while, prices are also expected to pick up slightly. Manufacturing employment continues to show further gains.

During the Survey period the pound averaged $1.69 and DM 3.162 compared with $1.70 and DM 3.113 over the July Survey period. Sterling's effective exchange rate rose by 0.9% between the Survey periods.

Summary

- Business confidence remains good, although less broadly based than in July. A balance of +6% of respondents indicated they were more optimistic than four months ago.

- Growth in demand has slowed slightly more than expected in July and over the next four months, new orders are expected to pick up. Order books remain well above normal, though at +11%, they are below the strong balances reported earlier in the year.

- Broadly following the pattern of demand, the rate of growth in manufacturing output has moderated in recent months, and not remained steady as expected in July. A balance of +21% of respondents reported an increase in output over the past four months, with a similar proportion, +24%, expecting output to rise over the next four months, in line with the rates of growth recorded in mid-1987.

- The proportion of firms operating below capacity has remained steady at 31% . While investment intentions have strengthened and 80% of firms report their capacity at least adequate to meet expected demand, there are signs that capacity constraints are now becoming a more significant problem. Fixed capacity as a constraint on output has risen from 26% in July to 29% in the present survey. But though this is now well above the April 1987 position and approaching the levels recorded in 1973, it is being encountered at a much higher rate of capacity utilisation. Skilled labour as a constraint on output has also increased in importance since July: it is now cited by 28% of firms.

- For the fifth survey in succession, manufacturing employment continues to increase: a balance of +4% of companies report increases in their workforce over the past four months, indicating a slightly more moderate rate of growth than surveys earlier in the year. Job gains are expected by a balance of +4% of companies over coming months. The fastest rate of growth is indicated by smaller firms.

- Unit costs slowed over the past four months, slightly less than expected in July, but consistent with trends in raw material and fuel costs. The rate of increase in costs is now expected to pick up slightly. Factory gate prices rose a little more quickly than expected in July, and are now expected to pick up slightly in the coming months, following the tendency frequently indicated in previous October surveys.

- Optimism about exports has improved further since July. A balance of +7% in July compares with a +8% in the previous survey, although the rate of growth in export orders has slowed in the past four months. Export prices picked up slightly and are expected to increase by a greater proportion of companies over the next four months.

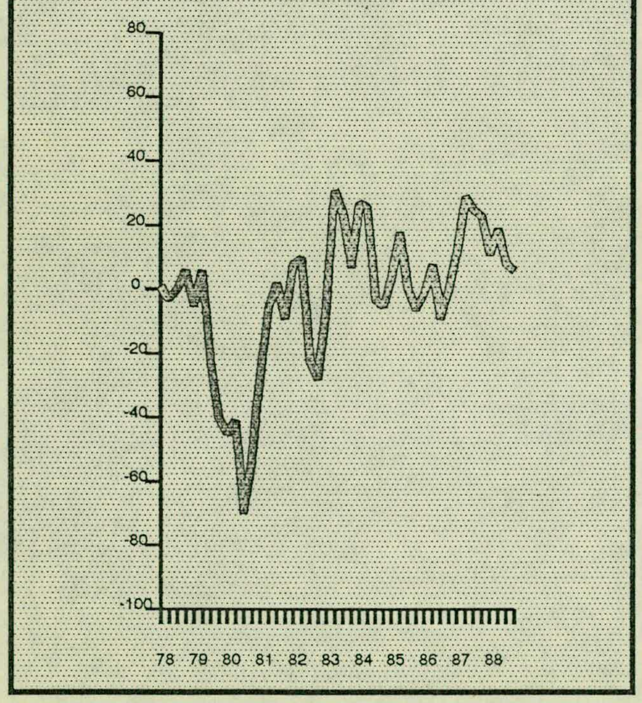
THE RESULTS

General business situation

	July 1988	Oct 1988
More optimistic (%)	20	20
Less optimistic (%)	12	14
Balance (%)	+8	+6

Confidence about prospects for industry remains good with a balance of +6% of respondents reporting that they are more optimistic about the general business situation than four months ago. The rising trend in optimism is less broadly based than in July. A strengthening of confidence is reported by 'electrical and instrument engineering', while 'chemicals' and 'metal manufacture' now indicate renewed confidence compared with the negative balances recorded in July. 'Food, drink and tobacco' and the engineering industries remain optimistic, constrasting with falls in confidence in 'metal products', other manufacturing' and 'motor vehicles and other transport equipment'. The textiles sector reports declining optimism for the fourth survey in succession.

Q1: ARE YOU MORE/LESS OPTIMISTIC ABOUT THE BUSINESS SITUATION IN YOUR INDUSTRY THAN YOU WERE 4 MONTHS AGO



Individual industries more optimistic than the previous survey include 'shipbuilding', 'electrical industrial goods' and 'contractors plant'. Renewed confidence is reported by 'non-ferrous metals', 'spinning and weaving' and 'leather and leather goods', reversing the downward trend in the previous survey. Sharp falls in confidence from the last survey are indicated by 'man-made fibres', 'aerospace and other vehicles', 'wool textiles' and 'hosiery and knitwear'. The largest firms, with over 5,000 employees, and the capital goods industries are particularly optimistic, contrasting with falls in confidence recorded by the intermediate goods industries and medium-sized firms, with 500 to 5,000 employees.

Orders, output and stocks

- **Total new orders**

	Oct 1988 Past 4 mths	Oct 1988 Next 4 mths
Up (%)	37	33
Down (%)	16	9
Balance (%)	+21	+24

The rate of growth of demand has slowed over the last four months, slightly more than expected in July. A balance of +21% of firms reported an upward trend in the volume of total new orders over the past four months. The forward-looking balance of +24% indicates that the trend growth in new orders in the fourth quarter will revert to the rate observed in the July survey. Nevertheless, total order books continue to be well above normal: a balance of +11% of respondents reported orders to be above normal, compared with +14% in April and July, but similar to a year ago. This remains the third highest quarterly balance since the question was first asked in April 1977.

The moderation in the growth of orders is reported in many, but by no means all, main sectors of industry. Demand growth has slowed particularly in 'mechanical engineering', 'motor vehicles and other transport equipment', 'all other manufacturing' and the capital goods industries, with the textiles sector reporting, on balance, a decline in orders for the second successive survey. Sectors indicating a significant pick up in orders include 'metal manufacture', 'electrical and instrument engineering', 'paper printing and publishing' and 'chemicals'. The largest firms, with over 5,000 employees, continue to experience more rapid demand growth than the small and medium-sized companies. The consumer goods industries report a high and stable rate of growth in demand for their products.

For individual industries, lower positive balances are now being widely reported, while a fall in demand is indicated in 'wool textiles', 'shipbuilding', 'metal-working machine tools' and 'aerospace and other vehicles'. 'Non-ferrous metals', 'man-made fibres', 'textile consumer goods' and 'pulp, paper and board' now report a sharp pick-up in orders, reversing the trend in the previous survey. 'Contractors plant', 'office machinery and data-processing equipment' and 'electrical and industrial plant' also indicate strong positive balances. Order books remain well above normal for many of the broad industrial sectors, particularly for 'chemicals', 'metal manufacture' and 'all other manufacturing'. Order books are reported, on balance, to be below normal in 'textiles', 'motor vehicles and other transport equipment' and 'mechanical engineering'.

Looking ahead, the trend in demand growth is expected to be upward in many sectors of industry. Those expecting a sharp pick-up include 'food, drink and tobacco', 'electrical and instrument engineering' and 'metal products' as well as capital goods industries. Textiles now also indicates an increase in demand, reversing the downward trend indicated by the previous two surveys.

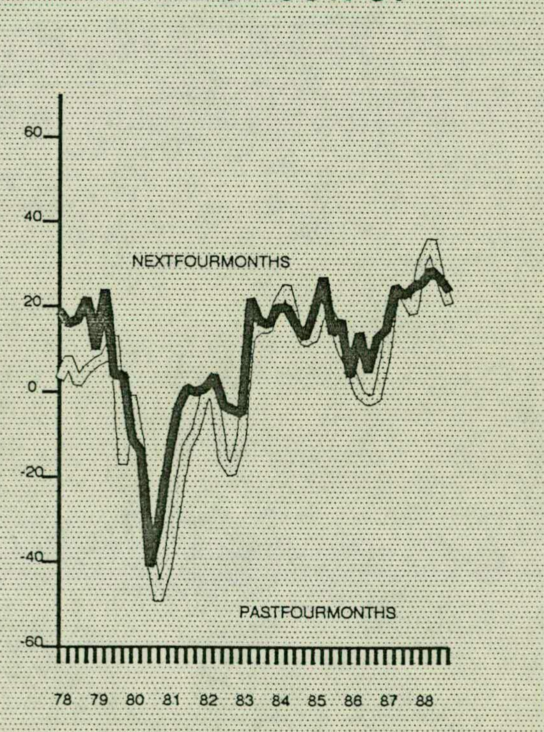
Demand growth is expected to slacken over the rest of 1988 in several sectors, including 'chemicals', 'metal manufacture' and 'mechanical engineering'. Some moderation is also expected, though from a higher rate of growth in demand, in the consumer goods industries and the largest firms. Individual industries expecting a significant strengthening in demand in the final quarter of 1988 include 'instrument engineering', 'drink and tobacco', 'rubber products', 'metal goods n.e.s.' and also metal working machine tools'. Demand growth is expected to moderate in 'extraction of minerals and metalliferous ores' and 'ferrous metals', while reduced demand is expected in the 'wool textiles', 'footwear' and 'agricultural machinery' industries.

- **Volume of output**

	Oct 1988 Past 4 mths	Oct 1988 Next 4 mths
Up (%)	33	31
Down (%)	12	7
Balance (%)	+21	+24

Broadly in line with demand, the rate of growth in the volume of output, has slowed and not remained steady as expected in July. A balance of +21% of respondents report an increase in output over the past four months, compared with +27% in July. The forward looking balance of +24% suggests that manufacturing output may rise at a rate not very different from the present trend, and in line with that reported in the middle of 1987. These results are consistent with the trends in new orders. According to the CSO, manufacturing output is currently expanding at annual rate of about 7% and a broadly comparable rate of increase may be expected towards the end of the year.

Q8: WHAT IS THE TREND IN THE VOLUME OF OUTPUT



The slackening in output growth is indicated by all sizes of firms most industrial sectors and by the intermediate and consumer goods industries. The moderation of growth has been particularly significant in 'metal manufacture', 'metal products', 'food, drink and tobacco', and also for the largest firms with over 5000 employees and the consumer goods industries, while the motor vehicles and other transport equipment sector reports a fall in output. Growth has picked up, however, in 'electrical and instrument engineering', the capital goods industries, and also in 'textiles'. For individual industries, the rate of growth in output has eased in 'ferrous metals', and 'pharmaceuticals and consumer chemicals'. Falls in output are reported, however, in several industries including 'man-made fibres', 'metal working machine tools', shipbuilding', aerospace and other vehicles', and 'spinning and weaving'. A few industries have experienced a sharp pick up in output, including 'glass and ceramics', 'textile consumer goods', electrical and electronic consumer goods, and 'electrical industrial goods'.

Over the next four months, output growth is expected to pick up in the capital and consumer goods industries, medium sized firms employing between 500 and 5000 people, and many though not all industrial sectors including 'engineering', 'metal products', 'paper, printing and publishing' and 'motor vehicles and other transport equipment'. Growth is expected to weaken, however, in 'metal manufacture', 'all other manufacturing', but to remain broadly stable in 'chemicals', the intermediate goods industries, and in firms with under 500 employees.

- **Stocks of finished goods**

	Oct 1988	Oct 1988
	Past 4 mths	Next 4 mths
Up (%)	13	13
Down (%)	21	18
Balance (%)	-8	-5

Over the past four months, the downward trend in the volume of stocks of finished goods has resumed in line with July's expectations and contrasting with the modest rate of restocking recorded earlier in the year. Over the next four months, a balance of -5% of respondents expect the downward trend to continue at rates similer to those recorded last year. Medium sized firms employing between 500 and 5000 people anticipate a strong rate of destocking over the coming months, compared with the smallest and largest companies which expect the stocks position to be stable.

The slowing in the growth of output in relation to demand, has resulted in a more stable raw materials and brought in supplies position, with a balance of +1% reported for the past four months. The forward looking balance of -1% suggests that the intake of raw materials and semi-manufacturers is expected to fall slightly behind the rate of growth in output. For the sixth consecutive survey, the trend in the volume of work in progress has continued to be upward, in line with the growth in output. Looking ahead, however, a balance of -6% of respondents expect their stocks to fall in the closing months of this year, although output expectations are firmer.

- **Constraints on output**

A shortage of orders or sales, although remaining the most cited constraint to output, is reported by only 56% of respondents in the present survey, compared with 68% and 60% respectively in April and July. This is the lowest balance of the 1980's and reflects the sustained growth in demand.

Plant capacity remains the second most frequently cited constraint to output over the next four months. The percentage of respondents citing this factor, having risen from 26% in July to 29% in the present survey is now well above the level in April 1987 and close to the 1973 level albeit at much higher rates of capacity utilisation. The tightening of this constraint is particularly significant in the intermediate goods industries, the largest firms with over 5000 employees, 'chemicals', and 'all other manufacturing, while it has eased in 'paper, printing and publishing' and 'metal manufacture'.

The shortage of skilled labour is cited, by 28% of respondents, as the third most important factor limiting output, compared with 22% in the July survey. The largest firms with over 5000 employees, the capital goods industries, and the engineering industries expect a worsening situation over the next four months, although medium sized firms with 500 to 5000 employees expect the position to ease. Industrial sectors experiencing significant labour shortages include 'textiles', 'electrical and instrument engineering', 'mechanical engineering' and 'paper, printing and publishing', although for 'chemicals' and 'food, drink and tobacco', this remains a minor constraint.

● Fixed capacity

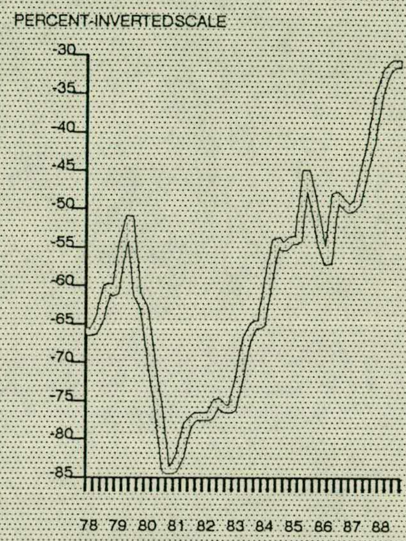
	July 1988	Oct 1988
More than adequate (%)	21	21
Less than adequate (%)	18	20
Balance (%)	+3	+1

Fixed capacity continues to remain, on balance, adequate to meet expected demand, although the degree of spare capacity has been stable between the July and October surveys. The balance of respondents reporting present fixed capacity to be more than adequate has fallen from 12% in April to +1% in the current survey, the lowest balance since the question was first asked in October 1979. Nonetheless, 80% of respondents still indicate fixed capacity to be at least adequate to cater for future demand.

Such fixed capacity constraints that do exist affect several but by no means all sectors of industry. Sectors reporting fixed capacity to be less than adequate include 'chemicals' : a balance of -26% in October compares with -16% in July. 'Paper, printing and publishing', 'all other manufacturing', the intermediate goods industries and smaller firms with 200 and under 500 employees also report capacity on balance to be inadequate. 'Food, drink and tobacco', 'motor vehicles and other transport equipment', the smallest and the larget firms expect fixed capacity to be adequate.

The proportion of respondents reporting their present level of output to be below capacity, has remained steady at 31%, the lowest since the question was first asked in 1958. The rise in the proportion of firms operating at capacity, particularly significant since January 1987, highlights the continued need for investment in industrial capacity, particularly when taken with the sustained growth in demand and output. Individual industries reporting very high levels of capacity utilisation include 'constructional steelwork', 'agricultural machinery', 'instrument engineering', 'industrial chemicals' and 'pharmaceuticals and consumer chemicals.'

Q4: IS YOUR PRESENT LEVEL OF OUTPUT BELOW CAPACITY (ie. ARE YOU WORKING BELOW A SATISFACTORY RATE OF OPERATION)



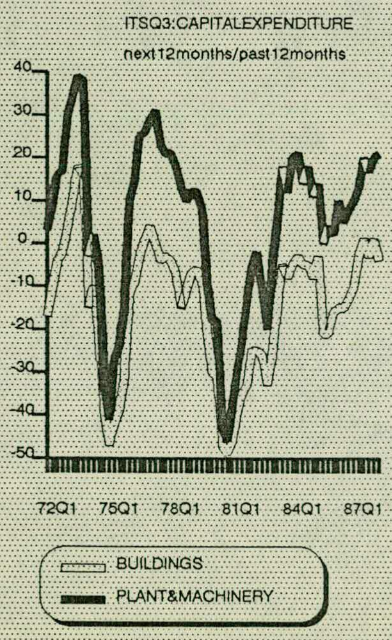
● Capital expenditure - plant and machinery

	July 1988	Oct 1988
	Next 12 mths	Next 12 mths
More (%)	39	40
Less (%)	20	19
Balance (%)	+19	+21

Investment intentions in plant and machinery, twelve months ahead, have strengthened since July. This indicates that strong growth in manufacturing investment can be expected to continue. A balance of +21% of respondents, compared with +19% in July and +32% in April, expect to authorise more capital expenditure in plant and machinery over the next twelve months than in the past twelve months. The responses indicate that investment will be more strongly concentrated in the largest firms, with over 5,000 employees, and the intermediate goods industries. Although all sectors of industry, except 'paper, printing and publishing', report positive balances, 'chemicals', 'all other manufacturing', 'metal manufacture' and 'electrical and instrument engineering' expect to increase their investment most strongly. Investment intentions in buildings show a small, negative balance for the second consecutive survey, suggesting a steady rate of replacement, rather than expansion. Increasing efficiency continues to be the most frequently cited reason for authorisation of capital expenditure. It is cited by 73% of all firms compared with 76% in the last survey. Industry, nevertheless, continues to recognise the need to provide adequate capacity to cater for the sustained expansion in output. The percentage of respondents citing the expansion of capacity as the main reason for capital expenditure, has risen from 39% to 42% since the July survey. This response is the same as in January and represents the highest result since this question was first asked in October 1979. Replacement is cited by 43% of respondents compared with 48% in July.

The most important factor likely to limit capital expenditure authorisation remains an inadequate net return on the proposed investment, cited by 44% of all respondents, compared with 48% in July and the same as in April. Uncertainty about demand is cited by only 30% of respondents compared with 31% and 33% respectively in April and July. It is the lowest percentage result since this question was first asked in October 1979 and provides further evidence of business confidence in the sustainability of the growth in demand, despite currency instability. A shortage of internal finance is the third most important constraint on investment, cited by 18% of respondents. With the recent upward movement in interest rates, the proportion of firms citing the cost of finance as a significant constraint has risen sharply from 7% in July to 14% in the present survey, and is the highest result since July 1985. A shortage of labour is also cited by 12% of respondents, compared with 7% in the previous survey and is similar to the position in July 1987. It remains, however, a minor constraint on investment.

Q3: DO YOU EXPECT TO AUTHORISE MORE/LESS CAPITAL EXPENDITURE IN THE NEXT 12 MONTHS THAN IN THE PAST 12 MONTHS ON:-



Employment

	Oct 1988	Oct 1988
	Past 4 mths	Next 4 mths
Up (%)	26	20
Same (%)	22	16
Down (%)	+4	+4

The trend in manufacturing employment continues to be upward; the rate of increase, however, has moderated in recent months, although it had been expected to remain steady. Nevertheless, this is the fifth consecutive survey to indicate an improved employment position. The smaller firms, with under 500 employees continue to experience the more rapid employment growth. The largest firms, employing over 5000 people, have shed jobs at a much faster rate over the past four months, despite July's expectations of stable employment position.

Over the past four months, employment growth is indicated, in most, though not all sectors, of industry. The intermediate goods industries report employment increases, albeit at a slower rate, while the capital and consumer goods industries have recorded small negative balances. Sectors reporting jobs growth, at a slower rate than previously, include 'chemicals', 'mechanical engineering', 'textiles' and 'all other manufacturing'. Significant reductions continue to take place in 'food, drink and tobacco', while the motor vehicles and other transport equipment' sector now also reports a negative balance. A pick up in employment is indicated by 'paper, printing and publishing' and 'electrical and instrument engineering', while the 'metal manufacture' sector now reports a broadly stable employment position, having recorded employment losses over the past year.

Looking ahead, a balance of +4% of respondents expect further increases in employment, but these remain concentrated among the smaller firms with under 500 employees. The largest firms, with over 5000 employees, now expect job losses to occur at a slower rate than in recent months. The capital and consumer goods industries also expect growth to resume, but a fall in employment is indicated in the 'food, drink and tobacco', 'textiles' and 'paper, printing and publishing' sectors.

Costs and prices

● Costs

	Oct 1988 Past 4 mths	Oct 1988 Next 4 mths
Up (%)	33	33
Down (%)	11	8
Balance (%)	+22	+25

The growth in average costs per unit of output has slowed in the third quarter of this year. The balance of firms reporting an upward trend over the past four months, at 22%, compares with +24% in July, but is the same as a year ago. The slow down in unit costs, though slightly less than expected in the July survey, is consistent with the slackening in the third quarter rise on a seasonally adjusted basis, in the costs of materials and fuels purchased by manufacturing industry. Unit labour costs increased only slightly, helped by the rise of 7.5% in productivity in the three months ending in August, compared with a year earlier. The slowing in costs is widely based with only the 'chemicals', 'other manufacturing' and 'motor vehicles and other transport equipment' sectors, the intermediate goods industries and firms with between 200 and 5000 employees, reporting a pick up in costs. Costs are rising rather more slowly in some broad sectors of industry including 'metal manufacture', 'food, drink and tobacco', and 'metal products', and the capital goods industries, and the largest firms with over 5000 employees. The 'electrical and instrument engineering' sector, however, reports an absolute fall in costs over thee past four months.

The prospects for the remainder of the year are for a slight pick up in the present rate of growth in costs comparable to the position recorded in July. Sectors of industry expecting above average rises in costs include 'electrical and instrument engineering', 'chemicals', 'textiles', as well as the consumer goods industries and the largest firms with over 5000 employees. Costs are expected, however, to slow significantly in the 'metal manufacture', 'other manufacturing', and 'food, drink and tobacco' sectors and also in the intermediate goods industries.

● Prices

	Oct 1988 Past 4 mths	Oct 1988 Next 4 mths
Up (%)	29	34
Down (%)	3	2
Balance (%)	+26	+32

In spite of some slowing in costs in the past four months, average prices at which domestic orders are booked have risen a little more quickly than was expected in July. A balance of +26% of respondents report a rising trend in prices, compared with +21% in July, but below the +28% recorded in the April survey. The upward trend in prices is reflected in all industrial sectors and sizes of firm.

Main sectors reporting an above average pick up in the rate of price increases include 'motor vehicles and other transport equipment', 'all other manufacturing', 'chemicals', and 'food, drink and tobacco' and also firms with over 500 employees. Lower rates of price increases are, however, indicated by 'electrical and instrument engineering', 'mechanical engineering', 'metal products', and by smaller firms employing between 200 and 500 people.

According to government statistics, output prices grew by 5% on a year on year basis in September. The outlook is for a slight pick-up in factory gate prices over the coming months, following broadly the tendency frequently observed in previous October surveys. A balance of +32% of respondents expect prices to rise over the next four months, similer to expectations in April.

Exports

• Export prospects

	July 1988	Oct 1988
More optimistic (%)	25	21
Less optimistic (%)	17	14
Balance (%)	+8	+7

Business optimism about export prospects for the coming twelve months has improved further since the July survey. The balance of respondents reporting an increase in optimism, at +7%, compares with +8% in July and the negative balances recorded earlier in the year, although remaining below last October's strong positive balance. The upward trend in optimism is widespread throughout the sectors of industry but is by no means uniform. A significant upturn in confidence, compared to four months ago, is reported in 'food, drink and tobacco' and 'other manufacturing'. 'Metal products' and the intermediate goods industries also now indicate renewed optimism, after registering falls in confidence in the July survey. Sharp falls in confidence compared to four months ago, are, however, reported by the 'textiles' and 'motor vehicles and 'other transport equipment sectors', the consumer goods industries and by the largest firms with over 5000 employees.

• New export orders

	Oct 1988 Past 4 mths	Oct 1988 Next 4 mths
Up (%)	28	29
Down (%)	19	12
Balance (%)	+9	+17

The rate of increase in new export orders has slowed in the third quarter, despite July's expectations of a steady rate of growth. Growth has slackened significantly for the capital goods industries and the 'electrical and instrument engineering' sector, with 'motor vehicles and other transport equipment', 'paper, printing and publishing', 'other manufacturing', 'mechanical engineering' and 'textiles' reporting falls in export orders. Sectors reporting a pick up in orders over the past four months, however, include 'metal products', 'food, drink and tobacco', 'chemicals', 'metal manufacture' and the intermediate goods industries. The balance of respondents expecting an upward trend over the next four months, at +17%, indicates a faster rate of growth in the final quarter. The capital and intermediate goods industries and smaller firms with under 500 employees expect a pick up in export orders, but the largest firms and the consumer goods industries expect a sharp slowdown. The 'electrical and instrument engineering' sectors expect export orders to pick up further, while 'textiles', 'other manufacturing', 'paper, printing and publishing', and 'motor vehicles and other transport equipment', expect growth to resume after the falls registered in the past four months. 'Chemicals' and 'metal manufacture', however, expect export orders to decline in the next four months, having picked up strongly in the past four.

• Export prices

	Oct 1988 Past 4 mths	Oct 1988 Next 4 mths
Up (%)	16	27
Down (%)	6	5
Balance (%)	+10	+22

The rate of increase in the average prices at which export orders are booked picked up slightly in the third quarter, to rates recorded earlier in the year, despite July's expectations of a stable rate of growth. The largest firms with over 5000 employees, the intermediate and consumer goods industries, 'textiles', 'metal manufacture' and 'chemicals' indicate a notable pick up in the rate of price increases, while the smaller firms with under 500 employees, 'other manufacturing', 'metal products' report a slow down. Low rate of price increases are reported by the engineering industries, with a fall in prices recorded, on balance, by 'food, drink and tobacco'.

Export prices are expected to rise in the final quarter, at rates somewhat faster than those reported over the past four months but similar to expectations last October. Sectors expecting a significant pick up in prices include 'chemicals', e engineering industries, 'paper, printing and publishing', smaller firms with under 500 employees, and the capital goods industries. A moderation of prices growth is indicated, however, 'metal manufacture', 'motor vehicles and other transport equipment' and by the largest firms over the coming months.

Prices remain the most important factor likely to limit the ability to obtain export orders, being cited by 61% of respondents, the same as in July. Delivery dates, are cited by 21% of respondents, as against only 14% in July and are now the second most important factor. Political or economic conditions abroad have declined sharply in significance cited by only 14% of respondents compared with 24% and 18% respectively in April and July.

The Industrial Trends Survey, introduced in 1958, is conducted quarterly. In addition, the CBI carries out an abbreviated Enquiry in the intervening months. The CBI provides results for 50 individual industries, which have been defined to reflect the 1980 SIC classification, and disaggregated results are available on subscription. Contact the CBI's Economic Trends Department (01-379-7400) for more details.

