

PO-CH/NL/0146

PART A

Part A

SECRET

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Begins: 20/10/86

Ends: 16/9/87



PO -CH /NL/0146



PART A

Chancellor's (Lawson) Papers:

THE RETAIL PRICE INDEX
1987

PO -CH /NL/0146

PART A

PART A

Disposal Directions: 25 Years

Phillips

25/8/95



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 October 1986

*Ch
In hand
AT*

Dear Alex,

THE RPI

You will have seen from my record of yesterday's meeting at Chequers that the Prime Minister was very concerned that the RPI on possible Election dates might be running higher than the rate prevailing when the 1983 Election was fought.

The Prime Minister has asked for a detailed analysis of the factors which will be determining the path of the RPI over the next eighteen months, with, in particular, the dates for decision and announcement of those prices which are under the control of the Government or which can be influenced by it, and their weights in the Index.

This request should, of course, be treated discreetly.

*Yours,
David*

(DAVID NORGROVE)

Alex Allan, Esq.,
HM Treasury



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6460.
Switchboard 01-213 3000 GTN Code 213
Facsimile 01-213 5465 Telex 915564

7th January 1987

David Norgrove Esq
Private Secretary
10 Downing Street
London
SW1 2AA

Dear David

OUTLOOK FOR RPI

I enclose a numbered copy of the latest DE note.

Copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Mr Timothy Walker (Trade and Industry), Ms R Passmore (CSO), John Footman (Bank of England) and Chris Cloake (CO)

Yours sincerely

Peter Baldwinson

Peter Baldwinson
Private Secretary

PERSONAL AND CONFIDENTIAL

OUTLOOK FOR RETAIL PRICES: DECEMBER 1986 AND JANUARY 1987

1. The annual rate of inflation in December, as measured by the 12-month change in the retail prices index, is expected to rise to around 3¼ per cent from the 3.5 per cent recorded for November.

2. The increase in the overall level of prices between November and December is expected to be between ¼ and ½ per cent, compared with an increase of 0.1 per cent recorded between the corresponding months last year. The pattern of early winter sales for clothing which occurred in December 1985 does not appear to have been repeated this year. Residual effects of the increases in mortgage interest rates announced in October will affect the index for December and higher food prices are expected.

3. The outlook for inflation over the last quarter of 1986 is thus for an average annual increase in prices of around 3½ per cent. This exceeds the Chancellor's Autumn statement forecast of 3¼ per cent.

4. In January a further small rise in the 12-month rate may occur. Sale prices are expected for clothing, footwear and durable goods but the scale of the reduction is uncertain. Overall the prices are expected to rise by about ¼ per cent between December and January, compared with an increase of 0.2 per cent recorded a year earlier.

Percentage change in the RPI

	12 months all items	over 1 month	
		all items	all excluding seasonal food
September	3.0	0.5	0.5
October	3.0	0.2	0.2
November	3.5	0.8	0.9

FORECASTS

December	3¼	¼-½	⅓
January	3¾-4	¼	¼

Reference..... *purp*

To:

(Circulation list attached)

PS/SECRETARY OF STATE

From:

ROGER NORTON
Head/Branch 3
Room 1.212
Business Statistics Office
NEWPORT, Gwent
GTN: 2411/2069

Ch
The figure does
look pretty freaky
- see chart

8 January 1987

Inter- AA

RETAIL SALES: FINAL ESTIMATE FOR NOVEMBER 1986

A Press Notice giving the final estimate for retail sales for November is attached for information.

2. The final index at 126.4 (0.3 above the provisional figure) is well above all previous levels. Recent growth in sales is strong but the latest figure may exaggerate it for technical reasons. (The trading period used for November 1986 is 6 days further into the Christmas period than in 1985. The limited past evidence available does not suggest this would have a significant effect, but there must be additional uncertainty in the seasonal adjustment of the estimate.)

3. This Notice will be published at 11.30 am on Monday 12 January. As usual, the contents should be treated as confidential until then.

