

PRIME MINISTER

See by M.  
REG  
12/5

LATEST RPI FORECAST

You might like to be aware, before your bilateral with the Chancellor this afternoon, of the Treasury's latest internal forecast for the profile of the RPI over the rest of this year.

I managed to extract this from the Treasury this morning, although the Chancellor may not be aware of this. I should therefore be grateful if you would avoid revealing to him you know the precise figures.

The figures are:

May/June - 8.4%  
July - 8.3%  
August - 7.4%  
September - 7.5%  
Dropping by December to 6.8%

As you will recognise, this is another upward revision. It is said to be based on present levels of interest rates and the exchange rate, and to assume that there will be some squeeze in retailers' margins during the rest of the year.

As in the earlier forecasts, there is still a substantial drop in August, when the main mortgage rate effect drops out, but at significantly higher levels. The Budget forecast of 5.5% for the fourth quarter now looks pretty sick.

REG.

PAUL GRAY

23 May 1989