001/2981

Jonathan

CHIEF SECRETARY TO THE TREASURY

FROM: S I M KOSKY
DATE: 13 September 1988

MR GILHOOLY
MR WALLER

cc:
PS/Chancellor
PS/Financial Secretary
Mr Anson
Mr Monck
Mr Scholar
Mr Burgner
Mr Culpin
Mr Hudson
Mr Call

CBI's 1992 INITIATIVE

... The Chief Secretary has received the attached letter from Alan Lewis, the Chairman of the CBI's 1992 Initiative suggesting a meeting to discuss the possibility of his addressing their seminar on Tax Planning.

2 The Chief Secretary feels that it might be more appropriate for the Financial Secretary, but would welcome your views before reaching a final decision.

S I M KOSKY

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

Director-General
John M M Banham

Secretary
Maurice Hunt

CBI

The Rt Hon John Major MP
Chief Secretary to The Treasury
H M Treasury
Parliament Street
LONDON SW1P 3AG

8th September 1988

Dear Mr Major,

The Director General of the CBI, John Banham, has asked me to chair and direct the CBI's 1992 Initiative. We believe this unique business resource on 1992 will bring a wealth of information to businesses throughout Great Britain.

The Department of Industry's 1992 Single Market advertising campaign has been extremely successful in creating awareness amongst British companies of the significance of 1992 but the CBI now aims to build on that success by providing a resource on specific subjects of the highest quality.

This Initiative has been entirely funded by the private sector and within the space of only 2 months, a total of £1 million has been raised to finance the whole project. We have also secured the commitment of 10 leading companies to contribute their expertise to 13 seminars which will run through 1989, one in each region, making a total of 130 seminars in all. Each company will deal with one aspect of the single market about which they have a specialist knowledge.

A series of books, one on each subject, will also be available. We believe these will be used as a major reference on the most important issues addressed.

I believe the CBI 1992 Initiative is a unique opportunity that should be offered to British business to secure their success in the single market. I would, therefore, welcome an early opportunity to discuss with you the possibility of your participating as a speaker at the launch of our seminar on Tax Planning.

I will telephone your private office to arrange a suitable date for a meeting.

Yours sincerely

Alan J Lewis
Chairman, CBI Initiative 1992

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CONFIDENTIAL
until 0030 hrs
on Monday 26 September

FROM: ROBERT LIND
DATE: 22 SEPTEMBER 1988

CHANCELLOR

cc Sir T Burns
Mr Sedgwick
Mr Gieve
Mr Hibberd
Mr Patterson

CBI MONTHLY TRENDS ENQUIRY: SEPTEMBER

We have just received this month's delayed CBI survey results, to be published at 0030 hrs on Monday 26 September. The results are shown below, along with the CSO's estimates of seasonally adjusted figures (which are NOT PUBLISHED).

	PUBLISHED			SEASONALLY ADJUSTED (NOT PUBLISHED)		
	Jul	Aug	Sep	Jul	Aug	Sep
Total order books	+14	+17	+15	+15	+18	+17
Export order books	+ 6	- 2	+ 2	+ 4	+ 3	+ 8
Stocks	+ 1	0	0			
Volume of output	+27	+33	+30	+33	+37	+33
Average domestic prices	+23	+22	+26	+28	+27	+33

2. The results continue to show strong output and order books. The export order book series has risen in September, and the seasonally adjusted balance is now back to the high levels seen in the second half of 1987. The prices series has risen, on both an unadjusted and seasonally adjusted basis, and the latter is now at its highest level since early 1985.

Peter Patterson

pp R LIND

pp/docs/26.08.88

CONFIDENTIAL
until 00.30 on Monday 26 September 1988
then UNCLASSIFIED

bf 27/9

FROM: ROBERT LIND
DATE: 23 SEPTEMBER 1988

1. **MR HIBBERD** for Hibberd 23/9

2. **CHANCELLOR** (+ 1 for No.10)

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Scholar
Mr Odling-Smee
Mr Sedgwick
Mr Gieve
Miss O'Mara
Mr Pickford
Mr Bush
Mr Darlington
Mr Dyer
Mr Hudson
Mr Owen
Mr Price
Ms Turk
Mr Cropper
Mr Tyrie
Mr Call
HB/003

Tony D
pl
minute

CBI MONTHLY TRENDS ENQUIRY: SEPTEMBER 1988

The CBI's latest Monthly Enquiry is to be released at <u>00.30 on Monday 26 September</u>. Publication of the results has been delayed from 19 September because of the postal strike. The Enquiry was conducted between 26 August and 14 September, covering 1295 respondents. This is smaller than the usual sample size, but the CBI say that the Enquiry was relatively unaffected by the postal dispute.

<u>Enquiry results</u>

2. The Monthly Enquiry into manufacturing asks only five of the questions that appear 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.

3. Full results are given in the attached sheet.In summary, they show the balances on the total order book and output series easing back, but still at a high level. Export order books have also picked up this month. The expected rate of growth of output prices has risen markedly since August. Seasonally adjusted figures, produced by the CSO but **NOT PUBLISHED**, are also shown in the table. [Note that there has been a small amendment to the output figure from that circulated (not to all) yesterday.]

	PUBLISHED			**SEASONALLY ADJUSTED: (NOT PUBLISHED)**		
	July	**Aug**	**Sept**	**July**	**Aug**	**Sept**
Total order books	+14	+17	+15	+15	+18	+17
Export order books	+ 6	- 2	+ 2	+ 4	+ 3	+ 8
Stocks	+ 1	0	0			
Volume of output	+27	+33	+31	+33	+37	+34
Average domestic prices	+23	+22	+26	+28	+27	+33

Points to Note

4. The results of this month's enquiry show a healthy growth of export demand, but a slight easing in total demand and output. The response to the question on export order books rose in September on both the adjusted and unadjusted series. The balances remain at historically high levels; [the seasonally adjusted series is now back to the high levels seen in the second half of 1987 and early 1988]. The balance on the total order books and volume of output questions both fell back a little between August and September. This is no more than normal monthly variation, and both series continue at very high levels. [Using the unpublished , seasonally adjusted series, both balances are close to their highest levels since 1977]. The CBI expect manufacturing output "to grow at around the same pace as has been indicated in recent months".

5. The prices series has risen, on both an unadjusted and seasonally adjusted basis, and the latter is now at its highest since early 1985.

Line to take:

- Enquiry results confirm underlying strength of industry. Demand for manufactures remains buoyant, reflecting improvements in supply side performance which are permanent.

- CBI outlook on prices gloomy, but Chancellor reaffirmed Government's commitment on inflation with recent tightening of monetary policy.

Robert Lind

ROBERT LIND

CBI Monthly Trends Enquiry

September 1988

RESULTS

Manufacturing Industry: 1295 **respondents**

Conducted between 26 August and 14 September 1988

The figures are percentages based on a weighted sample.

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

	Above Normal	Normal	Below Normal	N/A
(1) a. Your present total order book is	29	57	14	+
b. Your present export order book is	23	55	21	1

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

	More than adequate	Adequate	Less than adequate	N/A
(2) Your present stocks of finished goods are	13	60	13	14

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

	Up	Same	Down	N/A
(3) Volume of output	40	51	9	+
(4) Average prices at which domestic orders are booked.	29	68	3	+

Percentage Balance

		Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
1a	Total Order Book	+10	+13	+18	+20	+20	+20	+14	+21	+13	+14	+17	+15
b	Export Order Book	+ 1	+11	+ 4	+ 5	+12	+11	+ 2	+ 4	+ 2	+ 6	- 2	+ 2
2	Stocks	- 7	- 5	+ 2	- 1	- 2	+ 1	+ 2	- 3	- 1	+ 1	0	0
3	Volume of Output	+25	+36	+31	+26	+36	+37	+29	+34	+30	+27	+33	+31
4	Average Prices	+23	+28	+31	+39	+33	+25	+31	+18	+21	+23	+22	+26

COMMENT

Demand for manufactures in the UK remains buoyant but is slightly less strong than in August. A balance of +15% of respondents report total order books to be above normal, higher than the levels seen throughout almost all of last year, but less buoyant than earlier this year.

Export orders picked up slightly. The balance of +2% of firms which regard export order books as being above normal is in line with the small positive balance seen between April and July and represents a recovery from the position in August.

Stocks remain, on balance, adequate to meet demand. The proportion of companies, at 13%, whose stocks of finished goods are considered to be more than adequate is exactly matched by those which report the stocks situation as being less than adequate, giving a zero balance.

Manufacturing output is expected to grow at around the same pace as has been indicated in recent months. A balance of +31% of firms expect to increase output over the next four months - a similar result to those recorded for each of the previous five months.

Some slight pick-up in output-price inflation is expected over the coming months. A balance of +26% of respondents expect average prices to increase over the next four months, compared to a balance of +22% in August.

chex.ps/j/22 UNCLASSIFIED

FROM: A A DIGHT
DATE: 30 September 1988

MR LIND

CBI MONTHLY TRENDS ENQUIRY: SEPTEMBER 1988

The Chancellor has seen and was grateful for your minute of 23 September.

A A Dight

ANTHONY DIGHT

RESTRICTED

FROM: EDNA YOUNG

DATE: 11 October 1988

1. MR MONCK

2. CHANCELLOR

I agree that at least one Treasury Minister should do a launch. The best bet, if he is willing and Mr Parkinson agrees, might be for the Paymaster General to do Public Procurement.

NM 11 Oct.

Ch/ Agree with Mr Monck's recommendation? (NB para 9, below).

JF 11/10

Yes. Definitely NO for me, & I can't imagine that CST will want to either, tho' I would be happy for him to do Single Market pre-Budget. PMG Wales.

cc Chief Secretary
Financial Secretary
Paymaster General
Sir P Middleton
Mr Anson
Mr Lankester
Mr Scholar
Mr Burgner
Mr R I G Allen
Mr Culpin
Mr Burr
Mr Mortimer
Mr Gieve
Mr MacPherson
Miss Simpson
Mr Buckler
Mr Hudson
Mr Tyrie
Mr Call

CBI'S 1992 INITIATIVE

Mr Alan Lewis, Chairman of the CBI's 1992 Initiative, wrote to you on 8 September regarding a series of 13 seminars (details at Annex A), sponsored by 10 leading companies, to be held during 1989. Mr Lewis has also written in similar terms to the Chief Secretary. The purpose of this minute is to seek your views, and those of the Chief Secretary and Paymaster General, on whether or not you wish to take part in this initiative.

2. The initiative is the first major piece of work undertaken by the CBI relating to 1992 and the Single Market. They are anxious that it should remain confidential until they launch it at their conference at the end of the month.

3. The CBI would ideally like each seminar to be launched by a Cabinet Minister in London followed by further participation by the Cabinet Minister and two junior Ministers. Lord Young has already agreed to launch the first seminar once the seminars are taken to the regions ~~regions~~. The timing of these seminars causes particular problems for the Treasury since you and the Chief Secretary have been invited to speak in March and February respectively. The DTI have made it clear to the CBI that this period constitutes 'Budget Purdah', but we have yet to hear whether the CBI are willing (or able at this stage) to alter their dates.

The subjects

4. You have been asked to speak on 'Finance for Growth'. DTI believe that the emphasis is likely to be on financial services and the liberalisation of capital movements. If the CBI were to arrange it for post-Budget, it might be more attractive to the Treasury.

5. The Chief Secretary has been invited to speak on 'Strategic Corporate Tax Planning'. Even if this seminar were to be taken after the Budget, FP are concerned that the aim of the seminar will be to discuss tax **avoidance**. DTI think that this is not the aim, but that the seminar is likely to concentrate on issues such as EC tax harmonisation (although this is not a great deal better).

6. The CBI list indicates that the Secretary of State for Energy will be invited to speak at the seminar on 'Marketing to the Public Sector and Industry'. (Mr Parkinson has so far received only an unspecific invitation.) Since the Treasury leads on public procurement, we could offer a presentation at the launch of this seminar if the Paymaster General wished to do so. We understand, however, that Mr Parkinson is likely to be interested only in the London launch.

7. It is not clear exactly how any of these issues will be handled. According to the CBI, only the sponsor companies know what is planned. The DTI therefore hope to arrange an early meeting involving Treasury officials, the CBI and the sponsor companies (in these cases, Price Waterhouse, National Westminster Bank and Rank Xerox) to find out what they have in mind. It would be helpful to have your views before that meeting is held. You should be aware that the DTI is anxious to ensure substantial Ministerial participation, and may invite FCO Ministers to fill gaps.

Recommendation

8. Given the importance of ensuring that industry is fully geared up for 1992, it would be advantageous for Ministers, including Treasury Ministers, to be present at these seminars, on the

assumption that the CBI and sponsor companies steer clear of contentious issues.

9. We understand that Mr Lewis may be present at the Party Conference to lobby Ministers. If you are approached, we recommend that you should be non-committal until you decide whether or not you wish to take part in this initiative.

Edna Young

EDNA YOUNG

ANNEX A

CBI INITIATIVE 1992

SUBJECT	FOUNDER MEMBER	GOVERNMENT DEPARTMENT
January 12 - February 6		
MERGERS AND ACQUISITIONS: Strategies for growth	Hill Samuel & Co Ltd	Lord Young
February 7 - March 3		
TAX: Strategic Corporate Tax Planning	Price Waterhouse	Chief Secretary Treasury
March 7 - March 31		
FINANCE FOR GROWTH	National Westminster Bank Plc	The Chancellor
April 3 - April 27		
COMPANY LAW AND COMPETITION POLICY	S J Berwin & Co	Leon Brittan plus DTI
May 4 - June 2		
MARKETING: Communicating with the Consumer	D'arcy Masius Benton & Bowles	P Walker
June 5 - June 27		
INFORMATION: The Technology to compete	P A Consulting Group	Tony Newton/DTI
June 28 - July 20		
MARKETING TO THE PUBLIC SECTOR & INDUSTRY	Rank Xerox Ltd	Cecil Parkinson
September 7 - October 3		
DISTRIBUTION	TNT Express (UK) Ltd	Paul Channon
October 4 - November 3		
PROPERTY	Edward Erdman Surveyors	Nicholas Ridley
November 7 - December 7		
EMPLOYMENT: The Human Resource	Blue Arrow Plc	Norman Fowler

30.9.88

chex.ps/jt/20 RESTRICTED

FROM: J M G TAYLOR
DATE: 14 October 1988

MS EDNA YOUNG

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Mr Anson
Mr Monck
Mr Lankester
Mr Scholar
Mr Burgner
Mr R I G Allen
Mr Culpin
Mr Burr
Mr Mortimer
Mr Gieve
Mr Macpherson
Miss J C Simpson
Mr Buckler
Mr Hudson
Mr Tyrie
Mr Call

CBI's 1992 INITIATIVE

The Chancellor has seen your minute of 11 October.

2. He does not want to take part in this initiative himself. He agrees, however, that it would be desirable for at least one Treasury Minister to do a launch. He would, therefore, be most grateful if the Paymaster General were willing and able to make a presentation on public procurement. If the Chief Secretary wanted to participate in a launch after the Budget - and if the CBI were prepared to alter their dates - he would also be content with that.

J M G TAYLOR

BLW

bf next TB Edat.

PERSONAL AND CONFIDENTIAL

FROM: SIR T BURNS
DATE: 21 October 1988

CHANCELLOR

cc Sir P Middleton
Mr Monck
Mr Scholar
Mr Sedgwick
Mr Hibberd
Mr O'Donnell
Mr Pickford
Mr Patterson

Thanks. ② TB Situation

CBI OCTOBER TRENDS SURVEY

Andrew Sentance of the Economic Trends Group of the CBI came to see me this morning to discuss the attached October Trends Survey and yesterday's Economic Situation Committee meeting.

2. The CBI have been pleasantly surprised that higher interests have not had more of an adverse impact on business optimism and investment intentions. They think there are some signs of slower output growth but cannot tell whether this is due to slower demand growth or pressures on capacity. He conceded that the results tended to support our view of the strength of the economy and need for higher interest rates. He inferred that the CBI may be less vocal on this score providing there are no further increases. Even so there was worry expressed from some sectors particularly exposed to international competition. If it turned out that demand continued to grow too fast they would prefer higher VAT to yet higher interest rates. In these circumstances there is also a lobby for restricting tax reliefs for housing and - surprise, surprise - even some support for credit controls.

3. I am struck by the number of disturbing signs of capacity pressure. Although the number of firms working below capacity has

not fallen (it is already at an all-time record low) the number reporting plant capacity as a factor likely to limit output has risen sharply (and almost up to the 1973 level). The numbers reporting skilled labour as a factor have also risen although they are still a long way below the 1973 level. Another striking difference between these figures and 1973 is the low number quoting materials or components shortages as factors limiting output. I presume this largely reflects the increased openness of the economy and the extent to which supplies are available from abroad. ~~It implies~~ that more of the excess demand will show up in the balance of payments and less in the inflation rate.

4. Even so the domestic inflation figures show a further increase and firms are expecting a sharp jump in export prices. As there seems to have been no increase in costs this suggests higher profit margins - possibly a further sign of excess demand.

5. EB will be putting their normal brief to you on Monday which will also include an indication of how some of the figures look after seasonal adjustment. As far as I can see most of the activity variables show little change between July and October.

TB

T BURNS

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

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

TOTAL TRADE		Jul 87	Oct 87	Jan 88	Apr 88	Jul 88	Oct 88
1 Optimism re business situation		+25	+23	+11	+19	+ 8	+ 6
3 12 month forecast of capital expenditure authorisations compared with previous 12 months on:							
a buildings		+ 1	- 3	+ 1	+ 6	- 6	- 4
b plant and machinery		+20	+17	+20	+32	+19	+21
4 Firms working below capacity[1]		45	41	35	32	31	+31
6 Numbers employed	- past 4 months	- 7	+ 4	+ 9	+ 8	+ 8	+ 4
	- next 4 months	- 3	+ 2	+ 8	+ 7	+ 9	+ 4
7 Volume of new orders	- past 4 months	+24	+25	+26	+31	+24	+21
	- next 4 months	+25	+25	+16	+23	+23	+24
8 Volume of output	- past 4 months	+23	+19	+31	+36	+27	+21
	- next 4 months	+23	+25	+26	+29	+27	+24
10a Stocks of raw materials	- past 4 months	+ 3	0	- 1	+ 2	+ 8	+ 1
	- next 4 months	- 3	- 8	- 1	0	- 5	- 1
b Stocks of work in progress	- past 4 months	+ 6	+ 7	+ 7	+ 1	+ 7	+ 5
	- next 4 months	+ 1	+ 1	- 3	- 3	- 3	- 6
c Stocks of finished goods	- past 4 months	- 4	- 7	- 8	+ 1	+ 5	- 8
	- next 4 months	- 5	- 8	- 2	- 4	- 7	- 5
11 Average unit costs	- past 4 months	+10	+22	+16	+10	+24	+22
	- next 4 months	+11	+19	+33	+23	+19	+25
12a Average domestic prices	- past 4 months	+16	+18	+18	+28	+21	+26
	- next 4 months	+19	+23	+39	+31	+23	+32
4 Four month forecast of factors likely to limit output[1]							
Orders or sales		69	65	67	68	60	56
Skilled labour		18	19	20	19	22	28
Other labour		3	5	4	3	6	4
Plant capacity		22	24	21	26	26	29
Credit or finance		3	3	3	2	2	2
Materials/components		6	8	8	9	9	9
Other		4	2	3	2	4	3

EXPORT TRADE

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

15 Four month forecast of factors likely to limit export orders[1]	Jul 87	Oct 87	Jan 88	Apr 88	Jul 88	Oct 88
Prices	60	56	56	70	61	61
Delivery dates	12	15	17	14	14	21
Credit or finance	13	6	11	8	5	7
Quota and licence	13	11	12	10	5	7
Political/economic conditions abroad	28	28	29	24	18	14
Other	9	13	10	10	13	16

1 Percentage Figures

CBI Monthly Trends Enquiry: Time Series of results from November 1987 to October 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.

			Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct
1a	Total Order Book	(Q.5a)*	+13	+18	+20	+20	+20	+14	+21	+13	+14	+17	+15	+11
1b	Export Order Book	(Q.5b)	+11	+ 4	+ 5	+12	+11	+ 2	+ 4	+ 2	+ 6	- 2	+ 2	- 2
2	Stocks	(Q.5c)	- 5	+ 2	- 1	- 2	+ 1	+ 2	- 3	- 1	+ 1	0	0	+ 1
3	Volume of Output	(Q.8)	+36	+31	+26	+36	+37	+29	+34	+30	+27	+33	+31	+24
4	Average Prices	(Q.12a)	+28	+31	+39	+33	+25	+31	+18	+21	+23	+22	+26	+32
									19	27	38	27	33	35

* 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'.

DTRENDS1P

eb.rl/docs/cbi

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FROM: **ROBERT LIND**
DATE: **24 OCTOBER 1988**

1. **MR PICKFORD** Sterling 24/10
2. **CHANCELLOR**

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

CBI QUARTERLY INDUSTRIAL TRENDS SURVEY - OCTOBER 1988

The CBI's latest quarterly Survey of manufacturing industry will be released at 11.30am on Tuesday 25 October. It was conducted between 23 September and 12 October when sterling averaged $1.69 and DM3.162. This compares with $1.70 and DM3.113 over the July Survey period. Sterling's effective exchange rate rose by 0.9 per cent between the two Survey periods.

2. The CBI are taking much the same optimistic line as they did in July: "business confidence remains good with growth of demand and output moderating in the four months to October". The Survey notes that "investment intentions have strengthened", but warns that "some capacity problems have appeared with exceptionally high rates of capacity utilisation". Both unit costs and prices are expected to pick up.

Survey results in summary

3. Business confidence remains good although, it is noted, "less broadly based than in July". Export optimism remains on an upward trend, but this is not uniform. 'Food, drink and tobacco' and 'other manufacturing' have been subject to a "significant upturn in confidence" but there have been sharp falls in 'textiles', 'motor vehicles' and 'other transport equipment sectors'.

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4. The balances on output and order books over the past 4 months have fallen a little since the July Survey. This slowdown in growth of output and demand is greater than was expected in July. Expectations of output and demand over the next 4 months have also fallen back slightly and may indicate that growth in demand is now levelling off.

5. The CBI acknowledge signs "that capacity constraints are becoming a more significant problem". The proportion of firms working below capacity has remained at the level it was in July; lower than at any time since the question was first asked in 1958. At the same time, the percentage of firms citing plant capacity as a factor likely to limit output has risen since July and is now close to the level in the 1973 peak. The proportion reporting skilled labour as a constraint has risen sharply, although it is still some way below the 1973 level. The CBI observe that such fixed capacity constraints as do exist affect some sectors (especially chemicals) but by no means all parts of industry. Furthermore, the CBI point out that, although the fixed capacity constraint is approaching the record level of 1973, it is doing so at a much higher rate of capacity utilisation.

6. In October, a positive balance of +21 per cent expect increased capital expenditure on plant and machinery over the next 12 months. This is little changed from the July figure, and a high positive balance by historical standards.

7. A balance of +22 per cent reported a downward trend in unit costs over the past 4 months, slightly less than expected in July, but consistent with trends in raw material and fuel costs over the period. The outlook for the next 4 months is for a slight pick-up in unit cost growth. Similarly, average domestic prices over the past 4 months rose a little more quickly than expected in July, and this is also likely to continue over the next four months. The forward-looking balances represent some of the highest seen since early 1985.

8. Optimism about exports has improved further since July, although the rate of growth in export orders has slowed in the past four months. Export prices picked up slightly and are expected to rise somewhat faster in the next four months, although no more so than was reported last October.

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Per cent balances (unless stated).					**Seasonally adjusted figures (NOT PUBLISHED)**			
	Jul	**Aug**	**Sep**	**Oct**	**Jul**	**Aug**	**Sep**	**Oct**
Business optimism	8			6	13			12
Export optimism	8			7	12			10
Order Books:								
Total	14	17	15	11	15	18	17	17
Export	6	-2	2	-2	4	3	8	5
Investment intentions	19			21	22			21
Firms working below capacity (1)	31			31	34			32
Factors likely to limit output: (1)								
- orders or sales	60			56	61			56
- skilled labour	22			28	21			27
- plant capacity	26			29	27			28
Stocks	1	0	0	1				
Trend over past 4 months:								
- volume of output	27			21	27			25
- employment	8			4	10			4
- unit costs	24			22	26			27
- domestic prices	21			26	22			30
Trend over next 4 months:								
- volume of output	27	33	31	24	33	37	34	26
- employment	9			4	12			6
- unit costs	19			25	26			29
- domestic prices	23	22	26	32	28	27	33	35

(1) percentage of respondents.

9. Other particular points to note are:-

(a) Optimism. For the eighth 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, after its falls in January and April, has continued its recovery at only a fraction below its July level.

(b) Order books. A balance of +11 per cent report total order books above normal. After taking seasonal factors into account this is in line with recent monthly enquiries. The balance of respondents reporting export order books above normal has fallen back. But after taking seasonal factors into account the balance remains in line with recent months. Both order book series continue at historically high levels.

(c) Investment intentions in plant and machinery also remain high. The balance of +21 per cent of firms now reporting an intention to increase capital expenditure over the next 12 months is up on July. The CBI believe that investment will be concentrated in the largest firms, with over 5,000 employees, and intermediate goods industries. The proportion of firms citing expansion of capacity as the main reason for investing has risen since July and is now back to the January level, which was the 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 56 per cent of firms citing this factor. However, this is the lowest proportion since 1974, reflecting the sustained in demand. The proportion of firms mentioning a shortage of skilled labour has risen substantially to 28 per cent; its highest level since 1974. The proportion citing plant capacity, also up from July, is at it highest level since 1973. Overall the balance of respondents reporting present fixed capacity to be more than adequate has fallen to +1; the lowest balance since the question was first published in October 1979. However, 80 per cent of respondents indicated that fixed capacity is still at least adequate to meet expected demand over the next twelve months.

Forecasts for manufacturing industry

10. 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 7.5 per cent in the third and fourth quarters of this year.

- manufacturing investment is expected to be 15.5 per cent higher on an annual basis in the second half of 1988, rising by 11 per cent in the first half of 1989.

- manufacturing employment to rise in 1988Q4, but will remain below the level at the beginning of the year.

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Economic Assessment

11. The CBI have prepared a short economic assessment, which considers the latest inflation figures and the implications of higher interest rates. The CBI note that "the retail price index can ... be a misleading guide to the underlying inflation rate". A better indicator, they believe, is manufacturing output inflation. This edged up a little in September to about 5 per cent, which can be attributed to rising input prices and unit labour costs and, most significantly, the strength of domestic demand. The effect of sterling's appreciation has been offset by the buoyancy of demand.

12. The CBI note two risks of employing interest rates to control inflation. First, consumer demand may not slow before capacity and skilled labour constraints bite on manufacturing industry. Second, they warn that investment rather than consumer demand may be hit, though they do say " investment intentions and business confidence do not appear, yet, to be adversely affected".

13. Despite these warnings, the CBI believe that inflation will peak in early 1989, and then fall to below 5 per cent by the end of the year.

Other articles

14. In the Economic Comment Neil Williams, a staff economist, considers the U.K.'s productivity performance. He acknowledges that the level of manufacturing productivity in the U.K. is still a considerable way behind its competitors but notes that the improvement indicates a recovery in the underlying growth rate from the sluggish performance of the 1970's to a rate of increase which is at least as good as those seen in the 1960's".

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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 growth beginning to moderate.

- Shows some signs of growing capacity constraints in some sectors of industry, but at much higher levels of utilisation than in the past. Four-fifths of respondents still report fixed capacity as at least adequate to meet expected demand over the next 12 months.

Robert Lind.

