



Treasury Chambers, Parliament Street, SW1P 3AG
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3 November 1983

Andrew Turnbull Esq
10 Downing Street
LONDON SW1

Dear Andrew,

ECONOMIC ASSUMPTIONS

I told you that I planned to send you a note of the economic assumptions for the Autumn Statement, the Government Actuary's report on the National Insurance Fund and the next Public Expenditure White Paper.

... The attached table sets out the figures for unemployment, the RPI, average earnings and interest rates: they are of course consistent with the figures that will appear in the Industry Act Forecast. Only the figures underlined will be published; and among them only those for 1983-84 and 1984-85 will be published this autumn (those for unemployment and prices for all years will be published subsequently in the Public Expenditure White Paper).

In settling on these figures the Chancellor has, as in past years, been concerned to strike a balance between the need to maintain our forecasting credibility and the need to exert the maximum helpful influence on expectations generally and pay negotiations in particular.

The prices and earnings assumptions are the important ones on the pay front. The RPI increase to May 1984 of 5½ per cent is ½ per cent higher than the latest (September) published figure (the October figure will be released on Friday, 11 November). But it is ½ per cent lower than the forecast for the same period published at Budget time in the Financial Statement and Budget Report, and it will be presented as a temporary increase in an otherwise declining trend.

On earnings, the Chancellor had regard in particular to the



difference between the average earnings figure we are showing for the economy as a whole and the cash provision of 3 per cent for public sector pay in 1984-85. This is not, of course, a new problem. The differential of $3\frac{1}{2}$ percentage points between the increase for financial year 1984-85 and the pay provision for the year compares with differentials of $4\frac{1}{2}$, $3\frac{1}{2}$ and 3 over the last three years respectively. We shall, as last year, stress in the Government Actuary's report that the $6\frac{1}{2}$ per cent increase for the economy as a whole "takes account of the cash provision of 3 per cent made by the Government, in planning public expenditure for 1984-85, for average increases in wage and salary bills for the public services from due settlement dates."

As far as unemployment is concerned, successive Governments have been at pains to point out that the assumptions needed for planning purposes are not forecasts. We shall hold to that, and the Chancellor thought it right to stick with precedent and follow a strictly conventional approach.

Yours ever,
J O Kerr
J O KERR

KEY ECONOMIC ASSUMPTIONS

	1983-84	1984-85	1985-86	1986-87
Unemployment (thousands)				
- GB narrow	<u>2850</u>	<u>2850</u>	<u>2850</u>	<u>2850</u>
- School leavers <i>etc.</i>	<u>180</u>	<u>170</u>	<u>170</u>	<u>170</u>
Prices*	[3.7]**	<u>5½</u>	<u>4½</u>	<u>4</u>
Earnings ⁺	<u>7</u>	<u>6½</u>	6	5
Interest rates ⁺⁺	<u>9½</u>	8	7	6

* Percentage increase to May of year concerned

** Outturn - already published

+ Annual percentage rise

++ Short-term

SUMMARY OF SCORECARD

	<u>Change in relation to WP(£m)</u>		
	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Agreed as at 20 October	+575	+929	+1083
Effect of MISC 99 provisional decisions	-226	-838	-1662
Effect of other decisions (LA current; OAL)	<u>+6</u>	<u>+598</u>	<u>+660</u>
Outstanding difference from White Paper	+355	+689*	+81*
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Defence (unsettled): Treasury position	-268	-281	+161
Net change from WP if Defence carried	+87	+408*	+242*
if MISC 99 proposals on defence accepted	+187	+508	[+342]
*Assumes addition to reserve of £0.5bn in 1985-86 and £2bn in 1986-87.			

MISC 99 provisional decisions so far compared with CST proposals

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
	+86	+75	-76

Note: Defence not included.

+21+6



10 DOWNING STREET

Prime Minister ^①

Agree these assumptions
strike right balance
between ambition and
credibility?

The assumption of
constant unemployment
looks more plausible
than it has done for some
time.

AT

3/11

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10 DOWNING STREET

From the Private Secretary

4 November 1983

Economic Assumptions

The Prime Minister has seen your letter to me of 3 November. She is content with the assumptions you propose to use for the Industry Act forecast and with the figures which will be published.

ANDREW TURNBULL

John Kerr Esq
HM Treasury

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JH