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Treasury Chambers, Parliament Street, SW1P 3AG 9/10

The Rt Hon Christopher Patten MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 London
 SW1

9 October 1989

Dear Chris

CONSTRUCTION PRICES

Thank you for your letter of 2 October, clarifying the information which your office have previously provided on this subject.

2 It is clear from the range that you quote (2-7 per cent) for 1989-90 that there remains some uncertainty about exactly how much faster prices will rise this year in the construction industry than in the economy as a whole. But you still envisage construction price inflation rising possibly up to twice as fast as general inflation this year; and I note that your minute of 22 September to the Prime Minister reported that all the leading employers are concerned about serious skill shortages in the construction industry.

3 However, the main point remains that the prospects for next year would be dramatically worsened if the massive bids originally made by colleagues were added to the existing prospective levels of demand. Whatever difference of view there may be, as you suggest, about the bounds of what is reasonable, these seem to me to fall clearly outside it. If construction industry overheating is not to remain a serious problem, they must be sharply scaled back and phased so that they are, and remain, at reasonable levels. I am grateful to those colleagues who have responded positively to the request in my letter of 15 September that they should all contribute to phasing demands on the industry in such a way that overheating is avoided.

4 I am copying this letter to the Prime Minister and to Cabinet colleagues.

Norman Lamont
 NORMAN LAMONT

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