



Prime Minister <sup>①</sup> cc NO.  
Agree these assumptions?

AT  
16/4

Treasury Chambers, Parliament Street, SW1P 3AG

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SW1

16 April 1984

Dear Andrew,

The Prime Minister will wish to be aware of the economic assumptions the Chief Secretary has in mind for use in the Government Actuary's report on the social security benefits Up-rating Order (to be published around the end of June) and in the Public Expenditure Survey.

The main assumptions are summarised as follows:

MAIN ECONOMIC ASSUMPTIONS

<i>Autumn Statement figures in brackets</i>	Unemployment (million)	Prices (per cent rise to May)	Average Earnings (per cent rise year on year)
	<u>2.85</u> (2.85)	5 <sup>(1)</sup> (5½)	<u>7</u> (6½)
	2.85	4	6½
	2.85	4	6
	2.85	3½	5

(1) Latest estimate. The actual May RPI will be published on 15 June.

The only assumptions to be published at this stage will be those for unemployment and earnings for 1984-85, in the GA's report; they are underlined in the above table. For prices, the report will be based on the actual May RPI to be published on 15 June.

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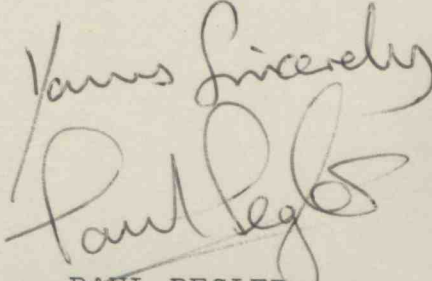
For unemployment in 1984-85 it is proposed to stick to the figure of 2.85 million (GB narrow excluding school leavers etc) quoted in the White Paper for "1983-84 and thereafter". (It is the normal convention to use the same figure for the later years.) 2.85 million has in fact turned out very accurate for 1983-84. The internal Treasury forecast prepared at the time of the Budget was for an average of 2.87 million in 1984-85. Since then we have had the March figure of 2.90 million, seasonally adjusted.

In the light of the March figure, the Chief Secretary considered raising the assumption to 2.9 million. On balance, however, he does not feel that there are sufficient grounds for making any change.

For earnings, it is proposed to give the Government Actuary an average figure of 7 per cent for 1984-85. The figure published for that year in his November report was  $6\frac{1}{2}$  per cent. The latest monthly figure (for January) shows an underlying growth of  $7\frac{3}{4}$  per cent. It has been steady at that figure since August, and the internal forecast for 1983-84 as a whole is 7.7 per cent. For 1984-85 the internal forecast at the time of the Budget was for an increase of 7 per cent. The main influence on this is the average level of settlements in the current pay round. In the private sector, settlements seem to be stabilising at about 5-6 per cent, perhaps a little higher than previously expected and not much lower than in the last round. Overall, it now seems more likely that the increase in earnings will be nearer  $7\frac{1}{2}$  per cent than 7 per cent.

Publishing an assumption as high as  $7\frac{1}{2}$  per cent for 1984-85 would however have an influence on expectations and pay negotiations. It is  $2\frac{1}{2}$  per cent above the expected May RPI increase, and 1 per cent above the assumption of  $6\frac{1}{2}$  per cent published in the GA's November report. Although it is described as an assumption, not a forecast, it could give a signal to pay negotiators that the Government is revising its earnings expectations upwards. The risk of this is however limited to some extent by the timing of the report: when it appears at end June/early July, the 1983-84 round of pay negotiations should be mostly complete, and the beginning of the 1984-85 round will be some time off. Publishing a  $7\frac{1}{2}$  per cent assumption in the Summer would be unhelpful, but there is potential for greater damage if a lower figure (say  $6\frac{1}{2}$  per cent) were published and subsequently had to be revised upwards in the November GA report, which comes at a sensitive time in the 1984-85 pay round.

On balance, Treasury Ministers feel an assumption of 7 per cent should be used. But to minimise the risk of any wrong signals being given to pay negotiators, we will tell the GA to include in his report the estimated outturn for average earnings in 1983-84, which is likely to be  $7\frac{3}{4}$  per cent. This will make it clear that the assumption for 1984-85 represents a significant fall from the outturn for 1983-84.

Yours sincerely  
  
PAUL PEGLER  
Assistant Private  
Secretary

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cc Policy Unit

10 DOWNING STREET

*From the Private Secretary*

17 April 1984

Economic Assumptions for the  
Government Actuary's Report

The Prime Minister has seen your letter to me of 16 April. She is content with the assumptions proposed for unemployment, inflation and average earnings.

(Andrew Turnbull)

Paul Pegler, Esq.,  
Chief Secretary's Office

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