ROBERT LIND

eb.ph/sjp/11.5

UNCLASSIFIED

Andrew O.K. PW

ws mtg invst – private/public split

FROM: S J PICKFORD
DATE: 4 NOVEMBER 1988

~~APH~~ For [illegible] [illegible] [illegible]

CHANCELLOR

Ch
Note from Terry on forecast errors on investment/consumption, Now attached to follow. I believe John has commissioned figs on "[illegible]" earnings & borrowing – will chase Monday if necessary
AA

cc Sir T Burns
Mr Odling-Smee
Mr Sedgwick
Mr Hibberd
Mr Darlington
Mr Patterson
Mr Lind
Mr Hudson
Mr Tyrie

CONSUMPTION, INVESTMENT AND CBI SURVEY RESULTS

You asked (Mr Allan's minute of 2 November) for a long run of annual data and growth rates for consumption and investment (private and general Government). I believe you also wanted information on the CBI survey results on constraints on output and capacity.

Consumption and investment

2. Table 1 shows a long run of annual data (1985 prices) on consumption and investment supplied by EA1. Unfortunately we do not yet have comparable data splitting investment into 'public' and 'private' before the mid-1960s. We will check on Monday whether the data go back further, and let you have whatever is available in the course of Monday.

not since on figs attached

3. Tables 2 and 3 show most of the growth rates you asked for. Some features of the data are:

- total consumption has grown faster in the 1980s, than in the 1960s and 1970s'

- total investment grew faster than total consumption in the 1960s as well as in the 1980s;

- on any definition of this Government's life (1988, 1988H1 or 1988H2 - using the forecast) total investment has grown faster than total consumption.

CBI Survey results

4. The CBI quarterly survey asks two questions relevant to capacity and constraints. The more familiar question is "What factors are likely to limit your output over the next few years - orders or sales; skilled labour; other labour; plant capacity; credit or finance; materials or components; other". The attached charts (prepared by EA1) shows the proportions of firms citing each of these factors, going back to 1961.

5. Of the 'supply-side' factors, four - other labour, credit or finance, materials or components, other - are at or below their historical average. Skilled labour was cited by 28 per cent of firms in the October survey, up from 22 per cent in July, but well below previous peaks in 1965-66, 1969 and 1973-74, and about the same level as in 1978-79. Plant capacity was mentioned by 29 per cent in October, up from 26 per cent in July. This series has been rising fairly steadily from an all-time low of 2 per cent in 1981. The October figure is the highest ever, with the exception of 1973Q3 (32 per cent) and Q4 (30 per cent).

6. The other relevant question is "In relation to expected demand over the next twelve months is your present fixed capacity: more than adequate, adequate, or less than adequate". In October 80 per cent of all firms still believed they had adequate or more than adequate capacity. However, this is the lowest percentage ever recorded since the question was first asked in 1979Q4.

7. I suggest as a line-to-take on constraints:

- skilled labour is seen by some firms as a constraint, but nowhere near to the same degree as on previous occasions in the past. Nevertheless emphasises the importance of training;

- plant capacity constraints below the level of the early 1970s. Investment boom recently, and forecast to continue into next year, will increase companies' capacity to meet demands both at home and abroad;

- 80 per cent of firms still say their capacity is at least adequate to meet expected demand.

Stephen Pickford.

S J PICKFORD

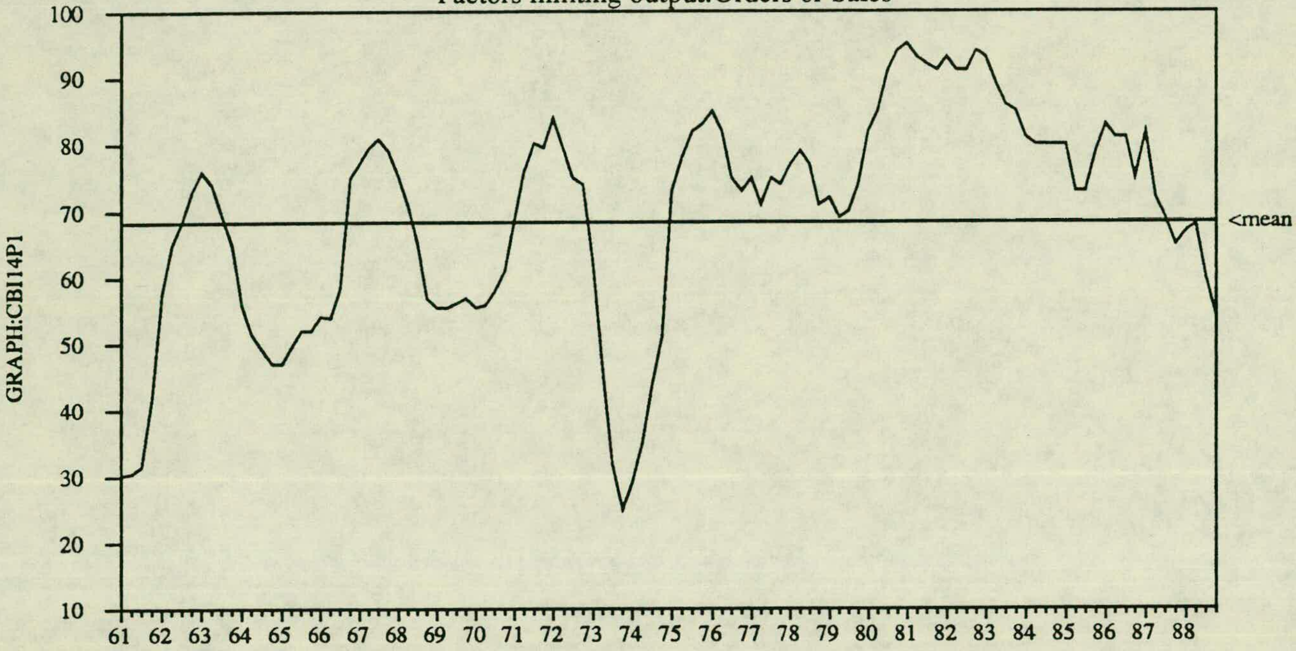
CBI QUARTERLY INDUSTRIAL TREND SURVEYS

FOUR MONTHS FORECAST OF FACTORS LIKELY TO LIMIT OUTPUT

		Q14 a) Orders or Sales	Q14 b) Skilled Labour	Q14 c) Other Labour	Q14 d) Plant Capicity	Q14 e) Credit or Finance	Q14 f) Materials/ Components	Q14 g) Other	
1972	Q1	84	10	1	11	4	4	3	
	Q2	79	13	3	13	3	6	3	
	Q3	75	12	4	16	3	7	6	
	Q4	74	13	3	16	3	8	6	
1973	Q1	62	22	9	23	3	10	5	72
	Q2	46	30	16	26	3	20	5	400
	Q3	32	43	23	32	2	33	5	
	Q4	25	51	27	30	3	49	3	
1974	Q1	29	27	10	14	4	64	35	
	Q2	35	40	19	19	6	58	4	
	Q3	44	41	18	15	8	47	4	
	Q4	51	34	15	14	16	36	5	120
1986	Q1	83	10	1	13	4	5	1	34
	Q2	81	13	1	13	8	3	2	40
	Q3	81	12	1	14	4	7	3	41
	Q4	75	12	1	13	4	6	3	39
1987	Q1	82	9	1	15	3	5	2	35
	Q2	72	12	2	25	4	4	2	49
	Q3	69	18	3	22	3	6	4	54
	Q4	65	19	5	24	3	8	2	61
1988	Q1	67	20	4	21	3	8	3	59
	Q2	68	19	3	26	2	9	2	61
	Q3	60	22	6	26	2	9	4	69
	Q4	56	28	4	29	2	9	3	75

CBI INDUSTRIAL TRENDS SURVEY

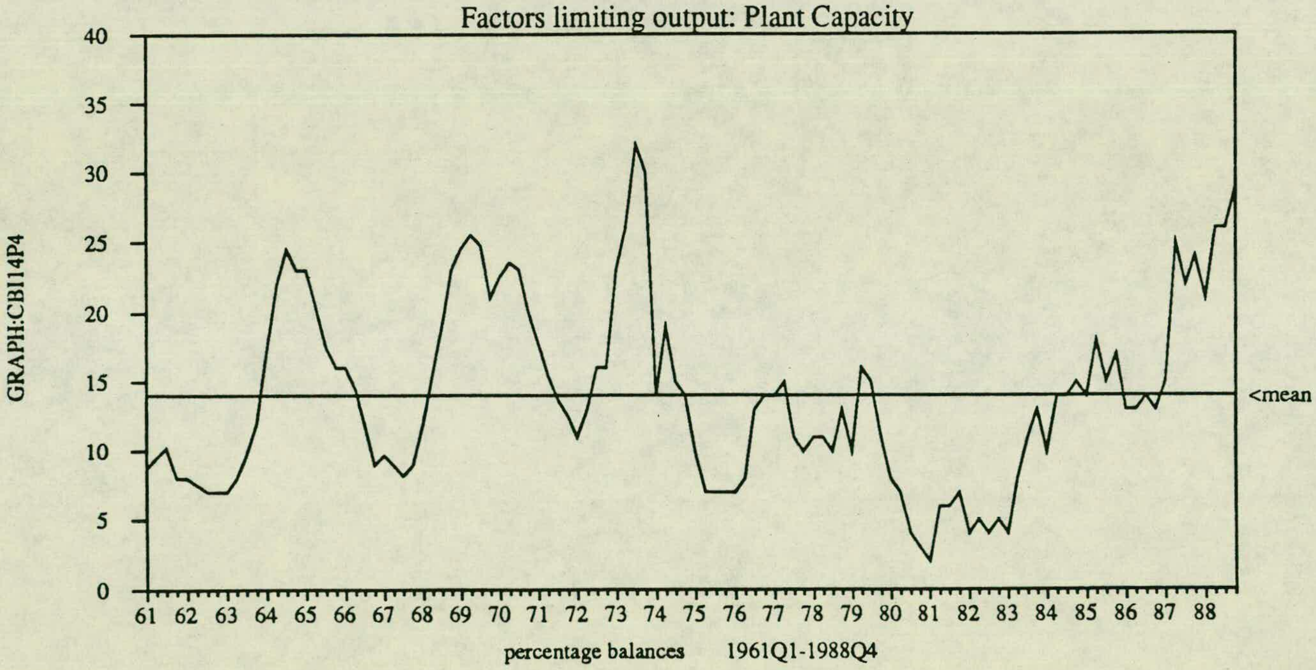
Factors limiting output:Orders or Sales



percentage balances 1961Q1-1988Q4

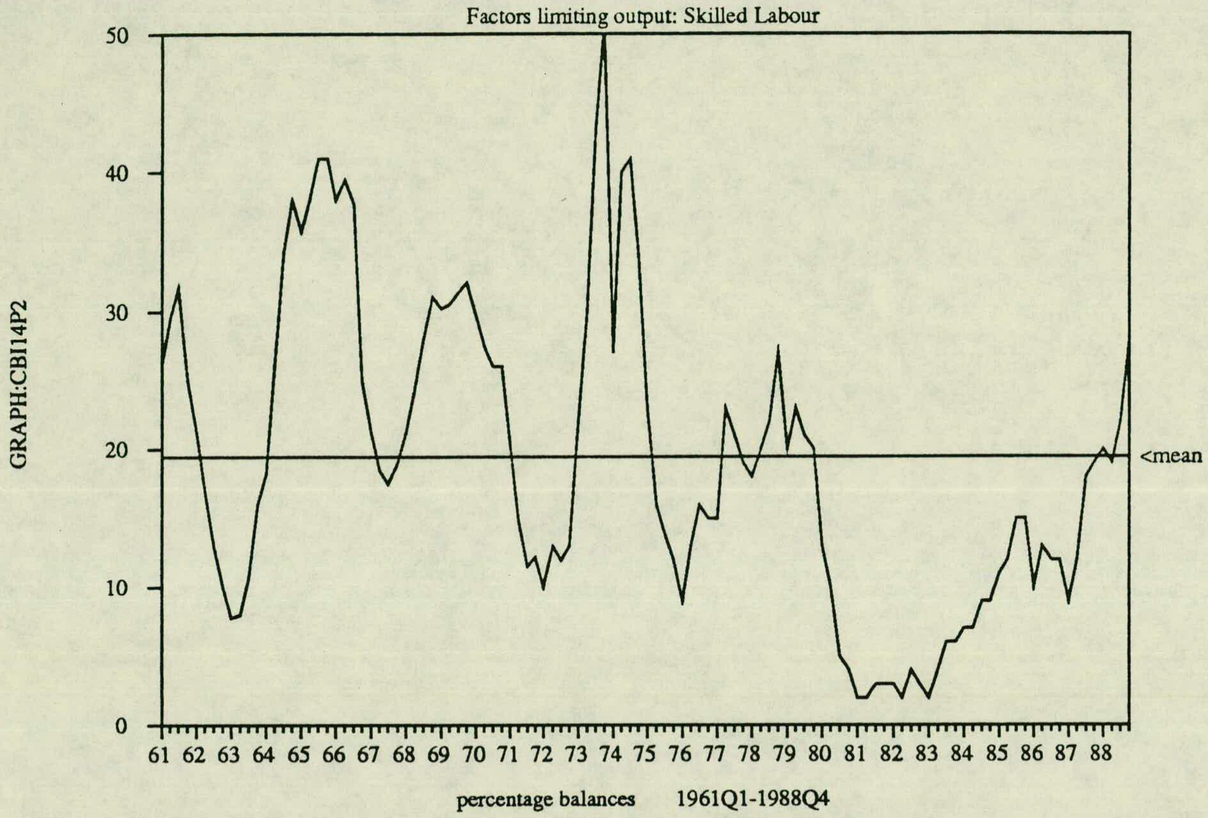
CBI INDUSTRIAL TRENDS SURVEY

Factors limiting output: Plant Capacity

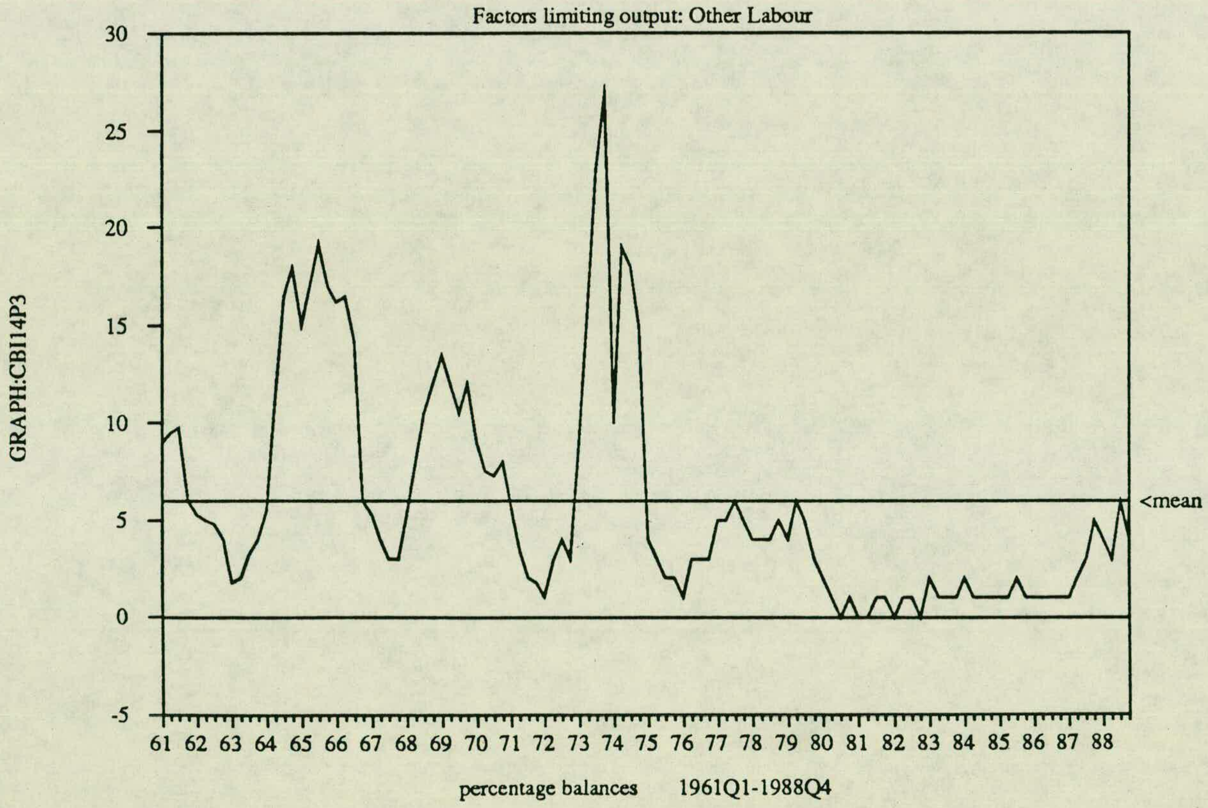


percentage balances 1961Q1-1988Q4

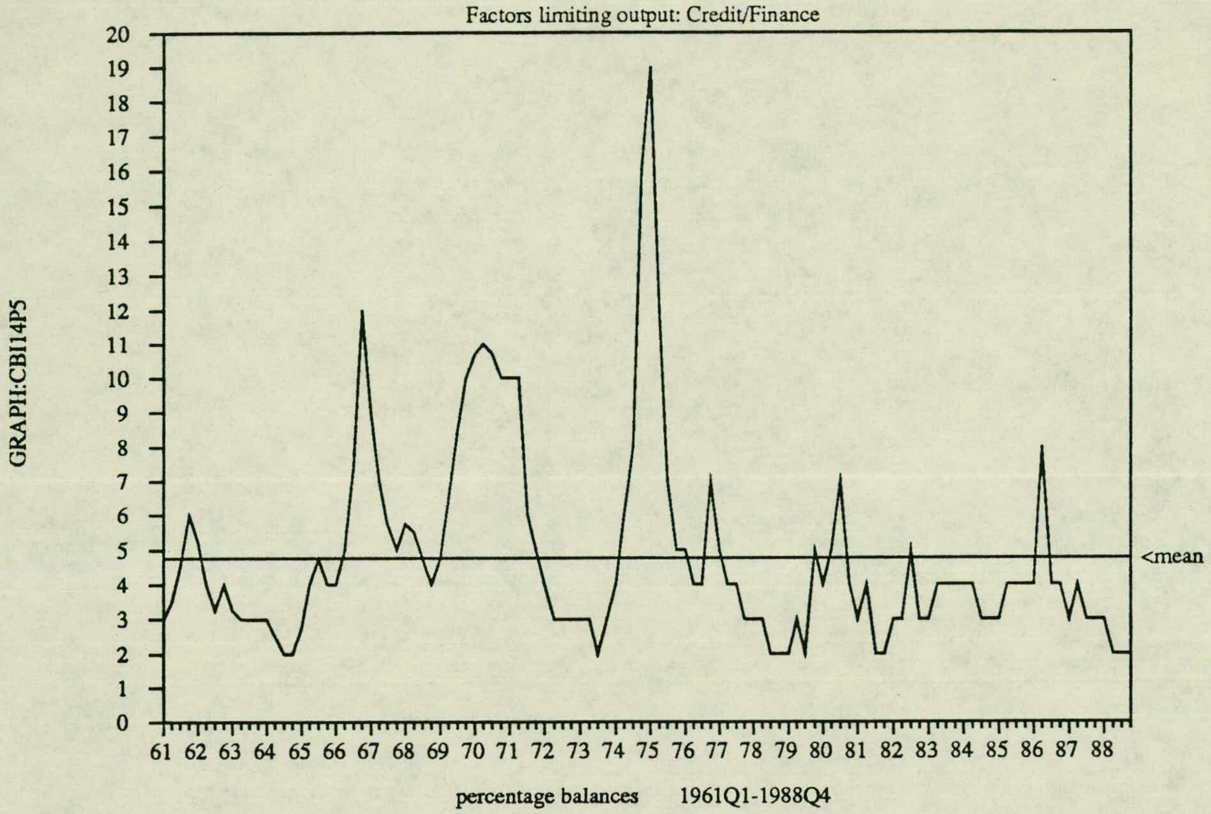
CBI INDUSTRIAL TRENDS SURVEY



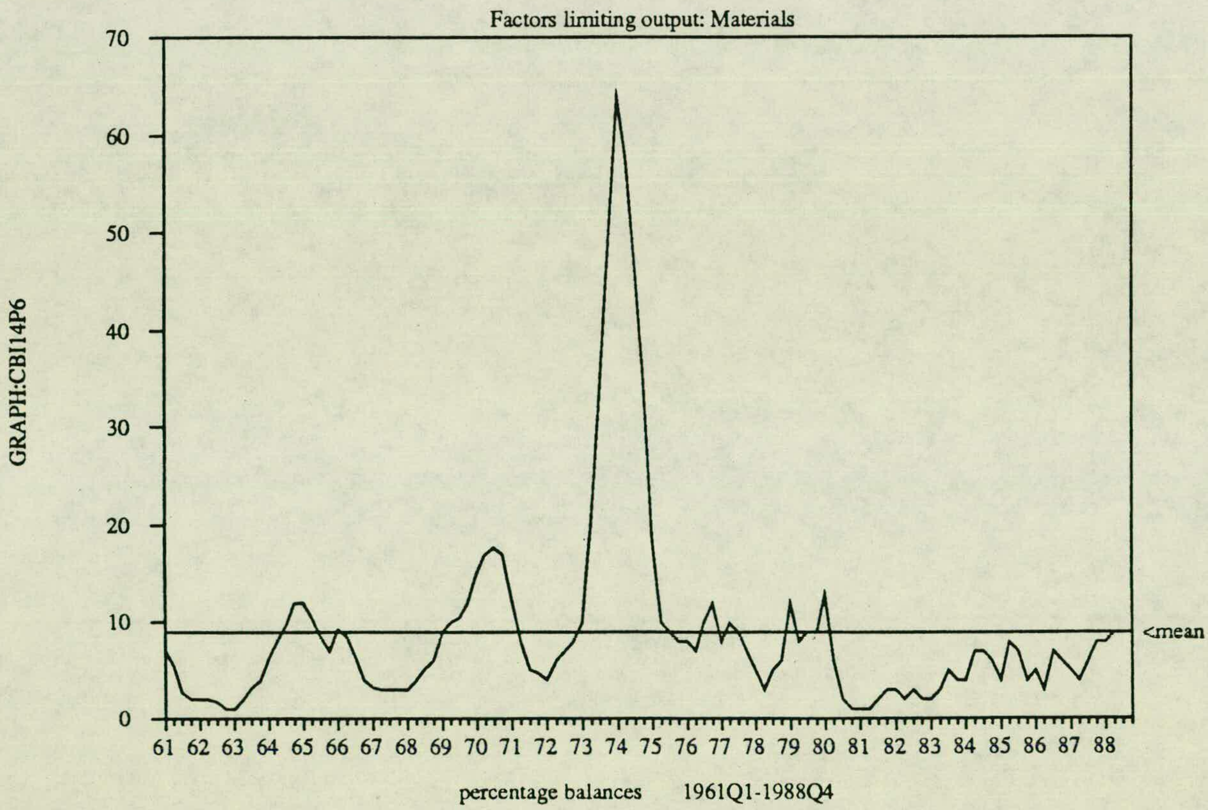
CBI INDUSTRIAL TRENDS SURVEY



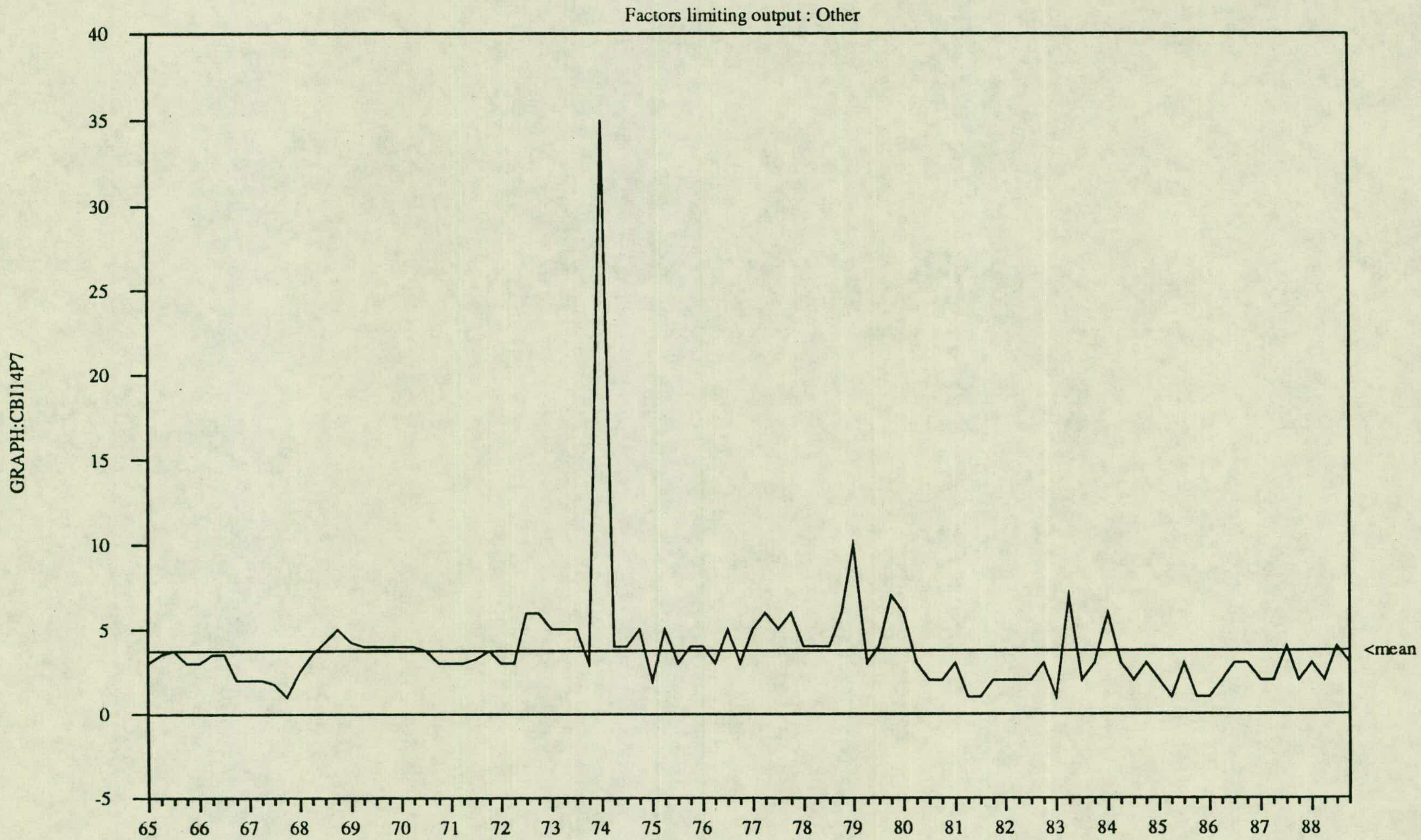
CBI INDUSTRIAL TRENDS SURVEY



CBI INDUSTRIAL TRENDS SURVEY



CBI INDUSTRIAL TRENDS SURVEY



percentage balances 1965Q1-1988Q4

CONSUMPTION AND INVESTMENT

TABLE 1

At 1985 market prices £billion

	C	G	c+g	I(p)	I(g)	I
1948	92.42	37.30	129.72			15.80
1949	93.90	39.41	133.31			17.25
1950	96.41	39.32	135.73			18.23
1951	95.14	42.23	137.37			18.38
1952	95.18	46.39	141.57			18.57
1953	99.33	47.60	146.93			20.68
1954	103.43	47.40	150.83			22.47
1955	107.75	46.16	153.91			23.77
1956	108.70	45.68	154.38			24.88
1957	110.96	44.92	155.88			26.23
1958	113.64	43.72	157.36			26.47
1959	118.55	44.49	163.04			28.51
1960	123.12	45.36	168.48			31.08
1961	125.85	46.97	172.82			34.11
1962	128.69	48.40	177.09			34.35
1963	134.84	49.28	184.12			34.82
1964	138.99	50.06	189.05			40.59
1965	141.11	51.38	192.49			42.69
1966	143.62	52.75	196.37			43.78
1967	147.16	55.73	202.89			47.61
1968	151.27	55.94	207.21			50.59
1969	152.11	54.92	207.03			50.29
1970	156.34	55.83	212.17			51.56
1971	161.21	57.48	218.69			52.52
1972	171.05	59.91	230.96			52.40
1973	179.85	62.50	242.35			55.82
1974	177.23	63.67	240.90			54.47
1975	176.27	67.22	243.49			53.38
1976	176.85	68.05	244.90			54.28
1977	176.02	66.93	242.95			53.31
1978	185.95	68.47	254.42			54.91
1979	193.79	69.94	263.73			56.45
1980	193.81	71.05	264.86			53.42
1981	193.83	71.27	265.10			48.30
1982	195.56	71.83	267.39			50.92
1983	204.32	73.28	277.60			53.48
1984	207.93	73.97	281.90			58.08
1985	215.27	74.00	289.27			60.28
1986	226.84	75.38	302.22			60.83
1987	238.46	76.04	314.50			64.20
1988	251.94	76.44	328.38			72.05
1989	261.09	75.95	337.04			76.04

