

PRIME MINISTER

HM TREASURY'S MONTHLY MONETARY ASSESSMENT

You may wish to glance through the attached Treasury Monthly Assessment. As usual, it gives a very helpful summary of the latest indicators, not just for the monetary position but also the economy more generally.

I have highlighted key passages. Particular points to note are:

- The evidence on whether consumer spending has started to slow down is still contradictory. The annex on indicators of consumers expenditure is worth looking at.
- But the housing market clearly has now slowed down. Paragraphs 50-52 also highlight the deceleration in mortgage (and other consumer credit) lending.
- MO has yet to show any significant slow down on a twelve monthly basis. But paragraphs 41-42 indicate that the latest figures for notes and coin have shown very little growth. Table 26 at the back of the reports shows the Treasury expect a very rapid deceleration in the twelve monthly growth rate during the course of 1989/90. But we know from earlier this year the fragility of forecasts in this area. I would certainly not regard any of the latest evidence as firm enough to indicate the scope for any early reduction of interest rates. Indeed, we cannot yet rule out the possibility that market conditions could dictate the need for a further tightening - but hopefully it will not come to that.

PLG

PAUL GRAY

13 December 1988