



Treasury Chambers, Parliament Street, SW1P 3AG
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Dear David

The Prime Minister will wish to be aware of the economic assumptions that Treasury Ministers have agreed for use in the current round of public expenditure decisions; and, as appropriate, for publication over the next few months in the Autumn Statement, the Government Actuary's Annual Report, and the 1986 Public Expenditure White Paper.

The main assumptions are summarised below. They include financial year figures for unemployment (excluding school leavers), growth in average earnings, and the GDP deflator. The periods shown for the RPI are for the new uprating dates. In the past, up to and including the uprating in November of this year, social security upratings have been based on the May RPI figures for successive years. With the change in uprating dates from November to April, upratings are likely in future to be based on changes in the RPI between Septembers of successive years. A transitional uprating in July 1986 will be based on the change in the RPI between May 1985 and January 1986.

MAIN ECONOMIC ASSUMPTIONS

	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
Unemployment, GB excluding school leavers (millions)	3.05	3.0	2.95	2.9
Average earnings (per cent change)	8	7	6*	5½*
GDP Deflator (per cent change)	5	4½	3¾	3¼
RPI (per cent change)		1**	2¼**	3¼
		Jan 1986 on May 1985	Sept 1986 on Jan 1986	Sept 1987 on Sept 1986

* Not published at this time

** Actual change over period indicated: not annual rate



The unemployment, average earnings, and GDP deflator assumptions for 1985-86 and 1986-87 and the RPI change for January 1986 on May 1985 will be published in November (in the Autumn Statement and/or the Government Actuary's Annual Report). Unemployment, GDP deflator, and RPI assumptions relevant to the last two years of the Survey period have in the past only been published in the PEWP, not in the Autumn Statement. But if we publish three year projections of expenditure in the Autumn Statement we will need to consider publishing some of the assumptions for later years at the same time.

The assumptions show unemployment falling by 50,000 a year, broadly reflecting the expansion of the Community Programme and the extension of the Youth Training Scheme announced in the 1985 Budget. (GB unemployment excluding school leavers was 3.056 million in September). The assumption of 8 per cent average earnings growth in 1985-86 is half a point higher than that published in the Government Actuary's July Report, and reflects the Treasury's assessment of the implications of settlements over the last pay round, taking account of the recovery of earnings in the coal industry compared with their depressed level during the coal strike. The assumptions for the GDP deflator show the same figures for 1985-86 and 1986-87 as those published in 1985 Medium Term Financial Strategy, while the figures for 1987-88 and 1988-89 are a quarter of a point higher than the corresponding MTFs figures. The RPI figures are consistent with inflation close to 5 per cent by the end of 1985, and falling below 4 per cent in 1986.

Yours ever
Rachel

RACHEL LOMAX



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