206.7 c

266.7 I

TABLE 2
ANNUAL GROWTH RATES (per cent)

	C	G	c+g	I(p)	I(g)	I
1960	3.9	2.0	3.3			9.0
1961	2.2	3.5	2.6			9.7
1962	2.3	3.0	2.5			0.7
1963	4.8	1.8	4.0			1.4
1964	3.1	1.6	2.7			16.6
1965	1.5	2.6	1.8			5.2
1966	1.8	2.7	2.0			2.6
1967	2.5	5.6	3.3			8.7
1968	2.8	0.4	2.1			6.3
1969	0.6	(1.8)	(0.1)			(0.6)
1970	2.8	1.7	2.5			2.5
1971	3.1	3.0	3.1			1.9
1972	6.1	4.2	5.6			(0.2)
1973	5.1	4.3	4.9			6.5
1974	(1.5)	1.9	(0.6)			(2.4)
1975	(0.5)	5.6	1.1			(2.0)
1976	0.3	1.2	0.6			1.7
1977	(0.5)	(1.6)	(0.8)			(1.8)
1978	5.6	2.3	4.7			3.0
1979	4.2	2.1	3.7			2.8
1980	0.0	1.6	0.4			(5.4)
1981	0.0	0.3	0.1			(9.6)
1982	0.9	0.8	0.9			5.4
1983	4.5	2.0	3.8			5.0
1984	1.8	0.9	1.5			8.6
1985	3.5	0.0	2.6			3.8
1986	5.4	1.9	4.5			0.9
1987	5.1	0.9	4.1			5.5
1988	5.7	0.5	4.4			12.2
1989 (f)	3.6	(0·6)	2·6			5.5

Figures in brackets are negative

TABLE 3
PERIOD GROWTH RATES (per cent)

	C	G	c+g	I(p)	I(g)	I
1960-1970	27.0	23.1	25.9			65.9
	(2.0)	(2.1)	(2.3)			(5.2)
1970-1980	24.0	27.3	24.8			3.6
	(2.2)	(2.4)	(2.2)			(0.4)
1980-1987	23.0	7.0	18.7			20.2
	(3.0)	(1.0)	(2.5)			(2.7)
1974H1-1979H1	10.2	10.9	10.4			1.4
	(2.0)	(2.1)	(2.0)			(0.2)
1979H1-1988H1	27.7	9.2	22.9			23.3
	(2.8)	(1.1)	(2.3)			(2.4)
1979H1-1988H2	31.5	8.9	25.9			36.1
	(2.9)	(0.9)	(2.5)			(3.3)
1979H1-1988	34.3	9.1	24.4			29.7
	(3.2)	(0.9)	(2.4)			(2.8)
1983-1988	23.3	4.3	18.3			34.7
	(4.3)	(0.8)	(3.4)			(6.1)

Annual averages in brackets

(£?)

Invest +1½?
+36?

Consump +10½?
+26?

Lab
Con

44/12

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NEWS RELEASE

CBI

P.179.88

EMBARGOED - NOT FOR PUBLICATION BEFORE 1530 HRS ON SUNDAY, 6 NOVEMBER

CBI SURVEY OF CITY-INDUSTRY RELATIONS ONE YEAR LATER

The Confederation of British Industry has carried out a survey of member company opinions on the current state of City-industry relations one year after the publication of "Investing for Britain's Future", the Report of the Task Force chaired by its former President, Sir David Nickson. The survey covered 250 firms of all sizes in the manufacturing and services sector - more than 60 of the respondents each employ more than 5,000 people and more than 130 are manufacturers.

The survey, published today (Sunday), on the eve of the Confederation's 12th National Conference in Torquay, reveals that when there is a contested bid from overseas for a UK company, over two-thirds of respondents believe that the Secretary of State for Trade and Industry should have the power to refer it to the Monopolies and Mergers Commission when the bid is "leveraged" to an extent that could prejudice future investment in the UK, and when the overseas bidder is effectively immune from any possibility of a counter-bid.

The majority of the companies responding to the survey make it clear they are not satisfied that financial institutions adopt a sufficiently long-term perspective when making strategic evaluations of UK companies. Sixty-four per cent express dissatisfaction on this score, indicating that concern about short-termism is more widespread than when the Task Force reported.

Sixty-two per cent of respondents say they feel Britain's current regulatory framework does not adequately allow companies to establish who owns the controlling interest in their shares as well as the intentions of shareholders who might be potential bidders. Within this 62 per cent, more than eight out of ten believe measures should be taken to disenfranchise shareholders who fail to declare a controlling ownership and half would like to see a postponement of voting rights on shares transferred during a bid. More than four firms out of ten within the 62 per cent favour a reduction in the present 30 per cent "trigger" for mandatory bids and nearly five out of ten want to see a lowering of the present mandatory disclosure ceiling for nominee shareholdings to below five per cent.

Commenting on the survey results, Mr John Banham, Director General of the CBI, said, "In the run-in to 1992 the risk of a wave of foreign takeovers is of great concern to many CBI members. It will be one of the issues to be debated at our conference. When a company outside the EEC wants to acquire a base in the Community, the relative openness of the UK securities markets means it has only one port of call - Britain. It is extremely difficult to carry through a contested bid in other Community countries.

"If contested takeovers continue at their present rate, by 1992 strategic control of much of British industry will be exercised from outside the Community. On the other hand, it would be a very serious mistake for Britain to paint itself into a protectionist corner. British Companies are major purchasers, particularly in North America; and agreed mergers with Continental partners are increasingly common - there have been over 97 for this year alone.

"What is needed is a level playing field so that British companies are on the same footing as those seeking to acquire businesses here."

The survey was carried out as a follow-up to the report of the CBI's City-Industry Task Force, which was published in October 1987. It was agreed then that progress in implementing the Task Force's recommendations would be reviewed each year by the CBI.

Full details of the survey are attached.

6 November 1988

CBI CITY/INDUSTRY TASK FORCE FOLLOW-UP SURVEY

SUMMARY

The Confederation of British Industry has carried out a nationwide survey to review progress in improving relations between the City and industry, following the publication of a CBI Task Force report which investigated allegations of short-termism on the part of City institutions.

The report was published last October, and at that time, it was agreed that the implementation of the Task Force recommendations - which called for better communications between the City and industry - should be reviewed each year.

The survey is the first such review. Some 250 firms, ranging in both size (30 per cent with fewer than 200 employees, and 26 per cent with more than 5000 employees) and sector (54 per cent manufacturing and 37 per cent commercial) responded.

These are the main conclusions:

Short-Termism

- the majority of respondents were not satisfied that financial institutions make a long-term and strategic evaluation of their company, with large firms particularly sceptical.

- events in the last twelve months do not appear to have affected these perceptions, although there is some evidence, particularly among large firms, of a shift towards the shorter-term view.

?

Communications

- although the majority of respondents have not changed the amount of information disclosed to shareholders in the last twelve months, a significant minority of large firms and those in commerce and finance now reveal more in their annual reports and individual presentations.

Pension Funds

- regular discussions with pension fund trustees are commonplace, especially concerning the risk profile attached to investment strategy, and when new investment managers need to be appointed. The frequency of these discussions appears to depend on size of firm; the larger the firm, the more meetings take place.

Takeovers and Mergers

- respondents were strongly in favour of referring contested overseas bids for UK companies to the Monopolies and Mergers Commission, particularly because of lack of reciprocity, and when a bid could prejudice future investment in the UK.

- the majority of respondents felt that the regulatory framework did not help firms establish the controlling interest of their shares and identify potential bidders. The measures most wanted to combat this were the disenfranchisement of shareholders failing to declare controlling ownership, and the postponement of voting rights on shares transferred in a bid period.

CBI CITY/INDUSTRY TASK FORCE FOLLOW-UP SURVEY

There were 249 respondents

Size (employees)		Sector	
Under 200	30 per cent	Manufacturing	54 per cent
200-4999	44 per cent	Financial	9 per cent
Over 5000	26 per cent	Other Commercial	37 per cent

Short-Termism

1a) Are you satisfied that financial institutions make a long-term and strategic evaluation of your company?

YES 36 per cent

NO 64 per cent

The majority of respondents were not satisfied that financial institutions adopt a sufficiently long-term perspective when evaluating their company, indicating that the perception of a short-termism problem is perhaps more widespread than last year's Task Force Report suggested.

There appears to be some correlation between the responses to the above question and firm size, as only 21 per cent of large firms (over 5000 employees) expressed satisfaction, whereas 43 per cent of small firms (fewer than 200 employees) did so.

b) How, if at all, has your assessment changed since October 1987?

Longer-term view	12 per cent
No change	72 per cent
Shorter-term view	16 per cent

Events in the last twelve months do not appear to have affected perceptions, although there is some evidence of a slight shift towards the shorter-term view. Twenty one per cent of large firms indicated that they had changed to a shorter-term view since October 1987.

Communications:

2a) Does your company now disclose more or less information to its shareholders than before October 1987?

More	36 per cent
Same	64 per cent
Less	0 per cent

Although the majority of respondents have not changed the amount of information disclosed to shareholders in the last twelve months, a significant minority of large firms (48 per cent), and those in commerce (46 per cent) and finance (41 per cent), indicated that they now reveal more details to shareholders.

b) If you answered 'More' to question 2a), for what category of information has your disclosure increased?

Financial details	84 per cent
R & D expenditure	18 per cent
Training expenditure	11 per cent
Details of new products	29 per cent
Other long-term development plans	62 per cent
Other	8 per cent

Of the companies that are disclosing more information (36 per cent of the total sample), nearly 85 per cent now give more financial details, and over 60 per cent more information on long term development plans, indicating some efforts are being made to help financial institutions assess a firm's long-term prospects. Nearly half of all manufacturers disclosing more information now provide additional details of new product development.

c) How have you communicated this additional information?

	(Ranking Order)
Annual report	1
Individual briefings/visits	2
City presentations	3
Public relations company	4
Other	5

Although the most common means of communicating the additional information is via the annual report, large firms in particular have also found it necessary to make individual briefings and visits, and specifically present their case to City analysts.

3 Has your company altered its investor relations policy in any other way during the last year? (Written Answer)

The responses to this question indicate that there appears to be little significant change in policies to encourage good investor relations. However, there is some evidence that firms, particularly the larger ones, are making attempts at least to keep in regular contact with major shareholders, and there have been moves to improve PR image via a higher profile for the Chairman or Managing Director.

Pensions Funds

4a) Does your company have regular discussions (annual or more frequently) with the trustees of your pension fund on issues of investment strategy and management?

YES	66 per cent
NO	34 per cent

Regular discussions with pension fund trustees over investment strategy appear commonplace, although the frequency of discussion does appear to depend on size of firm. Over 80 per cent of large firms indicated that they engage in frequent discussions, whereas only 43 per cent of smaller firms discuss investment strategy at least once a year.

b) If you answered yes to question 4a, do you discuss the following issues?

The casting of pension funds voting rights in third companies	17 per cent
The risk profile associated with fund managers investment strategy	82 per cent
Self investment	30 per cent
The appointment and monitoring of investment managers	75 per cent

Over 80 per cent of respondents engaging in regular discussions with their pensions fund trustees (54 per cent of total sample) devote great attention to the fund manager's adherence to investment guidelines and risk strategies and the achievement of specified investment objectives. Sixty five per cent of all financial sector respondents talk regularly about their risk profile.

Three-quarters of respondents engaging in trustee discussions (49 per cent of total sample) regularly review the appointment, retention and dismissal of managers in this area of operations.

c) Has the substance of the discussion with your pension fund trustees changed over the last 12 months? If so, please indicate the nature of any changes. (Written Answer)

The vast majority of respondents indicated that the content and subject matter for discussion had not changed over the past year. However, the recent pensions legislation has led to some attempts to gain a greater understanding of the aims and objectives of the pensions fund.

Takeovers and Mergers

5 In contested overseas bids for UK companies, should a reference to the Monopolies and Mergers Commission on 'public interest' grounds include the following?

Lack of reciprocity (eg 'bid proof' articles of association)	66 per cent
A bid being leveraged to an extent which could prejudice future investment in UK	69 per cent
Local employment implications	44 per cent
Transfer of control over strategic decisions from UK	58 per cent
Other	7 per cent

The majority of respondents clearly believed that many contested overseas bids for UK companies should be referred to the Monopolies and Mergers Commission on public interest grounds.

Nearly 70 per cent of the total survey sample called for a reference when an overseas bid could prejudice future investment in the UK. Over three-quarters of both large firms and manufacturers would like to see such a reference, perhaps reflecting the importance of investment in these particular sectors.

Two-thirds of respondents felt that lack of reciprocity was enough for an overseas bid to be referred to the Commission, and nearly 60 per cent believed the threat of transfer of control over strategic decisions from the UK needed to be looked into (nearly 70 per cent of manufacturers believed this to be the case).

A significant minority (44 per cent) of the total sample thought that overseas bids which threatened local employment should be referred to the Commission, although responses to this question appeared to depend on sector. Nearly 50 per cent of manufacturers called for a referral, whereas only 17 per cent of financiers were concerned about this issue.

6 <u>Do you feel the current regulatory framework adequately allows companies to establish the controlling interest of their shares and the intentions of shareholders who may be potential bidders?</u>

YES	38 per cent
NO	62 per cent

The majority of respondents felt that the current regulatory framework did not help companies establish the controlling interest of their shares and identify potential bidders. However, smaller firms appeared happiest, with 47 per cent expressing satisfaction.

<u>If 'no' which, if any of the following measures would you support to improve the situation?</u>

		YES
a)	Some reduction in the present 30 per cent trigger for mandatory bids	42 per cent
b)	A legal requirement to declare any intention to bid within the next 12 months at a point below the mandatory bid threshold	31 per cent
c)	Reduction of the present mandatory disclosure ceiling for nominee shareholdings to below 5 per cent	47 per cent
d)	Postponement of voting rights on shares transferred in a bid period	50 per cent
e)	Measures to disenfranchise shareholders failing to declare controlling ownership	81 per cent

(NB these results are the percentage of those answering 'NO')

Over 80 per cent of respondents who were dissatisfied with the current regulatory framework (50 per cent of total sample), felt that shareholders failing to declare controlling ownership should be disenfranchised (95 per cent of large firms, those most liable to be affected by such activity, called for this).

Exactly half of dissatisfied respondents (31 per cent of total sample) believe that voting rights on shares transferred in a bid period should be postponed, and nearly half are looking for the present mandatory disclosure ceiling to be reduced to below 5 per cent. Seventy five per cent of large firms would like to see this happen.

Of the 42 per cent of dissatisfied respondents looking for a reduction in the present 30 per cent 'trigger' for mandatory bids, the majority felt it should be at least reduced to 20 per cent.

[Extract from closing speech by Mr Banham at CBI's 12th Conference at Torquay on Tuesday, 8th November 1988]

The City

What if the Government remain on the sidelines and maintain their present stance that the market must decide in virtually all cases except where competition considerations arise? The greatest risk I see is that investors will fail to appreciate the extent of the turnaround in British manufacturing. The habits of decades of relative decline and failure die hard. The 'grab-it-while-you-can' mentality is still with us.

Ownership and speculation are dangerously close to becoming the same thing. Companies are said to be "in play". For me, the very word "play" in this context is an obscenity. This is not a game President. These are companies which, very often, people have devoted a lifetime to building. They are our Nation's future. They are not to be traded away, heedless of the consequences, by a collection of high rollers concerned only for their own financial gain in some kind of economic casino.

There is more to owning shares in a company than the right to buy or sell them at will. As many of our great City institutions have long recognised (and practised) the rights of ownership bring with them the obligation to think longer-term.

As our former President, Sir David Nickson, pointed out last year in his City/Industry Task Force report <u>Investing for Britain's Future</u>, without greater self-discipline and more concern for the longer-term, we shall be playing roulette with our economic future. While fund managers talk about their "fiduciary obligations" the very heart could be torn out of our future competitiveness.

We must put our own houses in order. Our recent survey shows that companies <u>are</u> improving communications with shareholders. But Pension Funds must take a longer view of their fund manager's performance - the "what-have-you-done-for-me-lately" attitude reflected in the requirement to be at or near the top of the Quarterly league tables will be counter-productive in the longer term. And in contested bids, the crucial "keep or sell" decision should be taken by the Trustees or Board of Directors of the Institution, not delegated to a fund manager who may be more preoccupied with his position in the league tables than with the longer-term competitiveness of the business. These are matters under our control; as the American Civil War General is alleged to have said on returning from a reconnaisance: "I have seen the enemy; and he is us".

But in my view, this will not be enough. By 1992, if things go on as now, we are bound to end up with some cash-rich institutions with few British-based companies to invest in - and where will their source of competitive advantage lie then?

Markets need time, and good information to function effectively. The acquisition process must be slowed down and made more open, so that the markets can take a more considered view in light of all the relevant facts. The rush to sell is not just unseemly. It may well be unwise - as those who have sold into a dawn raid have almost invariably found out.

Business success (and by business I mean services as well as manufacturing, City as well as industry) entitles us to <u>demand</u> changes in the way the markets operate.

We have already made clear to the Department of Trade & Industry our view that companies should be free to disenfranchise shareholders behind nominees who refuse to declare the beneficial ownership and controlling interest of the shares within a working day of being asked to do so. How on earth can boards of directors be expected to look after the interests of their shareholders if they do not know who they are?

But, President, in spite of all the hard work which has gone on over the last two years the problems of City-Industry relations have, obviously, not been laid to rest. We simply cannot afford to be debating these issues in the same terms and with the same result for the third time next year. We need urgently to develop some specific proposals. I believe, President, that we should invite the CBI Companies Committee to re-evaluate the issues; here are six proposals to help to start the process:

i The trigger for making a full bid for a company should be reduced, perhaps to 15 per cent.

ii Every bidder should be required to issue a detailed prospectus, spelling out its plans for the development of the company it seeks to buy. In particular, where there is a contested bid for a company with a marked regional presence, the bidding company should be required to explain in its prospectus how the change of ownership will benefit the regional interest. This, in effect, is precisely what BAT Industries was required to do in the American Courts (in the Farmer's case), and what Grand Metropolitan is now doing (remarkably successfully) in the context of its current bid for Pillsbury.

iii Companies should be able to postpone voting rights in shares acquired during a bid period - a move unlikely to commend itself to arbitrageurs.

iv At least two thirds of registered shareholders should be required to vote, at an extraordinary general meeting, to accept an offer for their company.

v With the consent of their shareholders, companies should be able to offer a golden share to their pension funds - as an alternative to going private or arranging a management buyout, with all the risks these and other poison pills entail. The independent Trustees will thus have the opportunity to determine where their beneficiaries' longer-term interests lie.

vi Once a bid has failed, the predator should be required to divest itself of sufficient shares (perhaps to the remaining shareholders at the bid price) to bring its holding below the bid threshold; and a further bid should not be possible for three years.

These proposals are not intended as a recipe for distorting the market, but for making it work more effectively. None is without its costs, and these must be weighed against the benefits. Above all, we must remain the most open market in Europe to continue to attract investment money from all over the world.

There are undoubtedly difficulties with doing anything. But, President, I do not think that we can afford the luxury of doing nothing - acting as pall-bearers at our own funeral as it were.

* * *

President, this is a time to invest in success, not to reinforce the get-rich-quick attitudes bred of the decades of failure. This is not a bunch of whingeing, whining losers talking, but a bunch of <u>winners</u> - as our growth, productivity, investment, exports and profits figures show. This is not self-interest talking either: there is not a Chairman in the room who does not stand to realise a personal fortune by negotiating the sale of his company to the highest bidder. We are not asking for anything; we are <u>telling</u> people what needs to be done if we are to sustain the momentum of the excellent recovery we have achieved so far.

Our priority remains investment by business, in business. Personal consumption must come second. And public expenditure third. The listening in Whitehall, Westminster (and Wapping) needs to be a lot better this coming year than it was last. The good news, President, is that the leaders of Britain's businesses are so obviously determined to see that this is precisely what happens. That is what this conference has been all about. This is what the CBI is all about.

Deputy Secretary to the Treasury

Alex

J Quinton was very annoyed about the resolution on interest rates. It had been put forward, apparently in his absence, by the Economic & Financial Committee which he chairs. He has resigned from it, though this did not reach the newspapers. But he's still expecting to entertain the Chancellor at the Committee's Dinner on 8th December.

Nick.

ind.rj Nov CX.9

CONFIDENTIAL

FROM: N MONCK

DATE: 9 November 1988

CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton
Sir T Burns*
Mr Anson*
Mr Scholar*
Mr Burgner
Mrs Lomax
Mr Moore* (para 5)
Mr Burr
Ms Young
Mr Call*
(*without attachment)

Thanks

CBI CONFERENCE

The Conference has been fully reported in the press. But you may like to see the full text of John Banham's remarks about competition policy and foreign bids. I attach these and also the page from the survey of members' attitudes on aspects of "City-Industry Relations". There were 250 respondents and 54 per cent of them were manufacturers.

2. My impression is that the leading CBI figures are in fact pretty divided on the ideas Banham was putting forward, drawing on Sir Hector Laing's speech on Monday (attached for you). It is possible that the CBI Companies Committee, which will consider his ideas, will revert to the conclusion of last year's report of the City-Industry Task Force that:

> "no attempt should be made to 'tilt the playing field' in favour of defendants. All the many proposals to this end considered by the Task Force were found wanting."

Nonetheless it will complicate the UK stance on the EC Mergers regulation, if the CBI seem to be seeking more barriers here while the Government asks for fewer elsewhere.

3. There were similar signs of disarray within the CBI on resolutions in favour of a "one stop merger authority in the EC" and on reciprocity.

4. John Quinton is also likely to write to you disassociating himself from the resolution that was passed on Monday afternoon calling on the Government "to rely less on interest rates and more on other instruments of policy - including fiscal policy - to tackle inflation".

5. You may have noticed reports of Banham's statement that:

> "Prices under Government control are rising six times faster than those subject to the disciplines of the market place."

The basis for this statement is apparently the table in the Autumn Statement giving the components of the RPI. It shows a 5 percentage point difference between the rise in nationalised industry prices of 2¼ per cent to 1987 Q4 and of 7¼ per cent to 1988 Q4. This is six times the equivalent difference of ¾ of a percentage point for the "other" component. If we wanted to enter this silly debate, which I don't think we do, we could point out that, looking forward to 1989 Q4, the growth of the nationalised industry prices is falling four times as fast as the "other" private sector component is rising.

6. On some other issues the Conference was more impressive. They were united and forceful about the need for much more investment in roads and rail. And the debates on business-schools links and regeneration of inner cities suggested that a lot of CBI members are actively and usefully engaged in both these fields and that the numbers are likely to rise.

NM

N MONCK

[Extract from closing speech by Mr J Banham at CBI Conference on Tuesday, 8th November 1988]

Finally, competition policy. What can I say after yesterday's debate. At least we cannot be accused of organising a rally - or even a Party Political Conference. The President and I didn't even know how to take a vote - which is why we were delighted that you decided not to demand one. What <u>was</u> striking about the discussions, however, was that no-one denied Hector Laing's basic proposition: the UK is the most open securities market in Western Europe. Indeed, it is the <u>only</u> open market in Europe. Anyone from outside wishing to acquire a base from which to develop their European business has no alternative port of call to London. Pulling off a contested takeover on the Continent is near impossible. So we must anticipate an accelerating pace in bids for UK companies from outside the Community. The present striking rate is one a month; there are four on the table at present. (There were two when the first draft of this speech was prepared, not that long ago President.)

In present circumstances, the outcome is inevitable: whenever the price is even vaguely respectable, control of company after company will fall to owners not just outside these Islands, but outside the Community.

Anyone who says that this does not matter simply fails to understand the realities of business life.

At the same time, British business has a very considerable stake in free and open markets. We must not be painted into the protectionist corner. The UK is the second largest overseas investor in North America. So far this year, there have been some 97 bids by British companies for companies on the Continent, all of them agreed.

So we must seek no more than a level playing field with a groundsman sensitive to the needs of the home team - an advantage which must be well understood by you, President, as a Yorkshireman born not far from Headingley.

But at present the playing field is <u>not</u> level. Our follow-up survey to last year's Task Force has revealed increased disquiet among our members. Nearly 7 out of 10 believe the grounds for a reference to the Monopolies and Mergers Commission should go beyond competition considerations and should include bids where the predator is practically immune to a counter bid and where a bid is leveraged to an extent that could prejudice future investment in the business being acquired.

The City

What if the Government remain on the sidelines and maintain their present stance that the market must decide in virtually all cases except where competition considerations arise? The greatest risk I see is that investors will fail to appreciate the extent of the turnaround in British manufacturing. The habits of decades of relative decline and failure die hard. The 'grab-it-while-you-can' mentality is still with us.

Ownership and speculation are dangerously close to becoming the same thing. Companies are said to be "in play". For me, the very word "play" in this context is an obscenity. This is not a game President. These are companies which, very often, people have devoted a lifetime to building. They are our Nation's future. They are not to be traded away, heedless of the consequences, by a collection of high rollers concerned only for their own financial gain in some kind of economic casino.

There is more to owning shares in a company than the right to buy or sell them at will. As many of our great City institutions have long recognised (and practised) the rights of ownership bring with them the obligation to think longer-term.

As our former President, Sir David Nickson, pointed out last year in his City/Industry Task Force report Investing for Britain's Future, without greater self-discipline and more concern for the longer-term, we shall be playing roulette with our economic future. While fund managers talk about their "fiduciary obligations" the very heart could be torn out of our future competitiveness.

We must put our own houses in order. Our recent survey shows that companies are improving communications with shareholders. But Pension Funds must take a longer view of their fund manager's performance - the "what-have-you-done-for-me-lately" attitude reflected in the requirement to be at or near the top of the Quarterly league tables will be counter-productive in the longer term. And in contested bids, the crucial "keep or sell" decision should be taken by the Trustees or Board of Directors of the Institution, not delegated to a fund manager who may be more preoccupied with his position in the league tables than with the longer-term competitiveness of the business. These are matters under our control; as the American Civil War General is alleged to have said on returning from a reconnaisance: "I have seen the enemy; and he is us".

But in my view, this will not be enough. By 1992, if things go on as now, we are bound to end up with some cash-rich institutions with few British-based companies to invest in - and where will their source of competitive advantage lie then?

