FROM: M T FOLGER
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MR TURNBULL - No.10 —

cc Miss O'Mara
Sir Terence Burns
Mr Battishill
Mr Hall
Mrs Lomax
Mr Shields
Mr A Smith
Mr MacKinnon
Mr Portillo
Mr Kavanagh CSO

5% GROWTH: MR NIGHTINGALE OF HOARE GOVETT

In response to your inquiry of the Chancellor's Office this morning, I attach a transcript of the interview on Radio 4.

2. You will see that Mr Nightingale's main assertion is that since the trough in 1981 GDP has probably grown at an annual rate of 5%. (The currently recorded figure of about 3% is in his view likely to prove an underestimate, judging by past CSO performance.) He seems to suggest that a credit squeeze will be needed "probably in the spring" to rein in growth of the money supply and so avoid "severe problems on the inflation front". He would then put 1984 growth at 3% in line with official projections.

3. The main points to make (see attached advance copy of A10 from today's TWEB) are:

(i) despite all the uncertainties, there is no basis for suggesting that the rate of growth has been as high as 5%.

(ii) monetary growth is under control: after the faster growth in the first half of 1983, the annualised rate of monetary growth in the latest 6 months has been well within the target range. [NB provisional January money numbers, to be published at 2.30pm tomorrow, will bear on this comparison.]

(iii) growth has not come from any "very expansive policy", fiscal or monetary. It has been sustained by reductions in inflation and interest rates. The responsible policies which have brought these reductions will be maintained: there is no question of slamming on the brakes.

4. CSO confirm that, historically, underestimates of growth rates have typically been in the range ½ to 1%. They believe that current work will improve on that.

MTF

M T FOLGER

ROGER NIGHTINGALE - INTERVIEW ON SPIRAL EFFECTS OF HIGH BORROWING

Transcript from: BBC Radio 4, Today, 6 February 1984

INTERVIEWER : (John Timpson) Easy availability of money is driving the economy along at a feverish pace which could soon lead to higher inflation, a wages [surge?] and a credit squeeze, according to economic experts in the stockbroking firm of Hoare Govett Which may come as a surprise, not only to people who haven't found money to be all that easily available lately, but also to other economists who've been talking about a gentle growth rate of 2½ to 3%. With me is Roger Nightingale, chief economist of Hoare Govett . ..... How does this tally with these other economists; I mean, for instance, in the paper this morning one of your fellow brokers, Rowe & Pitman, produce a report saying that most commentators agree that the economy will expand by between 2½ and 3% this year?

NIGHTINGALE: Yes, it's very difficult to account for exactly what other people are saying. I mean I don't think there's a great deal of disagreement actually, funnily enough, on what is going to happen in 1984. Really the disagreement centres probably more on what happened in the last 2 or 3 years. And our view is that having reached bottom in say Spring of 1981 the economy grew very quickly. And indeed in the last 12 months or so has been growing at something like 5% per annum . Our view is that in fact at the present time and with present policies the growth would carry on being of the order of 5%, but that would create such an explosion in inflation the authorities will have to come in and dampen things down. Funnily enough we actually agree with the figure in the region of 3% for the current year but as a result of deflation rather than as a result of stimulation.

INTERVIEWER : Your figures of past growth of 5%, that's higher than the Government's figure isn't it?

NIGHTINGALE: Indeed it is yes yes. But of course figures are always revised upwards. If you remember 1982 was initially announced to be something in the region of only ¾% growth, it has now been revised up to 2½% growth. And this is not an exception. Every single year in the last 20 has been revised up very substantially over time and 1983 is probably going to be revised up we think tosomething in the region of 5, 5½%.

INTERVEWER : It's surprising that the Government hasn't made more of this if this is the case I should think Mr NIghtingale, because this justifies their policies doesn't it?

NIGHTINGALE: Again it's difficult to account for how Governments behave sometimes. It's much more difficult actually to account for the inaccuracies in the data. But the fact of the matter is that these inaccuracies are there and that the revisions are of a consistent nature. They are always revised upwards.

INTERVIEWER : Well now if we do indeed have this economy going at a feverish pace presumably, as you say, something will have to be done about it - what would you predict the Chancellor would do in his Budget?

NIGHTINGALE: He could of course do very little as Heath and Barber did 10 years or so ago. In which case you do get very severe problems on the inflation front. They don't build up immediately but they are certain to emerge ultimately. The alternative is that he does something to constrain activity. At the moment he has money supply growth in the region of 4 or 5 or 6% per annum in real terms. And it is a very expansive policy. Again the last sort of people who had polides of that sort were Heath and BArber 10 years ago. It is almost certain that he can't keep things like that forever. That is why the economy is so feverish. The chances are therefore he will at some stage, probably in the spring, decide to clamp down on credit availability. He will sell more gilts, raise interest rates, make it more difficult for us to get hold of consumer credit.

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10 DOWNING STREET

(2)

Prime Minister

Mr Nightingale is correct in his assertion that the first estimates normally under~~e~~estimate the growth of GDP. But Treasury think he is ~~to~~ exaggerating in claiming growth is close to 5% p.a.

Treasury also argue that it will not be necessary to slam on the brakes, merely keep Government borrowing coming down.

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