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10 DOWNING STREET  
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*From the Private Secretary*

16 October 1986

**ECONOMIC ASSUMPTIONS**

Thank you for your letter of 10 October setting out the proposed economic assumptions for use in the current round of public expenditure decisions and in some cases for publication. The Prime Minister read this without comment.

(David Norgrove)

Alex Allan, Esq.,  
H.M. Treasury.

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cc Bg

ms

Treasury Chambers, Parliament Street, SW1P 3AG  
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10 October 1986

David Norgrove Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

Prime Minister

There are some uncomfortable figures here, but they seem inescapable. To be unrealistic would simply store up trouble for the future.  
Content? DNR

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 1987 Public Expenditure White Paper. 14/10

The main assumptions are summarised below. They include financial year figures for unemployment (excluding school leavers), growth in average earnings, and the GDP deflator; and for increases in the RPI over the periods relevant to the April 1988 and April 1989 Social Security upratings.

MAIN ECONOMIC ASSUMPTIONS

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Unemployment, GB excluding school leavers (millions)	3.1	3.05	3.05	3.05
Average earnings (per cent change)	7½	6½	5½*	5*
GDP Deflator (per cent change)	3	3¾	3½	3

Sept 1987 on Sept 1986    Sept 1988 on Sept 1987

RPI (per cent change)

3¾                      3½

\*Not Published.

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3. These assumptions (apart from the earnings assumption for the two later years) will first be published in November, in the Autumn Statement. The Industry Act forecast published with the Autumn Statement will also include an RPI forecast for the fourth quarter of 1987.

4. The new unemployment assumption has the same profile as that published in the ~~1986 Public Expenditure~~ White Paper, but with a figure in each year of the Survey period that is 50,000 higher than in the corresponding year of the last Survey period. The average earnings assumption of  $7\frac{1}{2}$  per cent for this financial year is equal to the current underlying growth of average earnings (underlying average earnings growth was  $7\frac{1}{2}$  per cent in the last two financial years as well); the fall in earnings growth shown next year reflects an expected fall in pay settlements in the current pay round. The increase in the RPI shown over the year to September 1987 ( $3\frac{3}{4}$  per cent) is somewhat higher than the RPI increase expected in the year to September 1986 (close to 3 per cent). The higher growth of the RPI expected over the next year reflects the fact that we cannot count on benefiting over the next twelve months from reductions in mortgage interest rates such as those experienced over the last year.

*Yours,  
Alex.*

A C S ALLAN  
Private Secretary