Markets need time, and good information to function effectively. The acquisition process must be slowed down and made more open, so that the markets can take a more considered view in light of all the relevant facts. The rush to sell is not just unseemly. It may well be unwise - as those who have sold into a dawn raid have almost invariably found out.

Business success (and by business I mean services as well as manufacturing, City as well as industry) entitles us to demand changes in the way the markets operate.

We have already made clear to the Department of Trade & Industry our view that companies should be free to disenfranchise shareholders behind nominees who refuse to declare the beneficial ownership and controlling interest of the shares within a working day of being asked to do so. How on earth can boards of directors be expected to look after the interests of their shareholders if they do not know who they are?

But, President, in spite of all the hard work which has gone on over the last two years the problems of City-Industry relations have, obviously, not been laid to rest. We simply cannot afford to be debating these issues in the same terms and with the same result for the third time next year. We need urgently to develop some specific proposals. I believe, President, that we should invite the CBI Companies Committee to re-evaluate the issues; here are six proposals to help to start the process:

i The trigger for making a full bid for a company should be reduced, perhaps to 15 per cent.

ii Every bidder should be required to issue a detailed prospectus, spelling out its plans for the development of the company it seeks to buy. In particular, where there is a contested bid for a company with a marked regional presence, the bidding company should be required to explain in its prospectus how the change of ownership will benefit the regional interest. This, in effect, is precisely what BAT Industries was required to do in the American Courts (in the Farmer's case), and what Grand Metropolitan is now doing (remarkably successfully) in the context of its current bid for Pillsbury.

iii Companies should be able to postpone voting rights in shares acquired during a bid period - a move unlikely to commend itself to arbitrageurs.

iv At least two thirds of registered shareholders should be required to vote, at an extraordinary general meeting, to accept an offer for their company.

v With the consent of their shareholders, companies should be able to offer a golden share to their pension funds - as an alternative to going private or arranging a management buyout, with all the risks these and other poison pills entail. The independent Trustees will thus have the opportunity to determine where their beneficiaries' longer-term interests lie.

vi Once a bid has failed, the predator should be required to divest itself of sufficient shares (perhaps to the remaining shareholders at the bid price) to bring its holding below the bid threshold; and a further bid should not be possible for three years.

These proposals are not intended as a recipe for distorting the market, but for making it work more effectively. None is without its costs, and these must be weighed against the benefits. Above all, we must remain the most open market in Europe to continue to attract investment money from all over the world.

There are undoubtedly difficulties with doing anything. But, President, I do not think that we can afford the luxury of doing nothing - acting as pall-bearers at our own funeral as it were.

* * *

President, this is a time to invest in success, not to reinforce the get-rich-quick attitudes bred of the decades of failure. This is not a bunch of whingeing, whining losers talking, but a bunch of <u>winners</u> - as our growth, productivity, investment, exports and profits figures show. This is not self-interest talking either: there is not a Chairman in the room who does not stand to realise a personal fortune by negotiating the sale of his company to the highest bidder. We are not asking for anything; we are <u>telling</u> people what needs to be done if we are to sustain the momentum of the excellent recovery we have achieved so far.

Our priority remains investment by business, in business. Personal consumption must come second. And public expenditure third. The listening in Whitehall, Westminster (and Wapping) needs to be a lot better this coming year than it was last. The good news, President, is that the leaders of Britain's businesses are so obviously determined to see that this is precisely what happens. That is what this conference has been all about. This is what the CBI is all about.

[Extract from CBI News Release - CBI Survey of City-Industry Relations One Year Later]

<u>Do you feel the current regulatory framework adequately allows companies to establish the controlling interest of their shares and the intentions of shareholders who may be potential bidders?</u>

YES	38 per cent
NO	62 per cent

The majority of respondents felt that the current regulatory framework did not help companies establish the controlling interest of their shares and identify potential bidders. However, smaller firms appeared happiest, with 47 per cent expressing satisfaction.

<u>If 'no' which, if any of the following measures would you support to improve the situation?</u>

		YES
a)	Some reduction in the present 30 per cent trigger for mandatory bids	42 per cent
b)	A legal requirement to declare any intention to bid within the next 12 months at a point below the mandatory bid threshold	31 per cent
c)	Reduction of the present mandatory disclosure ceiling for nominee shareholdings to below 5 per cent	47 per cent
d)	Postponement of voting rights on shares transferred in a bid period	50 per cent
e)	Measures to disenfranchise shareholders failing to declare controlling ownership	81 per cent

(NB these results are the percentage of those answering 'NO')

Over 80 per cent of respondents who were dissatisfied with the current regulatory framework (50 per cent of total sample), felt that shareholders failing to declare controlling ownership should be disenfranchised (95 per cent of large firms, those most liable to be affected by such activity, called for this).

Exactly half of dissatisfied respondents (31 per cent of total sample) believe that voting rights on shares transferred in a bid period should be postponed, and nearly half are looking for the present mandatory disclosure ceiling to be reduced to below 5 per cent. Seventy five per cent of large firms would like to see this happen.

Of the 42 per cent of dissatisfied respondents looking for a reduction in the present 30 per cent 'trigger' for mandatory bids, the majority felt it should be at least reduced to 20 per cent.

Speech by Hector Laing

CBI CONFERENCE   cc Chancellor   7 NOVEMBER 1988
Mr Brown
Mr Lowe

1st President. Ladies & Gentlemen.

? President

~~IN PROPOSING~~ THIS RESOLUTION, LADIES AND GENTLEMEN, LET ME AT THE OUTSET MAKE IT CLEAR THAT THE CITY VALUES TO WHICH IT REFERS ARE, TO A VERY LARGE EXTENT, FORMED BY THE NATIONAL ATTITUDE AND ONE REASON THE VALUES OF INDUSTRY ARE NOT PROPERLY APPRECIATED IS THAT WE INDUSTRIALISTS HAVE NOT DEVOTED ENOUGH TIME AND EFFORT OVER THE LAST 20 OR 30 YEARS TO SHAPING THE NATIONAL ATTITUDE BY EXPLAINING WHY OUR VALUES ARE IMPORTANT. WE ARE ALSO CLIENTS OF THE CITY, AND CITY VALUES ARE THOSE BY WHICH WE, AS INDIVIDUAL SHAREHOLDERS AND PENSION FUND TRUSTEES & BENEFICIARIES, REQUIRE THEM TO MANAGE OUR FUNDS. LET US NOT FORGET THE BEAM IN OUR OWN EYE.

HAVING SAID THAT, WITH 1992 ON THE HORIZON, MINDS ARE BEING CONCENTRATED ON THE IMPLICATIONS OF THE LIKELY SPATE OF OPPOSED TAKE-OVERS OF BRITISH COMPANIES FROM ABROAD. CONCERN WAS CERTAINLY REFLECTED IN THE CBI'S SURVEY FOLLOWING THE PUBLICATION OF THEIR CITY/INDUSTRY TASK FORCE REPORT. THIS CONCERN IS INCREASING NOT ONLY AMONG INDUSTRIAL COMPANY BOARDS AND MANAGEMENTS BUT ALSO AMONG MANY IN THE FINANCIAL SECTOR. THE CITY AND INDUSTRY HAVE A COMPLEMENTARY SYMBIOTIC RELATIONSHIP - WE NEED EACH OTHER - WE NEED TO OPERATE AS PARTNERS AND PARTNERSHIPS AREN'T BUILT BY STABBING EACH OTHER IN THE BACK.

MUCH ATTENTION HAS BEEN FOCUSSED ON BRITAIN'S TAKEOVERS IN THE UNITED STATES BUT SOMETHING LESS THAN 5% OF THEIR MANUFACTURING GDP IS FOREIGN OWNED WHEREAS IN THE UK IT IS ALREADY OVER 20%.

FOR A NUMBER OF REASONS THE UK IS UNIQUELY VULNERABLE TO TAKE-OVERS. LONDON HAS ONE OF THE MOST OPEN STOCKMARKETS IN THE WORLD AND IS BY FAR THE EASIEST PLACE IN EUROPE TO BUY COMPANIES, EITHER AS A FOOTHOLD FOR OUTSIDERS OR FOR EXPANSION BY COMMUNITY COMPANIES IN THE RUN UP TO 1992.

EVERY OTHER LEADING EUROPEAN STOCK MARKET IS MORE TIGHTLY HEDGED ABOUT WITH OFFICIAL OR UNOFFICIAL BARRIERS WHICH INHIBIT TAKEOVERS. IN GERMANY LESS THAN 500 COMPANIES ARE QUOTED AND SHARES ARE IN BEARER FORM AND HELD BY THE BANKS WHO HAVE GREAT INFLUENCE ON HOW THEY ARE VOTED. THE FRENCH, AS WE ALL KNOW, HAVE THEIR OWN RULES ! THE PLAYING FIELDS ARE THEREFORE FAR FROM LEVEL. BEYOND EUROPE, IN AMERICA FOR EXAMPLE, THE SHEER SIZE OF THEIR LEADING COMPANIES MAKES THEM PRETTY WELL UNASSAILABLE FROM OUTSIDE THE USA AND IN JAPAN THE DAMOCLEAN SWORD OF HOSTILE TAKE-OVERS IS VIRTUALLY UNKNOWN.

OUR STOCK EXCHANGE USED TO BE A MARKET IN WHICH CAPITAL COULD BE RAISED AND STOCKS AND SHARES COULD BE BOUGHT AND SOLD. IT HAS BECOME BOTH STOCK AND COMPANY MARKET WITH A DOUBLE PRICE LIST FOR SHARES : THE TRADING PRICE AND THE TAKEOVER PRICE. THIS MEANS THAT AN ENORMOUSLY PROFITABLE GAME CAN BE PLAYED BY ANYONE WHO CAN PERSUADE THE MARKET TO CHANGE THE BASIS OF VALUATION AND THIS IS PRECISELY WHAT HAPPENS, AND WHY IT HAS BECOME SO LUCRATIVE TO PUT A COMPANY INTO PLAY.

THE OPPOSED TAKE-OVER IS JUSTIFIED IN THIS COUNTRY AS BEING A 'SPUR' TO MANAGEMENT, BUT THE ABSENCE OF IT DOES NOT SEEM TO HAVE DONE MUCH TO STOP THE ONWARD MARCH OF GERMAN AND JAPANESE INDUSTRY. I STRONGLY BELIEVE THE THREAT OF TAKE-OVER IS IN FACT DETRIMENTAL, PRIMARILY BECAUSE PRODUCING SHORT-TERM PROFITS TAKES PRIORITY OVER INVESTMENT FOR THE LONG-TERM DEVELOPMENT & FUTURE SECURITY OF THE BUSINESS - IN TECHNOLOGY, IN WORLD MARKET SHARE & IN PEOPLE. III IN SUCH CIRCUMSTANCES, BRITAIN - AND INDEED THE USA - WILL CONTINUE TO LOSE GROUND AGAINST COUNTRIES LIKE GERMANY AND JAPAN AS THE CHART DEMONSTRATES.

THE $20 BILLION BID FOR RJR NABISCO HAS LIFTED THE TAKE-OVER INTO A WHOLLY NEW LEAGUE.

ALTHOUGH IT IS NOT INEVITABLE THAT BRITAIN WILL FOLLOW EVERY AMERICAN TREND, HISTORY SHOWS THAT WE ALMOST ALWAYS DO & IT IS THEREFORE POSSIBLE THAT THE HIGHLY LEVERAGED BUYOUT COULD BECOME THE NORM HERE. BUT THE CONSEQUENCES COULD BE VERY DAMAGING. HENRY KRAVIS OF KKR MADE A REVEALING REMARK : "THE EFFECT OF THE LEVERAGED BUYOUT ON AMERICA IS JUST NOT SOMETHING THAT WE ADDRESS." BUT, AS THE BOSTON CONSULTING GROUP COMMENTED : "THE PRICE LEVELS OF TODAY'S DEALS MAKE IT ALMOST IMPOSSIBLE TO THINK ABOUT BUILDING THE BUSINESS. THERE'S NO CASH LEFT OVER FOR RE-INVESTMENT."
LOOK AT THE CHART AGAIN - I CAN ONLY REFLECT THAT THE JAPANESE MUST BE RUBBING THEIR HANDS WITH GLEE ///

A FEW DAYS AGO, LORD YOUNG SAID "THE BEST DEFENCE IS GETTING YOUR COMPANY INTO SUCH GOOD SHAPE THAT A PREDATOR REALISES HE CAN'T MAKE BETTER USE OF THE ASSETS AND HAS NO INCENTIVE TO OFFER A WINNING PRICE." I AGREE THAT EVERY COMPANY SHOULD BE AS LEAN AND FIT AS IT POSSIBLY CAN BUT, IN THE STOCKMARKET GAME AS IT IS NOW BEING PLAYED, MANAGERIAL COMPETENCE, FAR FROM BEING AN ANTIDOTE TO TAKEOVER, MAY BE A LURE. WITH THE ROWNTREE TAKEOVER, FOR EXAMPLE, WE SAW A STRONG COMPANY WITH A GOOD TRACK RECORD BEING BOUGHT FOR ITS VERY STRENGTHS - ITS BRAND NAMES WHICH ARE THE FRUIT OF DECADES OF INVESTMENT IN THE PRODUCTS THEMSELVES AND IN THEIR PROMOTION. ROSS JOHNSON, THE CHIEF EXECUTIVE OF RJR NABISCO SAID RECENTLY THAT IT IS OFTEN CHEAPER TO BUY A COMPANY WHICH HAS GOOD BRANDS THAN TO LAUNCH NEW PRODUCTS. ALMOST ANY COMPANY CAN THEREFORE HAVE A 'FOR SALE' NOTICE HUNG ROUND ITS NECK.

DOES IT MATTER THOUGH IF OWNERSHIP OF SOME OF OUR BEST BUSINESSES IS SOLD TO FOREIGN CONTROL ? I HAVE HEARD IT SAID THAT CONCERN ABOUT THE NATIONALITY OF OUR COMPANIES IS "CHAUVINISTIC NONSENSE", EVEN "IRRELEVANT". HOWEVER THE GOVERNMENT ITSELF RECOGNISES THE NEED TO PROVIDE PROTECTION FOR SOME TYPES OF BUSINESS SO IT SEEMS THAT THE NATIONALITY OF OWNERSHIP IS NOT ALWAYS IRRELEVANT.

IF TOO MANY OF OUR MAJOR COMPANIES ARE TAKEN OVER BY NON-BRITISH OWNERS, AND FREE MARKET FORCES MAKE THAT MORE RATHER THAN LESS LIKELY, THEN THE UK WOULD BECOME INCREASINGLY A SATELLITE ECONOMY. THIS COUNTRY COULD BE DRAINED OF ITS BRIGHTEST AND BEST BUSINESS LEADERS WHO WILL WANT TO BE BASED AT THEIR COMPANIES' POWER CENTRE - AND THAT WON'T BE IN THE UK. RESEARCH AND DEVELOPMENT TOO, AND WITH IT MANY OF OUR BEST RESEARCH BRAINS WOULD VERY LIKELY BE MOVED ABROAD.

AS A SCOT I HAVE NOT ENJOYED SEEING THE CONTROL OF MAJOR BUSINESSES MOVING OUT OF SCOTLAND BECAUSE OF THE CONCENTRATION OF WEALTH & POWER IN THE SOUTH-EAST OF ENGLAND WHERE THOSE WHO CALL THE SHOTS ARE MORE LIKELY TO BE BASED. AS A BRITON I DO NOT WANT THAT TO HAPPEN TO THE UNITED KINGDOM AS A WHOLE.

BEING A FIRM BELIEVER IN THE OLD ADAGE 'HE WHO PAYS THE PIPER CALLS THE TUNE' I FIND IT DIFFICULT TO DIVORCE NATIONAL ECONOMIC INDEPENDENCE FROM NATIONAL POLITICAL INDEPENDENCE. IF THE STRATEGIC MANAGEMENT DECISIONS ABOUT BUSINESSES OPERATING IN THIS COUNTRY ARE TAKEN IN MUNICH OR MILAN, IN MINNEAPOLIS OR MELBOURNE, WHO WILL THEN UPHOLD THE INTERESTS OF BRITISH EMPLOYEES AND BRITISH COMMUNITIES ?

TRADE, INDUSTRY AND COMMERCE ARE INTERDEPENDENT, AND LOSS OF CONTROL OF KEY COMPANIES COULD HAVE VERY DAMAGING KNOCK-ON EFFECTS, ON SUPPLIERS AS WELL AS EMPLOYEES. THERE IS A BROADER NATIONAL INTEREST TOO: THE GOVERNMENT IS ENCOURAGING COMPANIES TO BECOME MORE INVOLVED IN THEIR LOCAL COMMUNITIES WITH ENTERPRISE AGENCIES, THE INNER CITIES, SCHOOLS & COLLEGES AND SO ON. THIS CAN ONLY HAPPEN GIVEN STRONG LOCAL LEADERSHIP WHICH IN TURN DEPENDS ON HAVING INDEPENDENT LOCAL ENTERPRISES // ~~AND NOT SIMPLY BRANCH FACTORIES OR OFFICES~~.

In many industries, national market segments tend to become dominated by 2 perhaps 3 leading companies and this pattern is likely to be replicated as markets become increasingly global rather than national. The rewards to shareholders, and to Great Britain Limited, from having a British company as number 1 or 2 in the international market are of course considerable.

Against the background of a probable growth rate of only 3-4% a year in the developed world, the future for significant industrial expansion must lie in those regions which are likely to see much stronger growth, particularly the Pacific Basin. A quarter of the world's population is in China : 1,000 M people, whose standard of living is rising at 10% a year.

I therefore pose the question : is the UK going to have a meaningful presence in that huge market, with its tremendous potential for growth ? If it is, companies are going to have to take a long term view. That is difficult for managements to do, however, when the stockmarket is looking for jam today and monopolies legislation prevents the creation of large companies in one product sector where this <u>appears</u> to reduce competition within our very small market.

Gordon McGovern, President of Campbells Soup said not long ago : "We are seeing an absolutely fundamental restructuring of global economies in the foo business at least, with a shrinking number of players and bigger players" A "Opportunities must be grasped quickly to burn some of their fields before th burn ours" END QUOTE That is the harsh reality of the trading war we are in. I would like to believe that our children will be fighting on behalf of Britain and that we will be, "burning some of their fields". I just hope we will not be selling them our fields which we have sown with good seed, from which they could reap a rich harvest.

I AM NOT SUGGESTING A STOP ON ALL HOSTILE FOREIGN TAKE-OVERS - THAT WOULD BE UNREALISTIC. I DO, HOWEVER, THINK WE SHOULD IDENTIFY THOSE STRATEGIC INDUSTRIES IN WHICH BRITAIN IS OR COULD BE AMONG THE WORLD LEADERS, JUST AS THE JAPANESE HAVE DONE, AND THE FRENCH WHO ARE SO MUCH MORE CHAUVINISTIC THAN WE ARE. LET US DECIDE WHICH INDUSTRIES ARE IMPORTANT TO US AND THEN ENSURE THAT THEY CONTINUE TO FLY THE BRITISH FLAG.

THERE ARE A NUMBER OF IMMEDIATE PRACTICAL STEPS WHICH COULD BE TAKEN TO HELP REMEDY THE PRESENT UNSATISFACTORY SITUATION :

§ COMPANIES CAN THEMSELVES TAKE PRE-EMPTIVE STEPS BY SEEKING THE APPROVAL OF THEIR SHAREHOLDERS FOR CHANGES IN THEIR ARTICLES OF ASSOCIATION ~~WHICH~~ to MAKE IT MORE DIFFICULT FOR A HOSTILE BIDDER TO OBTAIN CONTROL. SOME HAVE ALREADY DONE SO - I THINK MORE OF US SHOULD BE LOOKING AT THIS.

§ SHAREHOLDERS MIGHT, FOR EXAMPLE, BE ASKED TO MAKE IT A REQUIREMENT THAT ANY CHANGE OF CONTROL WOULD NEED THE SUPPORT OF TWO-THIRDS, OR EVEN THREE-QUARTERS OF THE REGISTERED SHAREHOLDERS.

§ THE GOVERNMENT MUST LOOK AT MONOPOLY CONSIDERATIONS IN TERMS OF EUROPE, NOT JUST THE UK - AND WITH 1992 SO IMMINENT, THIS DOES NOT SEEM A VERY BIG STEP

§ THE RULES GOVERNING THE PURCHASE OF SHARES SHOULD BE ALTERED TO REDUCE THE SPEED AT WHICH EFFECTIVE CONTROL CAN BE GAINED. THE 4.9% DISCLOSURE LEVEL SHOULD BE REDUCED TO 3% AND THE 5-DAY TIME LAPSE SHOULD COME DOWN TO 24 HOURS. THERE SHOULD BE A STOPPING POINT AT 3% FOR, SAY, 10 WORKING DAYS. THEREAFTER, EVERY FURTHER 1% SHOULD BE DISCLOSED, AGAIN WITHIN 24 HOURS, AND AT THE 10% LEVEL THERE SHOULD BE ANOTHER STOPPING POINT. TO GO ABOVE 14.9%, A BID FOR THE WHOLE TARGET COMPANY SHOULD BE MANDATORY.

§ A BIDDING COMPANY SHOULD BE REQUIRED TO ISSUE A FORM OF 'PROSPECTUS' TO THE SHAREHOLDERS OF THE DEFENDING COMPANY WHICH SETS OUT EXACTLY WHAT THE BIDDER INTENDS TO DO SHOULD HIS BID BE SUCCESSFUL. AT PRESENT, ALL THE DECISIONS REQUIRED ARE ABOUT THE FUTURE OF THE TARGET COMPANY BUT WITH THE ISSUE OF A PROSPECTUS, THE DEFENDING COMPANY COULD DEPLOY A MEASURED AND CONSIDERED ARGUMENT, GIVING THE SHAREHOLDERS A CLEARER CHOICE.

§ IN THE EVENT OF A HOSTILE BIDDER FAILING TO WIN CONTROL, HE SHOULD SHOULD BE LIABLE FOR ALL THE EXPENSES OF THE TARGET COMPANY.

§ IN A CONTESTED BID, MAJOR INSTITUTIONAL SHAREHOLDERS SHOULD GIVE THE DEFENDING COMPANY AN ASSURANCE THAT ALL DECISIONS ON HOW THEIR SHARES ARE VOTED WILL BE TAKEN AT BOARD LEVEL.

LET ME MAKE IT ABSOLUTELY CLEAR THAT I UNDERSTAND THE PRESSURES ON INSTITUTIONAL SHAREHOLDERS AND FUND MANAGERS. TRUSTEES OF COMPANY PENSION FUNDS CAN BE SEDUCED INTO APPOINTING MONEY MANAGERS WITH THE BEST SHORT TERM TRACK RECORDS AND ONE WAY TO ACHIEVE THAT IS TO PARTICIPATE IN TAKEOVER SPECULATION.

COMPANY MANAGEMENTS HAVE THEREFORE AIDED AND ABETTED SPECULATION BY NOT INVOLVING THEMSELVES IN TAKEOVER DECISIONS AND ALSO BY CHOOSING AS MONEY MANAGERS THOSE WHO ARE BEST AT THAT GAME. COMPANIES CANNOT AFFORD TO PLAY PONTIUS PILATE ON THIS ISSUE. Ladies + G we are fighting a WAR.

IF IN 1940 OUR TOP PRIORITY HAD BEEN TO MAKE A NICE PROFIT BY SELLING OUR BEST WEAPONS TO THE AXIS POWERS - THE SPITFIRE, SAY, PLUS ALL THE DESIGNERS AND ENGINEERS - I THINK THE OUTCOME OF THE WAR WOULD HAVE BEEN VERY DIFFERENT. WE COULD HAVE SOLD THE BRIGADE OF GUARDS FOR A SUBSTANTIAL SUM, AND THE DURHAM LIGHT INFANTRY, AND MANY OTHER GREAT REGIMENTS - AND OUR FIGHTER PILOTS WOULD HAVE FETCHED A GOOD PRICE. BUT I DON'T THINK WE WOULD HAVE ACHIEVED VICTORY.

chex.rm/mw/45 UNCLASSIFIED

MP

FROM: MISS M P WALLACE
DATE: 10 November 1988

MR MONCK

cc Sir P Middleton

CBI CONFERENCE

The Chancellor was grateful for your minute of 9 November.

MP

MOIRA WALLACE

Sarah

do you have Quinton letter or do I?

M

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 Trevor Holdsworth
President

CBI

14 November 1988

JMMB/FG

CH/EXCHEQUER
REC. 15 NOV 1988
ACTION MR MONCK 15/11
COPIES TO PS/CST, PS/FST, PS/EST, SIR P MIDDLETON, SIR T BURNS, SIR G LITTLER, MR ANSON, MR SCHOLAR, MR BURGNER, MR ODLING-SMEE, MR PERETZ, MR BURR, MR GIEVE, MR PICKFORD, MR CALL.

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON SW1P 3AG

Dear Nigel

We are very much looking forward to seeing you at our Council meeting next week.

In this context, and in light of some misleading comment about our recent debate in Torquay on economic policy, I thought that I should write to make it quite clear that the CBI is not in favour of credit controls; neither has our Economic and Financial Policy Committee concluded that the measures that you have had to take recently are not proving effective in cooling the escalation in house prices in the South East and the growth of consumer demand. Quite the contrary, in fact.

The debate at our Conference was concerned with the hypothetical question: "What if the measures so far taken do not prove effective in securing the necessary cooling of consumer demand." It was in this context that our members drew attention to the damaging effects of high interest rates to smaller businesses and exporters in particular. In view of these very real costs, of which I know you are very conscious, a significant body of our members believe that as an alternative to further increases in interest rates other measures should be considered in the context of next year's budget. We will of course be returning to these issues when we send you our formal recommendations on Economic Priorities for 1989 in the next few weeks.

I thought I should write to clarify the situation, since it would be wrong to conclude from the fact that a Resolution had been put down for discussion by a member of the Economic and Financial Committee, that the Committee as a whole was in favour of it - except in so far as they considered that the issues involved warranted a thorough public airing.

/..

The Rt Hon Nigel Lawson MP
Chancellor of The Exchequer

14 November 1988

Finally, lest you might have been confused by some of the comments on our discussions about relations between the City and Business, let me make it quite clear that we are not interested in protectionism: John Banham made it very clear in his closing speech to the Conference (which I am enclosing with this letter) that the United Kingdom must remain the most open financial market in Europe, and that we must not erect any barriers to acquisitions which do not already exist in the United States in one form or another. You will see from his speech, moreover, that the CBI priorities for next year involve building on business success: ensuring that there are effective links between every secondary school and local business, seeing that all young people have access to appropriate skill training, carrying through the Management Charter Initiative, contributing to the renewal of our inner cities and preparing British business for the challenges that 1992 will most assuredly bring.

We all much look forward to seeing you here next week.

With best wishes

Yours sincerely

John [illegible]

for Trevor Holdsworth

CLOSING SPEECH BY MR JOHN BANHAM, DIRECTOR GENERAL OF THE CONFEDERATION OF BRITISH INDUSTRY AT THE CBI'S 12TH NATIONAL CONFERENCE AT TORQUAY ON TUESDAY 8 NOVEMBER 1988

<u>INVESTING IN SUCCESS</u>

President, Ladies and Gentlemen

Although our discussions over the last day and a half have been looking to the future, there have been a number of echos of last year. So that is perhaps where I should start.

When we met in Glasgow, it was in the aftermath of the fall in the world's stock markets. We had to contend with a surfeit of gloom-laden prophecies from the economic soothsayers. Most of them, as it has turned out, were wrong. And the CBI was right. Winning is a <u>habit</u>; British Business has acquired it. We are beginning to see the Era of Investment for which we were calling.

