

PRIME MINISTER

RPI FOR OCTOBER 1990

I attach the Treasury note on the provisional October inflation figure: (the actual will be published a week on Friday).

It is reasonably good news.

First, as the note indicates, the year on year RPI increase in October is provisionally estimated at 10.9 per cent, the same figure as in September. But I spoke to the Chancellor this evening: he indicated there was a small chance that the figures would, in fact, show a marginal drop to 10.8 per cent.

Second it is almost certain that inflation will be back in single figures this month. This reflects the 5 October cut in interest rates, which will bring down mortgage costs in November: but it is also because last year's rise in mortgage rates drops out of the annual comparison.

A welcome return to single figure inflation announced before Christmas is thus in prospect.

BHP

BARRY H. POTTER

7 November 1990

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OUTLOOK FOR RPI AND TPI: OCTOBER AND NOVEMBER 1990

October's figures

1. The annual rate of increase in the "all-items" RPI for October is most likely to be 10.9 per cent as forecast last month, unchanged from September. The annual rate excluding housing costs is likely to rise to 8.2 per cent from 8.1 per cent and the rate excluding mortgage interest payments and the Community Charge to rise to 8.4 per cent from 8.3 per cent.

2. The annual rate for the TPI is expected to increase to about 10.8 per cent for October, from 9.4 per cent recorded for September. This sharp rise is caused by the effect of changes in National Insurance payments, which reduced the TPI in October 1989, but now drop out of the 12-month comparison.

3. Between September and October, the "all items" RPI is expected to show an increase of 0.8 per cent, the same as in the corresponding period last year. There were increases in the prices of domestic heating oil and petrol. Clothing and footwear prices rose, with the introduction of more new stocks, and there were increases for housing, leisure goods, alcoholic drink, tobacco, motor insurance, telephone rentals and postage. Food prices increased slightly.

Outlook for November's figures

4. The "all items" annual rate is likely to fall sharply between October and November to below 10 per cent. Most of the effect of the recently announced falls in mortgage interest rates will feed through to the November index, while the rise in interest rates a year ago will drop out of the 12-month comparison. (Together, these effects will reduce the annual rate by some 0.9 percentage points in November.) Food prices are expected to rise but petrol prices on 13 November (index day) may still be below their October level despite the latest increases. Overall the index is likely to show a small reduction in the month, in contrast to a rise of 0.9 per cent in November last year.

5. The final figures for October will be circulated next Wednesday afternoon in advance of publication on Friday 16 November.

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Percentage changes

RPI: all items

TPI

over 1 month over 12 months

over 12 months

1990

Apr	3.0	9.4	7.7
May	0.9	9.7	8.1
June	0.4	9.8	8.1
July	0.1	9.8	8.0
Aug	1.0	10.6	9.0
Sept	0.9	10.9	9.4

Outlook

Oct	0.8	10.9	10.8
Nov (likely range)	-0.3 to 0	9.6-9.9	9.5-9.8

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