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7th January 1987

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Prime Minister 2

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Dear David

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OUTLOOK FOR RPI

I enclose a numbered copy of the latest DE note.

Copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Mr Timothy Walker (Trade and Industry), Ms R Passmore (CSO), John Footman (Bank of England) and Chris Cloake (CO)

yours sincerely

Peter Baldwin

Peter Baldwinson
Private Secretary

PERSONAL AND CONFIDENTIAL

OUTLOOK FOR RETAIL PRICES: DECEMBER 1986 AND JANUARY 1987

1. The annual rate of inflation in December, as measured by the 12-month change in the retail prices index, is expected to rise to around 3 3/4 per cent from the 3.5 per cent recorded for November.

2. The increase in the overall level of prices between November and December is expected to be between 1/4 and 1/2 per cent, compared with an increase of 0.1 per cent recorded between the corresponding months last year. The pattern of early winter sales for clothing which occurred in December 1985 does not appear to have been repeated this year. Residual effects of the increases in mortgage interest rates announced in October will affect the index for December and higher food prices are expected.

3. The outlook for inflation over the last quarter of 1986 is thus for an average annual increase in prices of around 3 1/2 per cent. This exceeds the Chancellor's Autumn statement forecast of 3 1/4 per cent.

4. In January a further small rise in the 12-month rate may occur. Sale prices are expected for clothing, footwear and durable goods but the scale of the reduction is uncertain. Overall the prices are expected to rise by about 1/4 per cent between December and January, compared with an increase of 0.2 per cent recorded a year earlier.

leading to an annual figure in January of 3 3/4 - 4.

Percentage change in the RPI

	12 months all items	over 1 month	
		all items	all excluding seasonal food
September	3.0	0.5	0.5
October	3.0	0.2	0.2
November	3.5	0.8	0.9

FORECASTS

December	3 3/4	1/4 - 1/2	1/3
January	3 3/4 - 4	1/4	1/4