For business is in <u>excellent</u> shape, despite the problems that come from non-competitive interest rates (8 points higher in Britain today than they are in West Germany and 9 points higher than in Japan) and despite the inevitable effect this has on sterling.

- Britain is at or near the top of the OECD growth league in manufacturing output and in productivity.

- Unit labour costs in manufacturing are rising at no more than 1 per cent a year, and even that rate of increase is showing signs of falling.

- Investment in new plant and equipment is increasing at a record rate.

- Exports continue to grow in volume, despite a 15 per cent rise in sterling since early last year.

A familiar litany perhaps. But <u>still</u> not generally appreciated. It's called success. Times and attitudes <u>have</u> changed. Wherever the inflationary pressures in the economy are coming from, it is not the private manufacturing sector. We have <u>at last</u> created the opportunity to invest in success as a Nation - an opportunity which had eluded us ever since the war. And it is investing in success which this conference has been about; it is what the CBI is all about.

But, President, success brings with it obligations as well as great opportunities and in winding up this Conference, I should therefore talk about each in turn. Firstly, the obligations of success.

THE OBLIGATIONS OF SUCCESS

This time last year, I set out my personal targets for the CBI over the next five years, reflecting the strategy agreed by our national Council;

- Every single local secondary school in the country linked effectively with local business.

- A doubling in the effectiveness of our training

- Management turned into the profession that it must become

- Business fully involved in the renewal of the decaying centres of our Inner Cities.

- British business prepared to meet the challenges that 1992 will most assuredly bring.

Your response has been quite magnificent. As our discussions have shown, you are determined to see action. Action that could change, permanently, the outdated attitudes in some sections of the media and Westminster, not to mention much of the general public, towards the business of creating wealth. Our discussions have been the most heartening confirmation, if confirmation were needed, that British business is back. Only winners look to the long-term, which is what our debates have been about. Business is indeed stepping up to the obligations of success.

- Alan Lewis and the founder members of the 1992 Initiative are mounting the most ambitious communications programme ever undertaken by the CBI, to equip every business of any size with world-class advice on the specifics of what they need to do to prepare for the single European market. It is not before time. Our research suggests that well over 7,000 British businesses with turnover of £5 million a year have yet to do anything to prepare for 1992. They are sleep walking into the future and they will take their employees with them. It will not be 'alright on the night'. There can be no excuse for not participating in the standards-setting effort, or for failing to take out this insurance policy against being left at the post in a race in which only the fittest will survive.

Sir John Harvey-Jones said the other day that he expects up to half of Europe's businesses to have disappeared in 5 years. Even allowing for some poetic licence, the challenge is clear. CBI Initiative 1992 is there to ensure that Britain's businesses are among the survivors.

That is why it is our main priority for next year.

- Bob Reid made clear the Management Charter Initiative will also be moving into top gear next year, selling careers in business to young people. The prospect is enormously exciting.

  A recent poll shows that management now comes number three in the list of jobs most sought after by undergraduates, above financial services, accountancy, the Civil Service and teaching. What a contrast.

  Only medicine and law come higher. There is no reason why management should not come top of the list - provided we avoid the pitfalls of professional and academic politics.

- Tom Frost and the members of his Task Force have committed CBI members to tackling the £50 billion challenge of urban dereliction, not just because it will be good business (although it will be) but because it is right.

As we have just heard, BiC and Phoenix have agreed to join the independent Forum Business in Cities called for in the report. Our first meeting, under Sir Hector Laing's Chairmanship, is on the 1st of December. This is business getting its act together. Meantime, BBC Television will be launching a major competition and series of prime time programmes under the title "It's Your City" at the BiC Annual Meeting the week after next in Sheffield, at which I shall present the Task Force report to the Prince of Wales. The BBC anticipate over 100,000 individual entries - itself a huge tribute to business initiatives in this field.

- Adrian Cadbury and his Task Force have shown how the dream of effective local links between business and every secondary school in the country can become a reality. Our Regions will be the key to the successful implementation of their recommendations. Here too, the prospects for action to rationalise the 'alphabet soup' of competing private-sector initiatives look good.

- Finally, Geoffrey Armstrong and the Employment Policy Committee have provided a welcome contrast to the legalistic, paternalistic nonsense coming out of Brussels on social engineering. I am delighted that Sir Bryan Nicholson has agreed to chair a CBI Task Force to come up with specific proposals for next year's conference in Harrogate to bridge the existing skills gap - so that young people can acquire the skills they (and their employers) agree they need, rather than those that the providers of training condescend to offer them. We have a great opportunity to build on the close working relationships with the Secretary of State and his senior officials to ensure that market forces replace the bureaucratic institutions of the past. (Incidentally, I

told Norman Fowler that his reception yesterday was the equivalent of a ten minute standing ovation at a Conservative Party Conference. _Our_ members are not keen on sycophancy, or inflation either!) _Every_ young person in employment must have the opportunity to acquire a relevant skill, to invest in their own future.

* * *

So British business _is_ stepping up to the wider obligations of success. And in the process we will be building the better community of our Conference theme.

THE OPPORTUNITIES

Let me now turn to the main opportunity that is opening up as a result of business success: the opportunity to be taken seriously. Whingeing, whining losers usually get the attention they deserve. So do winners. When today's business leaders set out what needs to be done to secure our future international competitiveness, they had better be listened to - rather than the economic soothsayers who have never made or sold anything in their lives (except their opinions). Certainly, to read some current commentaries is a deeply depressing experience. They seem to learn little, and to suffer too often from a combination of what I believe is known as 'ballistic thinking' and 'forecaster's droop'. It is easy to see why the prosperity of the country is inversely related to the distinction of its economists.

We stand, as I see it, at something of an economic crossroads. It is our manufacturers who have made the difference between an economic miracle, which is how we are still widely regarded overseas, and the disaster that had to be bailed out by the IMF only 12 years ago. And the recovery has not by any means run its full course.

_If_ consumers can be persuaded to accept the sacrifice of seeing their spending next year grow by 2 per cent in real terms (a figure that would have had us delirious with delight not very long ago) and _if_ simultaneously we can maintain the current momentum of capital investment, there is indeed the opportunity to build on our success - and our balance of payments problem could be solved.

But a policy of 'more of the same' will not be good enough. Business is _still_ not _generating sufficient surpluses_ to fund investment on the scale required. (And if we are to meet the challenges of 1992, we must invest _substantially_ more to maintain our competitive edge).

Meantime, as we discussed yesterday, the burden of taxation on business continues to rise in real terms, from £30 billion two years ago (1986-87) to a likely £38 billion this Financial Year - an increase that represents more than our _entire_ national expenditure on non-military Research and Development, or sufficient to build over 2,000 miles of motorway _every year_.

In addition, our competitive edge both at home and abroad, is being blunted by the the combined effects of increases in interest rates, electricity prices and local authority and water rates, not to mention changes in sterling parity. For example, as a result of changes outside his control, one successful member company will see costs this year rise by £6 million; he only reported pre-tax profits of £6.7 million in 1987.

If manufacturers are to continue to be able to invest in success on the scale required, both Government and the City must also play their part.

The Government Role

What can the Government do? The first and perhaps crucial ingredient that Government can provide is leadership. The voters must be persuaded to save and invest, rather than to 'carry on spending'. It should not be impossible. This is not a policy of "blood, sweat and tears". There is no question of asking people to tighten their belts. Only of convincing them that putting on too much weight too quickly will reduce their life expectancy!

We need more of the kind of leadership this Government has been so effective at providing in the past. We saw it in the Chancellor's Autumn Statement last week - although we need to look at the small print very carefully. We will need to see it again in next year's Budget if we are not to get diverted back to the Slow Road to Nowhere - along with too much of the Nation's increasingly congested traffic.

Of course, there is more that Government can do to reinforce business success:

- For example there is absolutely no need for <u>any</u> increase in electricity prices for intensive users this coming Spring, particularly when electricity users are already expected to repay £1.3 billion of CEGB debt next year. Prices under Government control are rising six times faster than those subject to the disciplines of the market place. We can do <u>without</u> these inflationary <u>own goals</u>.

- Nor need there be any real increase in local authority business rates. The Autumn Statement shows that in real terms, Local Authority spending over the next three years is not expected to increase at all - in marked contrast to spending under central Government control, incidentally, which seems set to rise by 4 per cent a year in real terms over the next three years.

- Corporation Tax could be reduced to 25 per cent if the recommendations of Malcolm McAlpine's Task Force on public spending were implemented. Any deterrent to the creation of wealth amounts to a perverse incentive.

In addition, there is an ever clearer need to re-write Britain's economic geography, if we are not to be burdened with uncompetitive transport and distribution costs in the single European market. Our road and rail networks must reflect the future - not our economic past. A cyclist can get from Bristol to Poole quicker than a lorry; traffic in central London today is moving (if at all) slightly slower than in the era of the horse and cart. Muddling through simply will not do.

Figures provided by our members show that congestion on our roads is already costing well over £3 billion a year. Delays are probably costing over £1 billion a year on the M25 alone. Urgent action is needed. We can't wait five let alone fifteen years - the current lead time for a major road. Jam tomorrow won't do when we've got jams today. We welcome Paul Channon's overdue review of the Nation's infrastructure needs in the run-in to 1992; we will continue to provide all the help we can.

And don't let's plead poverty either: just one year's productivity gains in the public sector of the kind that have become routine in manufacturing would be sufficient to fund the construction of an additional one thousand miles of motorway every year.

Finally, competition policy. What can I say after yesterday's debate. At least we cannot be accused of organising a rally - or even a Party Political Conference. The President and I didn't even know how to take a vote - which is why we were delighted that you decided not to demand one. What was striking about the discussions, however, was that no-one denied Hector Laing's basic proposition: the UK is the most open securities market in Western Europe. Indeed, it is the only open market in Europe. Anyone from outside wishing to acquire a base from which to develop their European business has no alternative port of call to London. Pulling off a contested takeover on the Continent is near impossible. So we must anticipate an accelerating pace in bids for UK companies from outside the Community. The present striking rate is one a month; there are four on the table at present. (There were two when the first draft of this speech was prepared, not that long ago President.)

In present circumstances, the outcome is inevitable: whenever the price is even vaguely respectable, control of company after company will fall to owners not just outside these Islands, but outside the Community.

Anyone who says that this does not matter simply fails to understand the realities of business life.

At the same time, British business has a very considerable stake in free and open markets. We must not be painted into the protectionist corner. The UK is the second largest overseas investor in North America. So far this year, there have been some 97 bids by British companies for companies on the Continent, all of them agreed.

So we must seek no more than a level playing field with a groundsman sensitive to the needs of the home team - an advantage which must be well understood by you, President, as a Yorkshireman born not far from Headingley.

But at present the playing field is <u>not</u> level. Our follow-up survey to last year's Task Force has revealed increased disquiet among our members. Nearly 7 out of 10 believe the grounds for a reference to the Monopolies and Mergers Commission should go beyond competition considerations and should include bids where the predator is practically immune to a counter bid and where a bid is leveraged to an extent that could prejudice future investment in the business being acquired.

The City

What if the Government remain on the sidelines and maintain their present stance that the market must decide in virtually all cases except where competition considerations arise? The greatest risk I see is that investors will fail to appreciate the extent of the turnaround in British manufacturing. The habits of decades of relative decline and failure die hard. The 'grab-it-while-you-can' mentality is still with us.

Ownership and speculation are dangerously close to becoming the same thing. Companies are said to be "in play". For me, the very word "play" in this context is an obscenity. This is not a game President. These are companies which, very often, people have devoted a lifetime to building. They are our Nation's future. They are not to be traded away, heedless of the consequences, by a collection of high rollers concerned only for their own financial gain in some kind of economic casino.

There is more to owning shares in a company than the right to buy or sell them at will. As many of our great City institutions have long recognised (and practised) the rights of ownership bring with them the obligation to think longer-term.

As our former President, Sir David Nickson, pointed out last year in his City/Industry Task Force report Investing for Britain's Future, without greater self-discipline and more concern for the longer-term, we shall be playing roulette with our economic future. While fund managers talk about their "fiduciary obligations" the very heart could be torn out of our future competitiveness.

We must put our own houses in order. Our recent survey shows that companies are improving communications with shareholders. But Pension Funds must take a longer view of their fund manager's performance - the "what-have-you-done-for-me-lately" attitude reflected in the requirement to be at or near the top of the Quarterly league tables will be counter-productive in the longer term. And in contested bids, the crucial "keep or sell" decision should be taken by the Trustees or Board of Directors of the Institution, not delegated to a fund manager who may be more preoccupied with his position in the league tables than with the longer-term competitiveness of the business. These are matters under our control; as the American Civil War General is alleged to have said on returning from a reconnaisance: "I have seen the enemy; and he is us".

But in my view, this will not be enough. By 1992, if things go on as now, we are bound to end up with some cash-rich institutions with few British-based companies to invest in - and where will their source of competitive advantage lie then?

Markets need time, and good information to function effectively. The acquisition process must be slowed down and made more open, so that the markets can take a more considered view in light of all the relevant facts. The rush to sell is not just unseemly. It may well be unwise - as those who have sold into a dawn raid have almost invariably found out.

Business success (and by business I mean services as well as manufacturing, City as well as industry) entitles us to demand changes in the way the markets operate.

We have already made clear to the Department of Trade & Industry our view that companies should be free to disenfranchise shareholders behind nominees who refuse to declare the beneficial ownership and controlling interest of the shares within a working day of being asked to do so. How on earth can boards of directors be expected to look after the interests of their shareholders if they do not know who they are?

But, President, in spite of all the hard work which has gone on over the last two years the problems of City-Industry relations have, obviously, not been laid to rest. We simply cannot afford to be debating these issues in the same terms and with the same result for the third time next year. We need urgently to develop some specific proposals. I believe, President, that we should invite the CBI Companies Committee to re-evaluate the issues; here are six proposals to help to start the process:

i The trigger for making a full bid for a company should be reduced, perhaps to 15 per cent.

ii Every bidder should be required to issue a detailed prospectus, spelling out its plans for the development of the company it seeks to buy. In particular, where there is a contested bid for a company with a marked regional presence, the bidding company should be required to explain in its prospectus how the change of ownership will benefit the regional interest. This, in effect, is precisely what BAT Industries was required to do in the American Courts (in the Farmer's case), and what Grand Metropolitan is now doing (remarkably successfully) in the context of its current bid for Pillsbury.

iii Companies should be able to postpone voting rights in shares acquired during a bid period - a move unlikely to commend itself to arbitrageurs.

iv At least two thirds of registered shareholders should be required to vote, at an extraordinary general meeting, to accept an offer for their company.

v With the consent of their shareholders, companies should be able to offer a golden share to their pension funds - as an alternative to going private or arranging a management buyout, with all the risks these and other poison pills entail. The independent Trustees will thus have the opportunity to determine where their beneficiaries' longer-term interests lie.

vi Once a bid has failed, the predator should be required to divest itself of sufficient shares (perhaps to the remaining shareholders at the bid price) to bring its holding below the bid threshold; and a further bid should not be possible for three years.

These proposals are not intended as a recipe for distorting the market, but for making it work more effectively. None is without its costs, and these must be weighed against the benefits. Above all, we must remain the most open market in Europe to continue to attract investment money from all over the world.

There are undoubtedly difficulties with doing anything. But, President, I do not think that we can afford the luxury of doing nothing - acting as pall-bearers at our own funeral as it were.

* * *

President, this is a time to invest in success, not to reinforce the get-rich-quick attitudes bred of the decades of failure. This is not a bunch of whingeing, whining losers talking, but a bunch of <u>winners</u> - as our growth, productivity, investment, exports and profits figures show. This is not self-interest talking either: there is not a Chairman in the room who does not stand to realise a personal fortune by negotiating the sale of his company to the highest bidder. We are not asking for anything; we are <u>telling</u> people what needs to be done if we are to sustain the momentum of the excellent recovery we have achieved so far.

Our priority remains investment by business, in business. Personal consumption must come second. And public expenditure third. The listening in Whitehall, Westminster (and Wapping) needs to be a lot better this coming year than it was last. The good news, President, is that the leaders of Britain's businesses are so obviously determined to see that this is precisely what happens. That is what this conference has been all about. This is what the CBI is all about.

ind.rj Nov PS.CX.16

BF 16/11

CONFIDENTIAL

Who has this? I don't think I do.

FROM: N MONCK at the back somewhere

DATE: 16 November 1988

PS/CHANCELLOR

cc Sir P Middleton

SIR TREVOR HOLDSWORTH'S LETTER OF 14 NOVEMBER

The main purpose of this letter seems to be to mollify both the Chancellor and John Quinton about the resolution against the excessive use of interest rates to curb inflation.

2. The second paragraph argues that the resolution should be seen in the context of the question of the choice of instrument if further tightening is needed and, having rejected credit control, in the previous paragraph refers to fiscal action in next year's Budget. This was indeed the line taken by one of the supporters of the motion, Dick Lloyd of Hill Samuel, who was presumably in some sense a spokesman for the official CBI.

3. It is conceivable that the letter is designed as an olive branch to John Quinton which might make him withdraw his resignation as Chairman of the CBI's Economic and Financial Policy Committee. But I don't think we need bother to enquire whether some such internal manoeuvring is going on before the Chancellor answers John Quinton's letter of 9 November. I think the short reply I submitted yesterday does not need any change on account of the Holdsworth letter.

NM

N MONCK

~~I think you have~~

Have you put it in to Ch for him to reply?

Julie: I have Quinton + Ch has replied but what about Holdsworth?

ind.rj Nov Hudson

RESTRICTED

This page only
Mr Hudson

cc Mr Monck
as above

There is no reason why the Chancellor should not refer to the ~~add~~ additional R & D expenditure disclosure requirements to be included in the revised standard

[initials] 18/11

FROM: N MONCK

DATE: 17 November 1988

MR HUDSON

cc Mr Burgner*
Mrs Lomax*
Mr Gieve*
Mr Inglis*

*without attachment

CBI COUNCIL ON 23rd NOVEMBER

You asked whether the Chancellor might return to the theme of short termism. I think there are some things he could say, as I explain below, though there is a risk in doing so. This is that it will lead straight into the whole question of the adequacy of present policies, rules, etc relevant to takeovers especially by foreigners. Of course, this is likely to arise anyway and we shall be providing defensive briefing as you know. But if the Chancellor ventures onto this himself, it is slightly more difficult for him to retreat to saying that takeovers are Lord Young's responsibility which I think he will have to do at some stage.

2. If the Chancellor did want to go back to long termism, he could make use of the attached "CBI Survey of City-Industry Relations One Year Later" (which Mr Burgner and Mrs Lomax have already seen) and, I think, of his own speech to the Stock Exchange(?) in which he spoke about the need for more informative accounts in the interests of long termism. I can't find that speech but I hope you can.

3. I will not try to meet your standards of pith at this stage, but some of the points he might make are:

(a) note there is still concern among CBI members about short termism though not much change since a year ago;

(b) most respondents to the CBI Survey have not changed the amount of information they disclose to shareholders, but a significant minority have revealed more. Clearly scope for more improvement on this. Helpful that Accounting Standards Committee will require disclosure of R & D expenditure. Will bring us closer to practice in USA, the other country with a similar capital market;

ind.rj Nov Hudson

RESTRICTED

a
You asked to see this. PWP
AA
Rachel

Alex
This is the minute referred to in Rachel's 8 Dec minute on the SX lunch. I didn't use any of it for 23 Nov, for lack of space.
AH

FROM: N MONCK

DATE: 17 November 1988

MR HUDSON

cc Mr Burgner*
Mrs Lomax*
Mr Gieve*
Mr Inglis*

*without attachment

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(c) little significant change in policies to encourage good investor relations. A surprising finding on the face of it;

(d) also surprised that only a little over 10 per cent of respondents (17 per cent of 66 per cent - see answers to questions 4) discuss the casting of pension funds' voting rights in third companies. This result presumably underlies John Banham's remark in his closing speech at the annual conference: "I have seen the enemy; and he is us".

4. I attach the extract from the Banham speech on the City (pages 15-20), though I admit it goes against the grain to quote from it.

5. Could Mrs Lomax say if she objects to including the reference to discussing votes by pension funds, and Mr Inglis if he objects to reference to the ASC and R & D? — Mr Inglis didn't (whoever he is).

6. If you think any of these points, which are far from earth-shaking, are worth making, I suggest you either include them in the draft on which we can comment or, if you prefer, ask us to provide drafts.

NM

N MONCK

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

Telegrams: Marspenxa London
Telex No.: 267141
Telephone: 01-935 4422

Michael House,
Baker Street,
London, W1A 1DN.

from John Sacher

17th November 1988

PS/ circulate as appropriate, draft brief reply, & return for PS/Chancellor.

Dear Chancellor,

I have seen the retail figures recently published and have listened to and read with some dismay the commentary upon them on the radio and in the press.

Our business at Marks and Spencer, while not bad, shows no sign of boom nor has it for a substantial period. This view is shared by most if not all companies with which we have contact in the lighter consumer goods field.

I and my colleagues would join the CBI in asking for an urgent re-examination of the formulation of the retail figures.

I am writing to you as any action which might follow would be of a financial nature. I am sending a copy of this letter to David Young.

With best wishes

Yours sincerely

John Sacher

The Rt. Hon. Nigel Lawson, M.P.,
Lord Chancellor,
11 Downing Street,
London SW1A 2AA.

chex.rm/aa/52 RESTRICTED

FROM: A C S ALLAN
DATE: 18 November 1988

MR HIBBERD

cc Sir P Middleton
Sir T Burns
Mr Sedgwick
Mr Pickford
Mr Gieve

RETAIL SALES

The Chancellor discussed the latest retail sales figures with a colleague who is on the board of several major retailers. The Chancellor was told that the October figures were completely inconsistent with the messages coming from the stores. And he was told that the forms which DTI use to collect the information make no allowance for acquisitions - they simply ask for total sales by the group, regardless of whether the underlying size of the group has expanded or not. This would mean that if a company which was in the sample acquired one that was not, retail sales figures would inevitably rise. The Chancellor would be grateful for your comments on this point.

ACSA

A C S ALLAN

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

Telegrams: Marspenza London
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I am writing to you as any action which might follow would be of a financial nature. I am sending a copy of this letter to David Young.

With best wishes

Yours sincerely

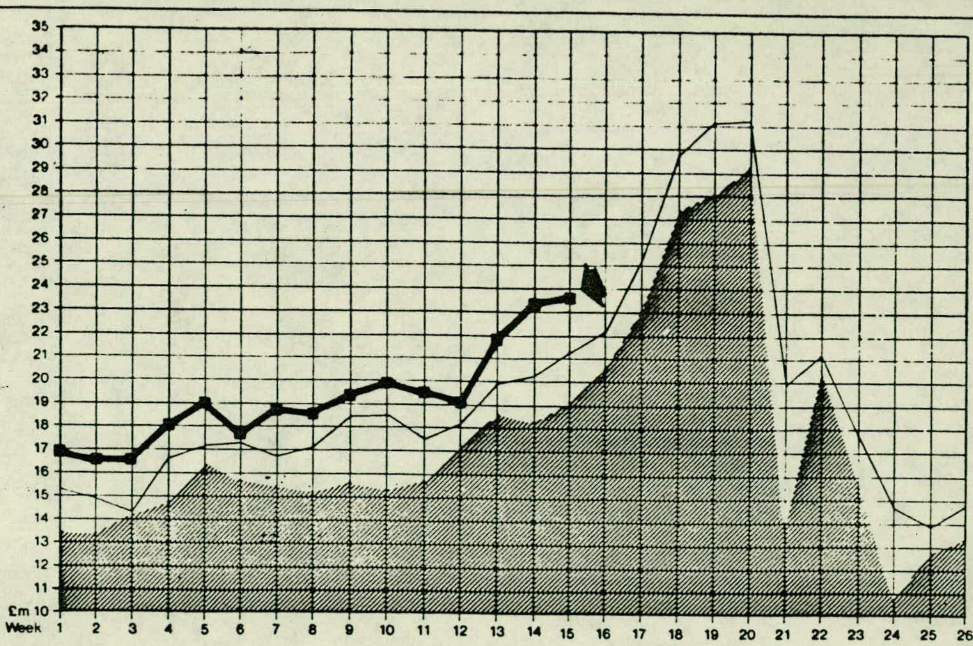
John Sacher

Mr Allan,
This has all the signs of a coordinated campaign. Maybe we should take advantage of this and ask him if he would consider sending us weekly figures for sales growth - (with some historical figures by way of comparison).

TB.

The Rt. Hon. Nigel Lawson, M.P.,
~~Lord~~ Chancellor,
11 Downing Street,
London SW1A 2AA.

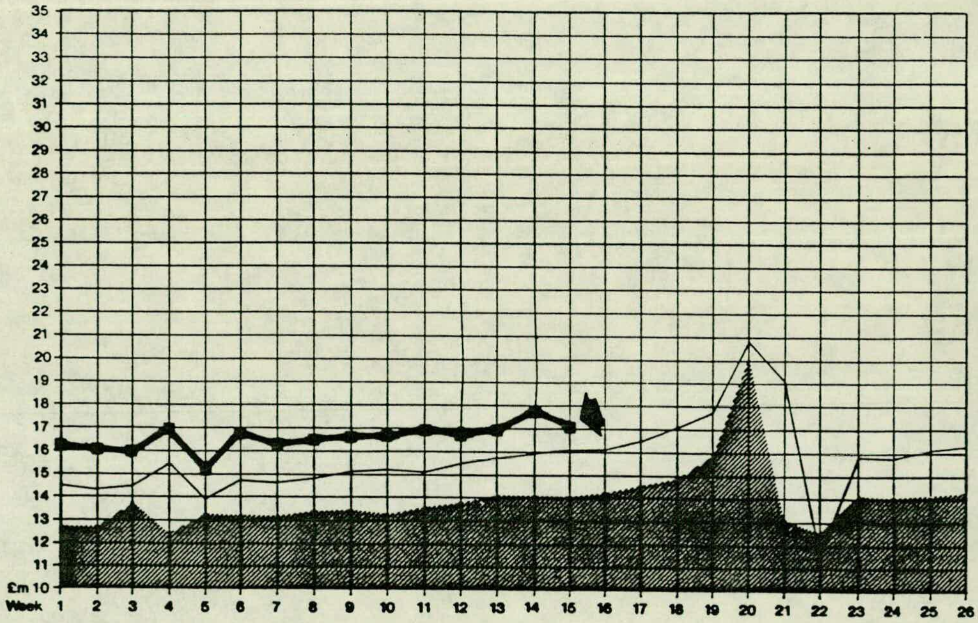
387/11/88



Department stores

	% increase on 1987-8	1986-7
	%	%
15th week ended 12 November	**10.9**	**23.2**
15 weeks to 12 November	**9.6**	**20.8**

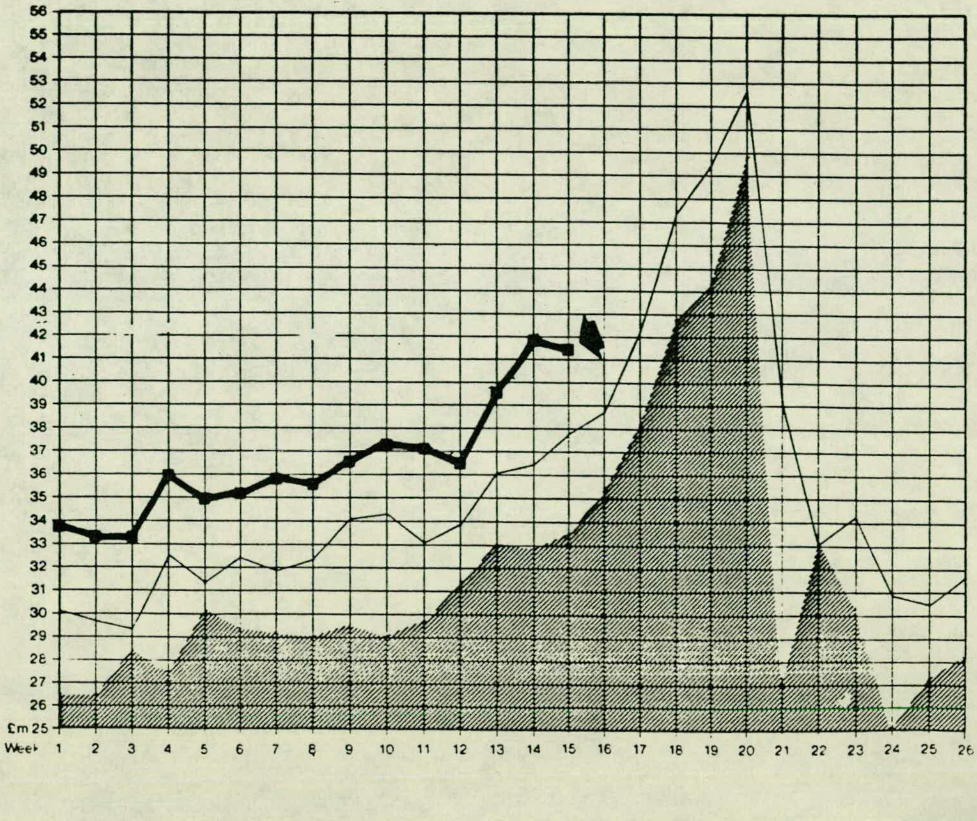
The estimate of sales for the half year as a whole is for an increase of 9.9% above 1987-8.



