

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR: 24 NOVEMBER

Markets

The meeting is to discuss how to handle the markets following the announcement of the October trade figures at 1130 on Friday.

I am not sure what line the Chancellor will take; he is having a meeting earlier tomorrow afternoon with his Treasury and Bank advisers.

The key question will be to settle the timing of any move. I continue to favour quick action, even if it were to look like a replay of the action taken in August. One possible counter argument the Chancellor may deploy is that some delay would be appropriate given the position on steel; I do not think there is much in that argument.

By way of background you may like to look at the enclosed details of the trade figures, together with the Treasury commentary. Tables 13 and 16, which show the volume of imports and a commodity analysis of visible trade, are particularly interesting. I have highlighted some of the figures. The key points seem to me:

- the October figures confirm just how rapid the growth of import volume has been;
- Table 13 shows that the growth of imports of intermediate and capital goods has been very rapid and contributed significantly to the overall position. But the growth of imports of cars and other consumer goods has been just as fast;

- it is in finished manufactures rather than semi manufactures that the main problem arises; table 16 shows that the quarterly adverse visible balance has deteriorated from £0.7 billion in 1987 Q1 to £3 billion in 1988 Q3;
- the moral is that we must take further action to slow down the growth of domestic demand.

Steel

The Chancellor is separately discussing with Lord Young the question of what if anything the latter should say on Friday about factors he had taken into account in setting the steel offer price. If the Chancellor has been unable to sort this out bilaterally he may want to bring you up to date with the position.

PLG.

(PAUL GRAY)

23 November 1988

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