Food group

	% increase on 1987-8	1986-7
	%	%
15th week ended 12 November	**7.2**	**21.9**
15 weeks to 12 November	**10.4**	**23.6**

The estimate of sales for the half year as a whole is for an increase of 11.2% above 1987-8.



Total sales

	% increase on 1987-8	1986-7
	%	%
15th week ended 12 November	**9.6**	**23.5**
15 weeks to 12 November	**10.7**	**22.9**

The estimate of sales for the half year as a whole is for an increase of 11.3% above 1987-8.

1988-9
1987-8
1986-7

The lists on the following pages are in order of the amount of cash by which sales were above or below last year's figure. An asterisk * beside the name means that the manager or buyer has not been in charge for the whole of the period under review.

chex.ps/aa/19 UNCLASSIFIED

BF 25/11

FROM: A C S ALLAN
DATE: 22 November 1988

MR HIBBERD

cc Sir P Middleton
Sir T Burns
Mr Sedgwick
Mr Pickford
Mr Gieve

RETAIL SALES: LETTER FROM JOHN SACHER

I sent you a copy of Mr Sacher's letter to the Chancellor of 17 November. I imagine the Chancellor would want to reply briefly and positively to Mr Sacher, on the lines "Others have expressed similar concern about the latest retail sales figures, and we are investigating the accuracy and reliability of the statistics".

2. I see that Mr Sacher has copied his letter to Lord Young. I should be grateful if you could check with DTI whether a reply on these lines would be consistent with what they will be saying.

ACSA

A C S ALLAN

pso.jt/Sargent/3.22.11

BF ~~25/11~~ 28/11 → AA

From: S D H SARGENT

Date: 22 November 1988

PRINCIPAL PRIVATE SECRETARY

cc Sir T Burns
Mr Sedgwick
Mr Hibberd
Mr Pickford
Mr Gieve

RETAIL FIGURES: LETTER FROM MARKS AND SPENCER

Sir Peter Middleton has seen Mr Sacher's letter of 17 November to the Chancellor. He has suggested that it might be worth asking Marks and Spencer to provide some actual figures. It is not particularly enlightening to be told that business is "not bad".

S

S D H SARGENT
Private Secretary

FROM: B COULTON

DATE: 22 NOVEMBER 1988

PS/CHANCELLOR

cc: Sir P Middleton
Sir T Burns
Mr Sedgwick
Mr Hibberd
Mr Owen
Mr Gieve

JOHN LEWIS - LATEST SALES FIGURES

I attach the latest sales figures from John Lewis which were published in their Gazette of November 19.

2. The chart of total sales for the 15 weeks up until November 12 shows a pattern of weekly sales broadly in line with the previous year. There is no obvious sign of any slowdown in the annual growth of sales between September and October. Although the sales of one retail chain cannot be interpreted as indicative of an overall trend, this may be construed as evidence to back up the latest DTI estimate of retail sales for October. It appears to contradict the anecdotal evidence from some other retailers.

3. In the last week of October and the first week of November (ie weeks 13 and 14 respectively) sales appear to have increased at a more rapid rate than they did in the previous two years. However, in the latest week for which figures are available sales fell back slightly.

4. We are currently in the process of examining a longer backrun of the John Lewis figures and the Retail Sales Index. I will shortly be circulating the results of this, along with a reply to the note from Mr Allan to Mr Hibberd (18 November) on the subject of the method of collection of the DTI retail sales data.

B Coulton

BRIAN COULTON

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

Director-General
John M M Banham

Secretary
Maurice Hunt

SPARE

CBI

MP

Sir Terence Burns
H M Treasury
Whitehall
London
SW1

24 November 1988

Alex,
Not much change.
TB.

I don't much like the Stokes fig. We will need to watch the market.

Dear Terry

CBI Forecast and Monthly Trends

I attach the results of the latest CBI monthly Trends Enquiry and economic forecast. These will be published in the November Economic Situation Report, released at 0030 on Monday 28 November.

Our forecast is fairly similar to the Autumn Statement forecast. You will see that we have moved on to a new model, at 1985 prices, which has much stronger supply - side effects. If you have any queries about the forecast, do not hesitate to contact me.

Best wishes

Andrew

Andrew Sentance
Head
Economic Trends/Policy Department

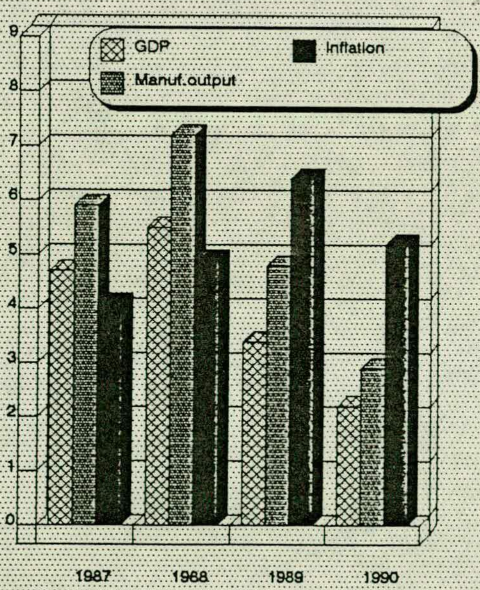
ECONOMIC FORECAST

Domestic economy

The UK economy has continued to expand rapidly this year. Economic growth, measured on the more reliable output basis, averaged 5.5% in 1988, but is expected to slow to 3.4% in 1989 and 2.2% in 1990 (see Chart 1). Interest rates are assumed to remain at 12% until mid-1989, before falling to 11% by the end of the year. Base rates are expected to ease further averaging 10.4% in 1990. The recent interest rate rises and continued earnings growth of around 8.5% are expected to contribute to a pick up in inflation to just over 7% in the first half of next year. Retail price increases will then moderate reaching 5.1% by the fourth quarter of 1989 and remain broadly at that rate in 1990. The current account deficit is expected to reach £13.2bn this year largely due to buoyant domestic demand and a stable pound. The external deficit is expected to decline over the next two years as world trade remains strong and sterling depreciates slightly to average 72.1 (EER 1975 = 100) by 1990.

Chart 1: CBI ECONOMIC FORECAST

% growth on previous year



Components of demand

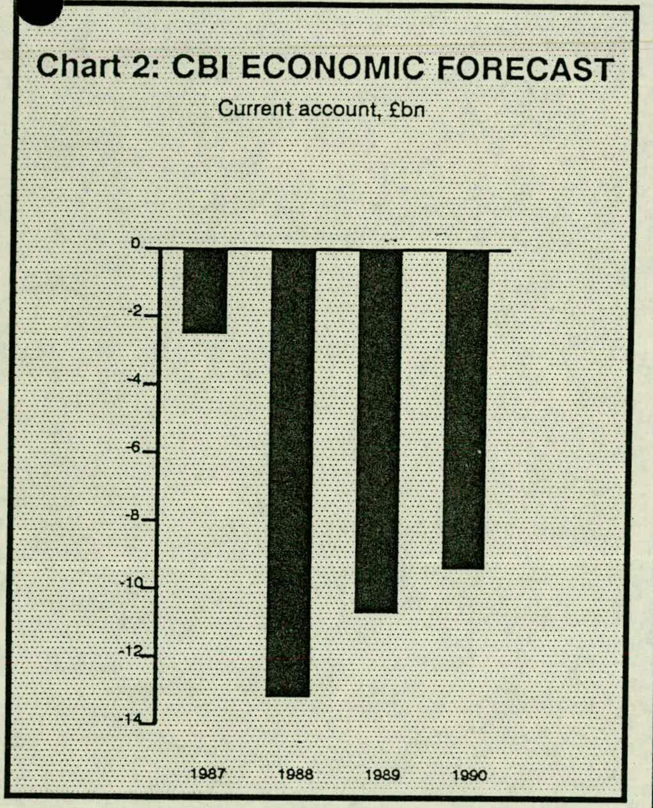
Consumers' expenditure will grow by 5.7% this year, compared with 5.1% in 1987. Growth is expected to slacken to 2.8% next year and 1.9% in 1990 with more moderate growth in personal disposable income and a pick-up in consumer prices. Real personal disposable income slows from 3.7% growth this year to 2.7% in 1989 and 2.1% in 1990. The saving ratio is expected to recover slightly towards the end of the period, partially offsetting the stimulus to consumer spending from a reduction in the basic income tax rate to 23% assumed in the 1990 Budget.

Balance of payments

Export growth - only 1.3% in 1988 - is expected to recover strongly to 7.6% next year, easing slightly to 3.9% in 1990. However, world trade in manufactures will remain a favourable influence on UK exports, averaging around 6% p.a over the next two years, slightly below 8.6% expected this year. Imports, which increased by nearly 12% in 1988 are expected to slacken to 5.1% in 1989 and 2.1% in 1990. The current account deficit will rise to £13.2bn this year but is expected to narrow over the forecast period to reach £9.4bn by 1990. (see Chart 2). The improvement in the external balance reflects healthy world trade expansion accompanying a marked slackening in domestic demand growth, a modest depreciation of sterling against other currences, and a better overall supply performance.

Investment

Total fixed investment is forecast to rise by nearly 12% in 1988 compared with 5.5% growth in 1987. 7.3% growth is expected in 1989, before falling back to 1.5% in 1990. Manufacturing investment, having risen by nearly 5% in 1987, is likely to increase by 14.3% in 1988, but slow to 9% and 6.1% respectively in 1989 and 1990. Total private (non-governmental) investment is expected to increase rapidly by 13% this year, and by a further 7.9% in 1989, but slow markedly in 1990. Investment in dwellings will be particularly strong in 1988, but is expected to level off over the forecast period. Investment activity in the North Sea is expected to remain at current levels over the next two years.



Output and employment

Manufacturing output is expected to rise by 7.2% this year, the highest rate since 1973 and as expected in August. Growth is forecast to slow to 4.8% in 1989 and 2.9% in 1990 broadly in line with demand. Manufacturing employment will decline slowly over the forecast period as productivity continues to outpace output growth over the forecast period - output per head slows to 4.3% by 1990, in line with the average rate achieved since 1979. Total employment grows by 2.3% in 1988, but is expected to slacken to 1.5% p.a over the forecast period. Unemployment declines slightly from current levels, averaging around 2 mn over the next two years.

Inflation

Inflation picks up this year to average 6.5% in the current quarter, giving a rate of 4.9% for 1988 as a whole. Retail prices are expected to be 6.4% higher in 1989, although the rate of increase is expected to slacken from the middle of next year and average 5.2% in 1990. Oil prices are likely to remain subdued over the forecast period, rising slightly from $14.4 per barrel in 1988 to $14.9 by 1990. Non-oil commodity prices rose by 12.5% in $ US terms in 1988, reflecting strong increases earlier in the year. Modest increases, at under 3% p.a. are expected over the forecast period, although their impact on domestic inflation will be further reduced by a weakening US dollar. Average earnings are assumed to rise by nearly 9% in 1989 easing to 8.6% in 1990.

Risks and uncertainties

The forecasts presented here envisage a gradual slowdown in economic growth to more sustainable rates in 1989 and in 1990, combined with moderating inflation from the middle of next year and a steady improvement in UK's external deficit. This outcome depends on:

(a) the world economy continuing to remain fairly buoyant, with the decline in the US dollar being contained to modest proportions as some progress is made towards tackling the US budget deficit.
(b) the current level of UK interest rates being sufficient to damp down consumer demand in the coming months.
(c) pay settlements not being significantly affected by the temporary pick up in retail price inflation expected in the first half of next year.

If these factors do not turn out as expected, there is a risk that next year the UK economy will experience slower growth, higher inflation and a higher level of interest rates, with consequent depressive effects on activity in 1990. Economic growth could, on the other hand, be more rapid than presented here, if investment growth were to be sustained at current high rates and a more substantial improvement in the supply response of British companies was in fact achieved.

Note: The forecasts are derived from the CBI's new quarterly model of the UK economy estimated at 1985 prices. The model combines supply side features with the conventional income - expenditure demand framework. Total output is determined directly by summing the outputs of the main sectors of the economy - manufacturing, construction, North Sea oil and gas,other energy and water supply, construction, services and agriculture. Previously, GDP was simply determined by the demand side as the sum of expenditure components - public and private consumption, investment, stocks and net trade. The growth forecasts given here include economic data available up to 11 November.

Summary of the CBI Economic Forecast

	1987 level £bn, 1985 prices	1987	1988 % change on previous year	1989	1990
Total GDP (output measure)	328	4.7	5.5	3.4	2.2
of which: manufacturing	78	5.9	7.2	4.8	2.9
Consumers' expenditure	239	5.1	5.7	2.8	1.9
Fixed investment	64	5.5	11.7	7.3	1.5
of which:					
General Government	7	-2.4	0.4	2.0	0.6
Manufacturing (1)	10	4.9	14.3	9.0	6.1
Others	47	6.8	12.8	7.7	0.6
General Government Consumption	76	0.9	0.5	0.6	1.0
Exports (goods and services)	113	5.5	1.3	7.6	3.9
Imports (goods and services)	113	7.3	11.9	5.1	2.1
Current account (£bn)		-2.5	-13.2	-10.7	-9.4
Stockbuilding (£bn)		0.6	1.4	1.1	0.8
Inflation (retail prices)		4.1	4.9	6.4	5.2
Unemployment (millions) (2)		2.9	2.4	2.0	1.9
PSBR (£bn: -ve = surplus)		1987/88	1988/89	1989/90	1990/91
		-3.5	-9.9	-15.5	-16.9

FOOTNOTES

1) Including leased assets
2) UK, excluding school leavers,seasonally adjusted

NOVEMBER MONTHLY TRENDS ENQUIRY

Total response: 1428

Conducted between 25 October and 16 November

Results of the November Trends Enquiry indicate that UK manufacturing output is expected to grow strongly over the coming months, in line with the sustained buoyancy of demand. However, output is now expected to proceed at a slightly slower pace than rates indicated over the summer. Export orders have weakened further, continuing the downward trend in export orders, seen since September. Some stock-building of finished goods has taken place. The pick-up in output-prices, indicated by last month's Quarterly Survey, appears to have had some effect upon price expectations for the coming four months.

- Total demand for UK manufactures remains buoyant. In November, a balance of +14% of respondents report total order books to be above normal - little changed from balances seen since the second quarter of the year. Order books are particularly strong for the largest firms (more than 5000 employees). The demand for capital goods has maintained a strong recovery since the middle of the year. In November, a balance of +18% of respondents in the capital-goods industries regard order books as being above normal - similar to the +17% recorded in consumer goods and significantly above the +7% in the intemediate-goods sector.

- Export order books continue to deteriorate. The balance of -4% of manufacturers which regard export order books as being below normal is the lowest figure recorded since April 1987. There has, however, been some slight improvement in export orders of smaller firms (fewer than 200 employees), compared with recent months, though smaller firms' export order books have remained below normal for the past seven months. Export orders in consumer-goods industries continue to be stronger than in capital and intemediate-goods industries. In the construction-related sectors, meanwhile, export performance is reported as being well below normal, with balances of -47% recorded in 'constructional steelwork' and -39% in 'building materials' - perhaps, reflecting the buoyancy of home demand. Export demand is most buoyant in 'aerospace and other vehicles', the 'extraction of minerals and metalliferous ores', 'glass and ceramics' and, to a lesser extent, in 'chemicals'.

- There has been some stockbuilding in November. A balance of +6% of manufacturers consider stocks of finished goods to be more than adequate. This is the highest figure reported for 21 months. Much of this slight build-up in stocks is accounted for by the largest companies, which consider finished-goods stocks to be significantly more than adequate.

- Output is expected to grow strongly over the coming months, but at a slightly slower rate than was indicated over the summer months. A balance of +25% of firms expect to increase output over the next four months, compared with over +30% for each of August and September. Consumer-goods industries expect the sharpest growth in output. By industrial sector, the strongest growth is expected in 'food, drink and tobacco', 'extraction of minerals and metalliferous ores', 'constructional steelwork', and 'paper and board products'. Sharp falls in output are expected in 'aerospace and other vehicles' and 'wool textiles'.

- A higher proportion of respondents expect to increase prices than in recent months. A balance of +33% of manufacturers expect average prices to be higher over the next four months - the highest balance recorded since February. The pick-up in the actual rate of price increases, indicated by the October Survey, now appears to be affecting price expectations for the final part of the year. By industrial sector, the sharpest price increases are expected in 'metal products', 'other manufacturing', 'building materials', 'glass and ceramics', 'electrical and industrial goods' and 'plastics products'.

CBI INDUSTRIAL TRENDS ENQUIRY

November 1988

Manufacturing industry: 1428 respondents

The figures are percentages based on a weighted sample.

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

	Above Normal	Normal	Below Normal	N/A
(1) a. Your present total order book is	28	57	14	1
b. Your present export order book is	20	55	24	2

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

	More than adequate	Adequate	Less than adequate	N/A
(2) Your present stocks of finished goods are	17	60	11	12

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

	Up	Same	Down	N/A
(3) Volume of output	35	55	10	+
(4) Average prices at which domestic orders are booked.	37	57	4	2

Percentage Balance

		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
1a	Total Order Book	+18	+20	+20	+20	+14	+21	+13	+14	+17	+15	+11	+14
b	Export Order Book	+ 4	+ 5	+12	+11	+ 2	+ 4	+ 2	+ 6	- 2	+ 2	- 2	- 4
2	Stocks	+ 2	- 1	- 2	+ 1	+ 2	- 3	- 1	+ 1	0	0	+ 1	+ 6
3	Volume of Output	+31	+26	+36	+37	+29	+34	+30	+27	+33	+31	+24	+25
4	Average Prices	+31	+39	+33	+25	+31	+18	+21	+23	+22	+26	+32	+33

eb.ph/rl/6

CONFIDENTIAL
until 00.30 on Monday 28 November 1988
then UNCLASSIFIED

FROM: ROBERT LIND
DATE: 25 November 1988

1. MR PICKFORD SPickford 25/11
2. CHANCELLOR (+ 1 for No.10)

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Scholar
Mr Odling-Smee
Mr Sedgwick
Mr Hibberd
Mr Gieve
Miss O'Mara
Mr Bush
Mr Darlington
Mr Dyer
Mr Hudson
Mr Owen
Mr Price
Ms Turk
Mr Deane
Mrs Chaplin
Mr Tyrie
Mr Call
HB/003

CBI MONTHLY TRENDS ENQUIRY: NOVEMBER 1988

The CBI's latest Monthly Enquiry is to be released at 00.30 on Monday 28 November. The Enquiry was conducted between 25 October and 16 November, covering 1428 respondents. This month also sees the publication of the CBI's latest staff forecast.

Enquiry results

2. The Monthly Enquiry into manufacturing asks only five of the questions that appear 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.

3. Full results given in the attached sheet, are summarised in the table below. The published figures show total order books picking up a little since October, but remaining below the high levels seen in the first quarter of 1988. Export order books have fallen back, whilst expectations of average prices rose slightly. Seasonally adjusted figures, produced by the CSO but **NOT PUBLISHED**, are also shown in the table.

	PUBLISHED			**SEASONALLY ADJUSTED (NOT PUBLISHED)**		
	Sept	**Oct**	**Nov**	**Sept**	**Oct**	**Nov**
Total order books	+15	+11	+14	+17	+17	+14
Export order books	+2	-2	-4	+8	+5	-6
Stocks	0	+1	+6			
Volume of output	+31	+24	+25	+34	+26	+28
Average domestic prices	+26	+32	+33	+33	+35	+34

Points to note

4. The results of this month's enquiry suggest that manufacturing output is expected to grow strongly over the next few months. Total order books remain buoyant. On the seasonally adjusted basis they have fallen back a little since October. Export order books have continued to deteriorate, especially on a seasonally adjusted basis. On both the adjusted and unadjusted series, they are now at the lowest levels seen since early 1987. However, both total and export order books series remain at very high levels historically.

5. The balance on the volume of output question has picked up a little on October but is a little below levels over the past year or two. As a result the CBI say that "output is now expected to proceed at a slightly slower pace than rates indicated over the summer". The prices series has risen slightly to its highest level since February. This reflects the pick-up in actual prices noted in the October Survey.

6. The balance on the stocks series has risen significantly, to the highest figure recorded for 21 months. Much of this build-up, say the CBI, is accounted for by large firms, which consider finished-goods stocks to be more than adequate.

Staff Forecast

7 The forecast is summarised below:

Percentage change on previous year	**1988**	**1989**	**1990**
GDP(O)	5.5	3.4	2.2
of which: manufacturing	7.2	4.8	2.9
Consumers' expenditure	5.7	2.8	1.9
Fixed investment	11.7	7.3	1.5
of which: manufacturing	14.3	9.0	6.1
Exports (goods and services)	1.3	7.6	3.9
Imports (goods and services)	11.9	5.1	2.1
Retail price inflation (Q4)	6.5	5.1	5.2*
Unemployment (Q4, adult, million)	2.4	2.0	1.9*
Current account (£ billion)	-13.2	-10.7	-9.4
PSBR (FY, £ billion)	-9.9	-15.5	-16.9

* Calendar year (average) figures

8. The CBI forecast is generally similar to the Industry Act Forecast (IAF) contained in the Autumn Statement (AS). But there are some differences. The CBI expect consumers' expenditure to slow down more rapidly in 1989, forecasting 2.8 per cent growth for 1989 as a whole, compared with 3½ per cent in the AS. Against this the CBI expect fixed investment to grow by 7.3 per cent next year, compared with the AS forecast of 5½ per cent. Likewise the CBI see exports rising by 7.6 per cent, significantly above the IAF'S 5½ per cent. But they also expect imports to grow a little more strongly at 5.1 per cent (AS 4½ per cent).

9. On inflation, the current account, and the PSBR, the CBI tell the same story as in the AS forecast. The CBI present forecasts for 1990 also shown in the table. There is a substantial slow-down in fixed investment growth. But, the current account deficit also continues to fall, whilst inflation remains around 5 per cent. Export growth is expected to outpace import growth.

CBI's Economic Assessment

10. The CBI consider whether it is reasonable to expect that the strength of investment will be sustained given the expected slow-down in output and demand over the next few years. Whilst the CBI acknowledge the "creditable" performance of investment, they say this must be set against the sharp falls in the early 1980s, and the performance of output. Whole economy investment as a proportion of output is only just recovering to its level of 1979, and in manufacturing still has some way to make up. But the CBI argue that this is no reason to suspect that investment will

? 1986

stall as it did in 1985. This stalling was the result of the 1984 Budget changes to depreciation allowances. Moreover, the situation now is very much different; firms are operating at much higher levels of capacity; profitability is much stronger; and recent rises in short term investment rates have not yet been reflected in long rates. They therefore think that investment growth is now more likely to be sustained.

11. The CBI also note that the strength of investment growth is not confined to the UK but is part of a global trend; this has boosted the UK's balance of trade in capital goods.

12. The CBI also believe that recent investment has been of a higher quality than in the past. As measured by output per unit of capital employed, the UK was still below the US, Germany and France in 1987, but its relative position has improved markedly. And this, say the CBI, has been reflected in the responses to their October Industrial Trends Survey; for instance, 73 per cent of companies said they were investing to improve efficiency, up from around 60 per cent in 1979-80.

13. The CBI conclude that this increase in investment has been reflected throughout the world, and thus will increase competition, making the future investment climate less favourable than in recent years.

Other articles

14. In the 'Economic Comment', Tony Whitehead, a staff economist, considers the implications of the Autumn Statement for business. He concludes that control of public expenditure is beneficial, but urges that the next Budget should err on the side of "caution in reducing personal taxation", and calls for the promotion of lower business tax burdens, and a continued shift to capital expenditure.

Line to take (on Monthly Enquiry):

- Confirms buoyancy of output. Despite easing back of export series, order books remain at historically high levels.

Robert Lind.

ROBERT LIND

CBI INDUSTRIAL TRENDS ENQUIRY

November 1988

Manufacturing industry: 1428 respondents

The figures are percentages based on a weighted sample.

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

	Above Normal	Normal	Below Normal	N/A
(1) a. Your present total order book is	28	57	14	1
b. Your present export order book is	20	55	24	2

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

	More than adequate	Adequate	Less than adequate	N/A
(2) Your present stocks of finished goods are	17	60	11	12

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

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(4) Average prices at which domestic orders are booked.	37	57	4	2

Percentage Balance

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b	Export Order Book	+ 4	+ 5	+12	+11	+ 2	+ 4	+ 2	+ 6	- 2	+ 2	- 2	- 4
2	Stocks	+ 2	- 1	- 2	+ 1	+ 2	- 3	- 1	+ 1	0	0	+ 1	+ 6
3	Volume of Output	+31	+26	+36	+37	+29	+34	+30	+27	+33	+31	+24	+25
4	Average Prices	+31	+39	+33	+25	+31	+18	+21	+23	+22	+26	+32	+33

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PS ask Mr H how come, if DTI stats are so good, that we got actual falls in the retail [illegible] Aug and Sept, when [illegible] apparently [illegible]. Is there [illegible] re seasonal adjustment? If so, DTI probably wrong for Oct, too.

FROM: J S HIBBERD
DATE: 25 NOVEMBER 1988

PRINCIPAL PRIVATE SECRETARY

cc Sir P Middleton
Sir T Burns
Mr Sedgwick
Mr Pickford
Mr Gieve

Ch

OK (as heavily amended)? AA

OK as far as [illegible] by [illegible]

RETAIL SALES : LETTER FROM JOHN SACHER

You asked me (your minute of 22 November, attached) to check the Chancellor's proposed line of reply to John Sacher with Lord Young's office. It turns out that Lord Young's copy of Mr Sacher's letter has not yet reached Roger Norton, the relevant DTI statistician in BSO Newport, for advice. But I have spoken to him and discussed the letter.

2. Mr Sacher notes that Marks and Spencer's figures show no sign of a consumer boom. He allies himself and his colleagues with the CBI who have called for an urgent examination of the formulation of the retail trade statistics, given that their latest survey of retailers (conducted jointly with the Financial Times) suggests a more depressed picture than the latest retail sales.

3. Your minute to me of 18 November (copy attached, top copy only) also asked whether there was likely to be anything in the charge that the retail sales figures take no account of acquisitions of other retailers by companies in the sample. In principle the DTI take account of this problem. If the increase in sales of a particular firm on the same month a year earlier appears to be unreasonably large (ie outside a specified range) an enquiry is made as to whether an acquisition has taken place. If so, the DTI look at the back data on sales of the acquired company, and adjust that month's data accordingly. If back data is not available an estimate of the contribution is still made and the figures adjusted.

4. The DTI staunchly defend their numbers relative to the CBI/FT Survey. DTI data is based on a sample of actual retail sales figures from 3000 firms. The CBI data, by contrast, is based on a sample of only 300 firms reporting qualitative proportionate

balances of ups and downs. Moreover every two years, DTI conduct a benchmark enquiry of 20,000 retailers which normally results in some small upward revision to the retail sales figures. The Pickford Statistics Scrutiny also looked at the retail sales enquiry, though only cursorily, and found little cause for concern about the quality of the data.

5. One possible explanation for the difference between the experience of Marks and Spencer and the CBI sample on the one hand, and the BSO retail sales figures on the other, is that much more of the increase in the DTI series in October came from medium and smaller size firms. These may not be well represented in the CBI/FT Survey, and clearly Marks and Spencer does not come in that category. The John Lewis sales figures reported to you by Brian Coulton on 22 November (copy attached, top copy only) are consistent with the DTI series.

6. We ourselves are looking at the reliability of the CBI/FT Survey as a predictor of retail sales, though that obviously assumes that the retail trade statistics are themselves reliable. I will ensure you get a copy of our study when it is complete. But early results suggests there is little correlation between the CBI data and the retail sales data. We are also looking at the weekly John Lewis retail figures (on which the Chancellor will be minuted separately). This seems to predict the subsequent total retail sales figures reasonably well.

7. The upshot of all this is that DTI officials are most unlikely to advise Lord Young that there is any serious doubt about the retail sales figures. Their case seems reasonably strong and we should probably follow suit.

8. What may be worth trying is to ask Mr Sacher if Marks and Spencer would be prepared to send us their weekly retail sales figures (on a strictly confidential basis), preferably with a longish back run of data. I attach a draft reply. You may want to hold this until we have seen the draft DTI officials put to Lord Young. I have been promised a copy, but it is not due until 30 November.

Jim Hibberd

J S HIBBERD

Please type for signature

DRAFT REPLY FROM CHANCELLOR
TO JOHN SACHER, MARKS AND SPENCER

Thank you for your letter of 17 November. I was interested to note that your own company's recent sales experience accords more closely with the CBI Survey of retailers for October, than with the DTI's retail sales figures. This is certainly something we need to look into.

~~The DTI figures reflect actual retail sales data from 3000 firms. There is clearly scope, therefore, for individual companies' experiences to differ within such a large sample. The CBI Survey, on the other hand, covers a sample of only 300 firms and reports qualitative balances of ups and downs. This is not to downplay the value of the CBI Survey. But it seems to me that the DTI data ~~are~~ ought to be inherently more reliable both because of the size of the sample (and it is benchmarked every two years on a sample of 20000 companies), and the nature of the data it collects.~~

in principle

~~I do not think, therefore, that there is a case for an urgent examination of the retail trade statistics, though there is obviously scope for liaison between DTI and CBI to discuss mutual problems.~~

how Californian!

~~[Finally, I would find it interesting if you could, in strictest confidence of course, send me your own retail sales figures on a regular basis, weekly if you have~~

It would be most helpful though [illegible] to have any regular weekly [illegible] retail sales figures you could let us have.

them. It would be especially useful if you could provide a longish back run to compare latest figures with corresponding months in recent years. It could provide a useful leading indicator of demand.]

[NL]

Nevertheless,

We are trying to build up as many indicators as possible to enable us to get a fuller picture of what is happening in the economy. It would be most helpful if you were able to let us have any regular and up-to-date sales figures you collect — we would, of course, fully protect their confidentiality. ~~very carefully~~. Is there anything you could do on these lines?

FROM: MISS M P WALLACE
DATE: 28 November 1988

MR LIND

cc Mr Pickford

MP

CBI MONTHLY TRENDS ENQUIRY: NOVEMBER 1988

The Chancellor was grateful for your note of 25 November.

MPW

MOIRA WALLACE

FROM: J S HIBBERD
DATE: 29 NOVEMBER 1988

PRINCIPAL PRIVATE SECRETARY

cc : Sir Peter Middleton
Sir Terence Burns
Mr Sedgwick o/r
Mr Pickford
Mr Gieve
Mr Owen

RETAIL SALES: LETTER FROM JOHN SACHER

In my minute of 25 November I attached a draft reply to John Sacher but suggested we held it until we had seen the advice BSO Statisticians would give to Lord Young. This has now arrived (copy attached).

2. It is much as expected and I think you could safely proceed with the gist of my draft reply subject, of course, to any changes the Chancellor may wish to make.

JH

J S HIBBERD

Ch

I don't think this calls for any change to your reply (below).

AA

✓

dti
the department for Enterprise

J S Hibberd Esq
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HM Treasury
Parliament Street
LONDON

Business Statistics Office
Government Buildings
Cardiff Road
Newport, Gwent NP9 1XG

Switchboard
0633 815696
GTN 1211

Telex 497121/2 BSONPT G
Fax 0633 816086

Direct Line 0633 81 2069
Our ref
Your ref
Date 29 November 1988

Dear Jim

We spoke about the letters to the Chancellor and our Secretary of State and I promised to let you have a copy of the draft I was putting up. It is attached.

It may be worth recording that I spoke to Andrew Sentance at CBI who looks after the Trends Surveys. He was, of course, happy at the idea of a further discussion with BSO on the problem of discrepancies. (We had one a few years ago which clarified a few points and helped to convince CBI of the weakness of their forecasts of sales.) In conversation, he offered the view that it was "premature" to consider a full re-examination of our methodology now, although he did not rule out the possibility that CBI would seek one sometime.

Yours sincerely

Roger Norton

Roger Norton

File No. BSO 641/14

DRAFT

Addressed to:

Mr John Sacher
Marks and Spencer plc
Michael House
Baker Street
LONDON
W1A 1DN

Copies to:

External
Chancellor of the Exchequer
Internal
As minute
Mr Norton BSO (on file)

Enclosures:

None

Originated by:
(Initials and date)

RMW 29.11.86

Seen by:
(Initials and date)

Type for signature of

....
(Initials and date)

DEPARTMENT OF TRADE AND INDUSTRY

Thank you for your letter of 22 November about criticism of the official figures of retail sales and the copy of your letter to the Chancellor.

I am sure it is always important, and particularly so now, to be able to have confidence in the statistics on retail sales. However, although I am aware of the differences between the official series and the CBI/Financial Times Distributive Trades Survey, I doubt the need for the urgent re-examination which you and your colleagues seek.

The official index is compiled from figures of their sales provided each month by nearly 3,000 retailers. This covers almost all the large retailers and many others. The method of construction is designed to ensure that the index is as representative as possible of the whole retail trade. The size of this survey contrasts with the 300 or so contributors to the CBI survey, who indicate only whether the volume of their trade is up or down compared with a year earlier. It is difficult to believe that the CBI results can be as reliable as the official index. This has had a good record of accuracy in the past when it has been compared with the large scale statutory statistical inquiries to retailing conducted every two years.

I appreciate that your concern also reflects your detailed knowledge of Marks and Spencer's own sales and views from others in the field. However, it is likely that much or all of this evidence already contributes to the official index which the Business Statistics Office (BSO) compile.

It is, nevertheless, undesirable that uncertainties should be generated by conflict between figures. Officials at the BSO had intended to approach the CBI, once the final October figures were available, to suggest a further discussion of possible reasons for discrepancies. This seems a useful step and I understand is welcomed by CBI officials. In addition, if you wished to discuss the methods of compilation of the index or make any particular criticism, you might like to get in touch with the Director of the BSO, Mr Ward, on Newport 812352. He would be happy to arrange a meeting with you or your representatives.

I am sending a copy of this letter to the Chancellor.

chex.ps/aa/35

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

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

PJ.

30 November 1988

John Sacher Esq
Marks & Spencer plc
Michael House
Baker Street
LONDON W1A 1DN

Dear John

Thank you for your letter of 17 November. I was interested to note that your own company's recent sales experience accords more closely with the CBI Survey of retailers for October, than with the DTI's retail sales figures. This is certainly something we need to look into.

Nevertheless, we are trying to build up as many indicators as possible to enable us to get a fuller picture of what is happening in the economy. It would be most helpful if you were able to let us have any regular and up-to-date sales figures you collect - we would, of course, fully protect their confidentiality. Is there anything you could do on these lines?

Yours ever
Nigel Lawson

NIGEL LAWSON

eb.ph/rl/8

CONFIDENTIAL
until 11.30am on Thurday 8 December 1988
then UNCLASSIFIED

Some reversal of last month's very sharp drop, but the sales series remains considerably lower than earlier in the year.

FROM: ROBERT LIND
DATE: 7 DECEMBER 1988

1. **MR PICKFORD** Sparks 7/12

2. **CHANCELLOR**

Tony pl

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Scholar
Mr Odling-Smee
Mr Sedgwick
Mr Hibberd
Mr Gieve
Miss O'Mara
Mr Bush
Mr Darlington
Mr Dyer
Mr Hudson
Mr Owen
Mr Price
Ms Turk
Mrs Chaplin
Mr Tyrie
Mr Call
HB/003

CBI/FT DISTRIBUTIVE TRADES SURVEY: NOVEMBER

The Survey is to be released at 11.30am on Thursday 8 December. Briefing is not usually prepared, but following the interest in last month's results and their divergence from the DTI's retail sales figures, a short note might be helpful.

2. The Survey was conducted between 14 November and 2 December covering 470 respondents. It covers trade in November and expectations for December. Full results for the total distributive trades are attached.

<u>**Main points**</u>

Monthly figures

3. **Reported increases in sales volumes** picked up significantly in November, but are still well below the average levels seen

over the past year. **Expected increases in sales volumes** have fallen slightly since November, and have returned to the levels seen in May-June. **Sales for the time of year** were better in November than they had been in October, but are expected to deteriorate a little in December. **Stocks in relation to expected sales** picked up a little in November and are expected to remain at the same level in December.

Quarterly figures

4. There was stronger growth in **imports as a proportion of deliveries from suppliers**. The Survey says that this reflects "stronger import penetration in retailing and wholesaling". The balance of +20 per cent is the highest ever recorded.

5. Expectations of higher **capital expenditure** rose significantly in November. The balance of distributors expecting to invest more in the next twelve months than in the past twelve months rose to its highest ever level.

6. The response to the **general business situation** was down in November. The balance of +16 per cent expecting an improvement in business over the next three months is the lowest ever recorded. Growth in distributors **selling prices** slowed marginally in November reflecting, the Survey says "slower price rises in the retailing sector".

7. Growth in **employment** picked up sharply in November. Expectations for the next three months also strengthened significantly. All sectors of distribution reported stronger growth in November, with motor traders the most positive. This strong growth was particularly marked in full-time employment, although part-time employment also picked up.

<u>Line to take</u>

- Figures calculated in different way from DTI's retail sales figures, eg much smaller sample in Survey. Also very erratic series.

- But balance of ups over downs on sales in past month well below levels earlier in year. And figures on expected sales growth show fall next month.

- High growth on investment intentions and growth on employment, reflect underlying confidence.

Robert Lind.

ROBERT LIND

TOTAL DISTRIBUTION

* All figures are percentages based on a weighted sample

Number of RESPONDENTS 470

What is the PRESENT POSITION (IE COMPARED WITH THE SAME MONTH ONE YEAR AGO) and the EXPECTED POSITION FOR NEXT MONTH (IE COMPARED WITH THE SAME MONTH A YEAR EARLIER), after taking into account the effect of changes in your own prices, with regard to:

	This Month				Next Month			
	Up	Same	Down	N/A	Up	Same	Down	N/A
(1) Volume of Sales	51	38	12	0	47	44	9	0
(2) Volume of Orders placed on Suppliers	47	37	11	6	38	42	14	6

How do you assess the PRESENT POSITION and the EXPECTED POSITION FOR NEXT MONTH after taking into account the effect of changes in your own prices, with regard to:

	Good	Average	Poor	N/A	Good	Average	Poor	N/A
(3) Volume of Sales, for the time of year	40	53	7	0	36	58	6	0
	Too High	Adequate	Too Low	N/A	Too High	Adequate	Too Low	N/A
(4) Volume of Stocks, in relation to expected sales	20	74	7	0	17	77	5	0

Percentage Balance*		(87) Nov	Dec	(88) Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Volume of Sales	expected	+58	+48	+41	+52	+50	+44	+37	+38	+52	+49	+53	+49	+40	+38
	reported	+44	+50	+59	+49	+49	+32	+41	+55	+46	+50	+56	+31	+39	
Volume of Orders Placed on Suppliers	expected	+44	+33	+30	+33	+36	+31	+26	+10	+37	+34	+31	+33	+29	+24
	reported	+38	+41	+33	+24	+36	+30	+16	+37	+30	+22	+36	+27	+36	
Volume of Sales, for the time of year	expected	+39	+36	+28	+38	+35	+28	+24	+23	+41	+29	+35	+26	+32	+30
	reported	+41	+34	+42	+30	+34	+17	+27	+41	+26	+31	+25	+26	+33	
Volume of Stocks, in relation to expected Sales	expected	+ 9	+12	+11	+ 8	+ 6	+ 7	+ 9	+11	+12	+ 9	+ 6	+ 9	+12	+12
	reported	+18	+14	+20	+14	+14	+14	+11	+13	+11	+16	+ 7	+11	+13	

COMMENT

Distributors' sales volumes grew faster above last year's volumes in November than in October. The balance of respondents reporting sales higher than a year ago rose to +39%, compared with +31% in October and the expected balance of +40%. In November, retailers and motor traders reported faster sales growth than in October, while wholesalers reported a further slowing in the growth of sales, relative to 1987 volumes. Sales for the time of year were better in November than they had been in October, but are expected to deteriorate a little in December.

Growth in orders placed by distributors also picked up in November. A balance of +36% of distributors ordered more than in November 1987, compared with a balance of +27% in October. For December, a balance of +24% anticipates increased ordering, relative to 1987 volumes.

Stocks in relation to expected sales built up a little in November.

*Percentage Balance equals percentage responding 'up' minus percentage responding 'down'

TOTAL DISTRIBUTION

All figures are percentages based on a weighted sample

Number of RESPONDENTS 470

In relation to one year ago is the current proportion of your deliveries received from suppliers accounted for by **IMPORTS:**

More	Same	Less	N/A
25	40	5	31

Do your expect to authorise more or less **CAPITAL EXPENDITURE** (including buildings, machinery, cars and commercial vehicles) in the next 12 months than you authorised in the past 12 months

More	Same	Less	N/A
45	32	24	0

Do you expect your **OVERALL BUSINESS SITUATION,** over the next 3 months, to:

Improve	Remain Stable	Deteriorate
23	70	7

In relation to one year ago, are your **AVERAGE SELLING PRICES** this month, and your expected Average Selling Prices next month:

This Month				Next Month			
Up	Same	Down	N/A	Up	Same	Down	N/A
81	16	2	1	81	15	2	1

Percentage Balance*		(85) Nov	(86) Feb	May	Aug	Nov	(87) Feb	May	Aug	Nov	(88) Feb	May	Aug	Nov	(89) Feb
Imports		+18	+ 8	+ 5	+ 8	+12	+ 6	+ 4	+ 2	+ 5	+ 5	+ 5	+11	+20	
Capital Expenditure		+ 9	+10	- 2	- 5	+ 5	+ 6	+16	+20	+15	+10	+ 4	+ 4	+21	
Business Situation		+35	+34	+25	+25	+29	+45	+30	+41	+25	+31	+30	+36	+16	
Selling Prices	reported	+68	+70	+65	+57	+68	+71	+82	+81	+73	+85	+81	+80	+79	
	expected	+77	+68	+69	+63	+63	+65	+70	+73	+79	+71	+82	+79	+79	+79

COMMENT

Distributors reported stronger growth in imports as a proportion of deliveries from suppliers in November than August, reflecting stronger import penetration in retailing and wholesaling. The balance of distributors reporting higher import penetration than in November 1987 rose to +20%, the highest balance ever recorded.

Expectations regarding capital expenditure strengthened in November, with the balance of distributors expecting to invest more in the next twelve months than in the past twelve months rising from +4% in August to +21%, the highest balance for five years. All three sectors of distribution - retailing, wholesaling and the motor trades - expected to invest more, with wholesalers and motor traders appearing more positive than retailers.

Distributors still expect their overall business situation to improve in the next three months, but appeared less optimistic in November than they did in August. A balance of +16% of respondents anticipated an improvement in business in the next three months, the lowest balance ever recorded for this question. All three sectors of distribution were less optimistic than in August.

Growth in distributors' selling prices slowed marginally in November, reflecting slower price rises in the retailing sector. The balance of distributors reporting higher prices than a year ago fell from +80% to +79%. A balance on expectations of +79% suggests that price rises in distribution will steady in coming months.

*Percentage Balance equals percentage responding 'up' minus percentage responding 'down'.

All figures are percentages based on a weighted sample Number of RESPONDENTS 470

In comparison with one year ago, is your EMPLOYMENT this month, and your expected employment next month:

	This Month				Next Month			
	Up	Same	Down	N/A	Up	Same	Down	N/A
Total employment	50	42	7	0	48	44	7	0
of which: **Full-time**	43	48	9	0	42	47	10	0
Part-time	28	52	6	13	28	51	8	13

Percentage Balance*		(85) Nov	(86) Feb	May	Aug	Nov	(87) Feb	May	Aug	Nov	(88) Feb	May	Aug	Nov	(89) Feb
Total employment	expected	+28	+27	+21	+29	+21	+23	+17	+41	+28	+36	+27	+29	+28	+41
	reported	+24	+18	+26	+21	+24	+18	+41	+21	+37	+29	+27	+27	+43	
Of which: **Full-time**	expected	+24	+21	+13	+22	+16	+15	+16	+37	+11	+31	+31	+25	+21	+32
	reported	+19	+11	+20	+18	+16	+13	+37	+ 1	+35	+31	+24	+20	+34	
Part-time	expected	+16	+19	+14	+18	+21	+16	+ 8	+28	+19	+17	+ 5	+15	+21	+20
	reported	+15	+15	+17	+20	+16	+10	+30	+18	+17	+ 8	+14	+21	+22	

COMMENT

Growth in employment in distribution picked up in November, with a record balance of +43% of respondents reporting more jobs than a year ago, up from +27% in August. A balance on expectations of +41% suggests that employment will continue growing at a similar rate in the next few months. All sectors of distribution reported stronger employment growth in November than August, with motor traders the most positive. Motor traders were also the most optimistic about the outlook for jobs in the months ahead.

Distributors reported a faster rate of increase in both full-time and part-time jobs in November than in August. The strongest growth in full-time employment was reported by motor traders, followed in turn, by wholesalers and retailers. For part-time employment, the fastest increases were in retailing, followed by the motor trades and wholesaling. Distributors' expectations for coming months suggest that the best job prospects are for part-time workers in retailing and for full-time workers in the motor trades.

*Percentage Balance equals percentage responding 'up' minus percentage responding 'down'.

FROM: A A DIGHT
DATE: 8 December 1988

PWP

MR R LIND

CBI/FT DISTRIBUTIVE TRADES SURVEY: NOVEMBER

The Chancellor has seen and was grateful for your minute of 7 December.

A A Dight

A A DIGHT

Economic Situation Report

December 1988

CBI

NOT FOR PUBLICATION BEFORE
00.30 HRS
MON 12 DEC

Economic
Situation
Report

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London WC1A 1DU

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The CBI Economic Trends Department publishes the regular Industrial Trends/Monthly Trends Enquiry and CBI/FT Survey of Distributive Trades. All these publications are available on subscription. For more information either about the contents of the publications or about subscription details please contact

CBI Economic Trends Dept
Economic Affairs Directorate

Tel: (01) 379 7400

This is the last of the four months this year when the Economic Situation Report contains only the results of the Monthly Trends Enquiry. The January 1989 Report, published on Tuesday 24th January will contain all the customary material including the results of the quarterly Industrial Trends Survey.

pmp

CBI Monthly Trends Enquiry

December 1988

(Not v good.)

RESULTS

Manufacturing Industry: 1104 respondents

Conducted between 25th November and 7th December

The figures are percentages based on a weighted sample.

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

	Above Normal	Normal	Below Normal	N/A
(1) a. Your present total order book is	30	53	16	+
b. Your present export order book is	23	47	28	1

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

	More than adequate	Adequate	Less than adequate	N/A
(2) Your present stocks of finished goods are	14	59	13	13

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

	Up	Same	Down	N/A
(3) Volume of output	36	54	9	+
(4) Average prices at which domestic orders are booked.	40	55	3	1

Percentage Balance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1a Total Order Book	+20	+20	+20	+14	+21	+13	+14	+17	+15	+11	+14	+14
b Export Order Book	+ 5	+12	+11	+ 2	+ 4	+ 2	+ 6	- 2	+ 2	- 2	- 4	- 5
2 Stocks	- 1	- 2	+ 1	+ 2	- 3	- 1	+ 1	0	0	+ 1	+ 6	+ 1
3 Volume of Output	+26	+36	+37	+29	+34	+30	+27	+33	+31	+24	+25	+27
4 Average Prices	+39	+33	+25	+31	+18	+21	+23	+22	+26	+32	+33	+37

COMMENT

Total demand in the manufacturing sector continues to be buoyant. A balance of +14% of respondents report that total order books are above normal in December - the same as the balance in November and similar to balances seen during the Summer.

Export demand remains subdued. The balance of -5% indicating that export order books are below normal represents only a slight deterioration since November, but remains the lowest figure since April 1987.

There has been some destocking in December, following a build-up in November, so that a balance of +1% now report stocks of finished goods to be more than adequate. This is broadly in line with balances seen during the Summer.

Manufacturing output is expected to grow strongly over the next four months. The balance of +27% expecting to increase output is slightly above the balances reported in October and November, but generally below those reported earlier in the year.

Prices are expected to pick up by a higher proportion of respondents during the coming months than reported in November. A balance of +37% expect to increase their average prices over the next four months - a higher balance than indicated earlier in the year.

eb.ph/rl/6

CONFIDENTIAL
until 00.30 on Monday 12 December 1988
then UNCLASSIFIED

Li[illegible] change from last month, with firm order books and output expected to continue buoyant.

FROM: ROBERT LIND
DATE: 9 December 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 Scholar
Mr Odling-Smee
Mr Sedgwick
Mr Hibberd
Mr Gieve
Miss O'Mara
Mr Bush
Mr Darlington
Mr Dyer
Mr Hudson
Mr Owen
Mr Price
Ms Turk
Mrs Chaplin
Mr Tyrie
Mr Call
HB/003

CBI MONTHLY TRENDS ENQUIRY: DECEMBER 1988

The CBI's latest Monthly Enquiry is to be released at 00.30 on Monday 12 December. The Enquiry was conducted between 25 November and 7 December, covering 1,104 respondents; this is significantly less than the usual sample.

Enquiry results

2. The Monthly Enquiry into manufacturing asks only five of the questions that appear 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.

3. Full results given in the attached sheet, are summarised in the table below. The published figures show the balance of 'ups'

over 'downs' on total order books at the same level as in November, remaining below the high levels seen in the first quarter of 1988. The balance on export order books has continued to fall back, whilst expectations of average prices have risen somewhat (though they have fallen on the seasonally adjusted figures). Seasonally adjusted figures, produced by the CSO but **NOT PUBLISHED**, are also shown in the table.

	PUBLISHED			**SEASONALLY ADJUSTED (NOT PUBLISHED)**		
	Oct	**Nov**	**Dec**	**Oct**	**Nov**	**Dec**
Total order books	+11	+14	+14	+17	+14	+12
Export order books	-2	-4	-5	+5	-6	-4
Stocks	+1	+6	+1			
Volume of output	+24	+25	+27	+26	+28	+28
Average domestic prices	+32	+33	+37	+35	+34	+32

Points to note

4. The results of this month's enquiry suggest that manufacturing output is expected to continue growing strongly over the next few months. **Total order books** remain buoyant. On the seasonally adjusted basis they have fallen back a little since November. **Export order books** have continued to deteriorate slightly on published figures, to the lowest level seen since early 1987, but on the seasonally adjusted basis they picked up a little. However, both total and export order books series remain at very high levels historically.

5. The balance on the **volume of output** question has picked up a little on November but is a little below levels over the past year or two. On the seasonally adjusted basis the series remained at the level recorded in November. On the unadjusted basis the **prices** series has risen to its highest level since January. But the adjusted series showed a fall on last month.

6. The balance on the **stocks** series has fallen markedly, back to a more usual level after the significant rise in November.

Line to take:

- Confirms buoyancy of output. Order books remain at historically high levels.

Robert Lind.

ROBERT LIND

CBI Monthly Trends Enquiry

December 1988

RESULTS

Manufacturing Industry: 1104 respondents

Conducted between 25th November and 7th December

The figures are percentages based on a weighted sample.

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

	Above Normal	Normal	Below Normal	N/A
(1) a. Your present total order book is	30	53	16	+
b. Your present export order book is	23	47	28	1

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

	More than adequate	Adequate	Less than adequate	N/A
(2) Your present stocks of finished goods are	14	59	13	13

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

	Up	Same	Down	N/A
(3) Volume of output	36	54	9	+
(4) Average prices at which domestic orders are booked.	40	55	3	1

Percentage Balance

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1a	Total Order Book	+20	+20	+20	+14	+21	+13	+14	+17	+15	+11	+14	+14
b	Export Order Book	+ 5	+12	+11	+ 2	+ 4	+ 2	+ 6	- 2	+ 2	- 2	- 4	- 5
2	Stocks	- 1	- 2	+ 1	+ 2	- 3	- 1	+ 1	0	0	+ 1	+ 6	+ 1
3	Volume of Output	+26	+36	+37	+29	+34	+30	+27	+33	+31	+24	+25	+27
4	Average Prices	+39	+33	+25	+31	+18	+21	+23	+22	+26	+32	+33	+37

COMMENT

Total demand in the manufacturing sector continues to be buoyant. A balance of +14% of respondents report that total order books are above normal in December - the same as the balance in November and similar to balances seen during the Summer.

Export demand remains subdued. The balance of -5% indicating that export order books are below normal represents only a slight deterioration since November, but remains the lowest figure since April 1987.

There has been some destocking in December, following a build-up in November, so that a balance of +1% now report stocks of finished goods to be more than adequate. This is broadly in line with balances seen during the Summer.

Manufacturing output is expected to grow strongly over the next four months. The balance of +27% expecting to increase output is slightly above the balances reported in October and November, but generally below those reported earlier in the year.

Prices are expected to pick up by a higher proportion of respondents during the coming months than reported in November. A balance of +37% expect to increase their average prices over the next four months - a higher balance than indicated earlier in the year.

chex.rm/r/7 UNCLASSIFIED

FROM: A A DIGHT
DATE: 12 December 1988

P.W.P

MR R LIND

CBI MONTHLY TRENDS ENQUIRY: DECEMBER 1988

The Chancellor has seen and was grateful for your minute of 9 December.

A A Dight

ANTHONY DIGHT