R M Norton

R M NORTON

DTI Press Notice

CONFIDENTIAL
UNTIL 11.30 HOURS
ON DAY OF RELEASE

Department of Trade and Industry

1 Victoria Street SW1H 0ET

Press Office: 01-215-4471/4475

Ref: 5

Out of hours: 01-215 7877

January 12 1987

RETAIL SALES IN NOVEMBER 1986

VOLUME

The final seasonally adjusted index of the volume of retail sales in November was 126.4 (1980=100), well above previous levels.

In the three months September to November, the level of sales was 2 per cent higher than in the previous three months, after seasonal adjustment, and 7 per cent higher than in the corresponding period a year earlier. In the last three months, compared with the previous three months, sales by food retailers rose by 1½ per cent, sales by mixed businesses rose by 4 per cent and sales by non-food retailers rose by 2 per cent.

VALUE

The non-seasonally adjusted index of the value of retail sales in November was 10 per cent higher than in November 1985.

So far in 1986, the value of sales has been 9 per cent higher than in the first eleven months of 1985.

VOLUME OF RETAIL SALES SEASONALLY ADJUSTED

Table 1 Index numbers of sales per week (average 1980 prices) 1980=100

(Sales in 1980 - £ million)	All retailers (58,377)	Food retailers (22,859)	Mixed retail busin- esses (10,930)	Non-food retailers			
				Total (24,588)	Clothing and footwear (5,413)	Household goods (9,146)	Other non- food (10,029)
1981	100.2	100.7	100.4	99.7	97	102	99
1982	102.2	101.6	103.9	102.0	100	106	99
1983	107.1	105.8	109.4	107.4	108	115	100
1984	110.7	108.4	113.6	111.5	114	120	102
1985	115.3	112.6	119.3	116.1	122	127	103
1985 2nd quarter	114.9	112.1	119.4	115.4	122	125	103
3rd quarter	116.1	113.6	119.8	116.8	122	128	104
4th quarter	116.7	113.9	120.2	117.9	124	129	105
1986 1st quarter	118.2	115.7	122.3	118.7	125	131	104
2nd quarter	120.0	115.9	123.5	122.2	130	137	105
3rd quarter	122.1	116.1	127.9	125.2	131	142	107
1985 April	113.5	110.7	118.1	114.0	121	123	102
May	115.6	112.9	120.3	116.0	123	125	104
June*	115.4	112.6	119.7	116.0	122	126	103
July	115.9	113.6	118.9	116.7	123	127	103
August	117.0	113.8	123.5	117.0	124	128	103
September*	115.6	113.5	117.5	116.6	119	129	104
October	115.0	113.2	117.6	115.6	118	127	104
November	117.6	114.7	120.4	119.0	129	130	104
December*	117.4	113.7	122.1	118.7	124	130	106
1986 January*	117.3	115.4	122.2	116.9	122	129	103
February	117.5	115.9	121.0	117.5	123	130	103
March*	119.7	116.0	123.3	121.6	131	133	106
April	119.3	116.2	122.2	120.8	127	137	103
May	118.5	114.2	122.6	120.8	129	134	104
June*	121.7	116.9	125.3	124.5	132	139	107
July	120.9	115.5	125.9	123.6	128	140	107
August	122.0	115.9	127.9	125.1	133	141	106
September*	123.2	116.8	129.4	126.6	132	144	108
October	123.2	118.2	129.5	125.0	131	140	107
November	126.4	119.1	136.1	128.9	136	144	111
1986 Jun-Aug	121.5	116.2	126.3	124.4	131	140	106
1986 Sep-Nov	124.2	117.9	131.5	126.8	133	143	109
Percentage Changes:							
Latest 3 months on previous 3 months	+2.2	+1.5	+4.1	+1.9	+1	+2	+2
Latest 6 months on previous 6 months	+3.9	+1.6	+5.4	+5.2	+5	+7	+3
1month / 1month	+2.6	+0.8	+5.1	+3.1	+4	+3	+4

The monthly periods consist of 4 weeks except those marked * which are of 5 weeks. The November 1986 sales period was the 4 weeks from November 2 to November 29. The quarterly indices are the weighted averages of the monthly indices for the months within the quarter, the weights being the number of weeks in each monthly period.

VALUE OF RETAIL SALES (NOT SEASONALLY ADJUSTED)

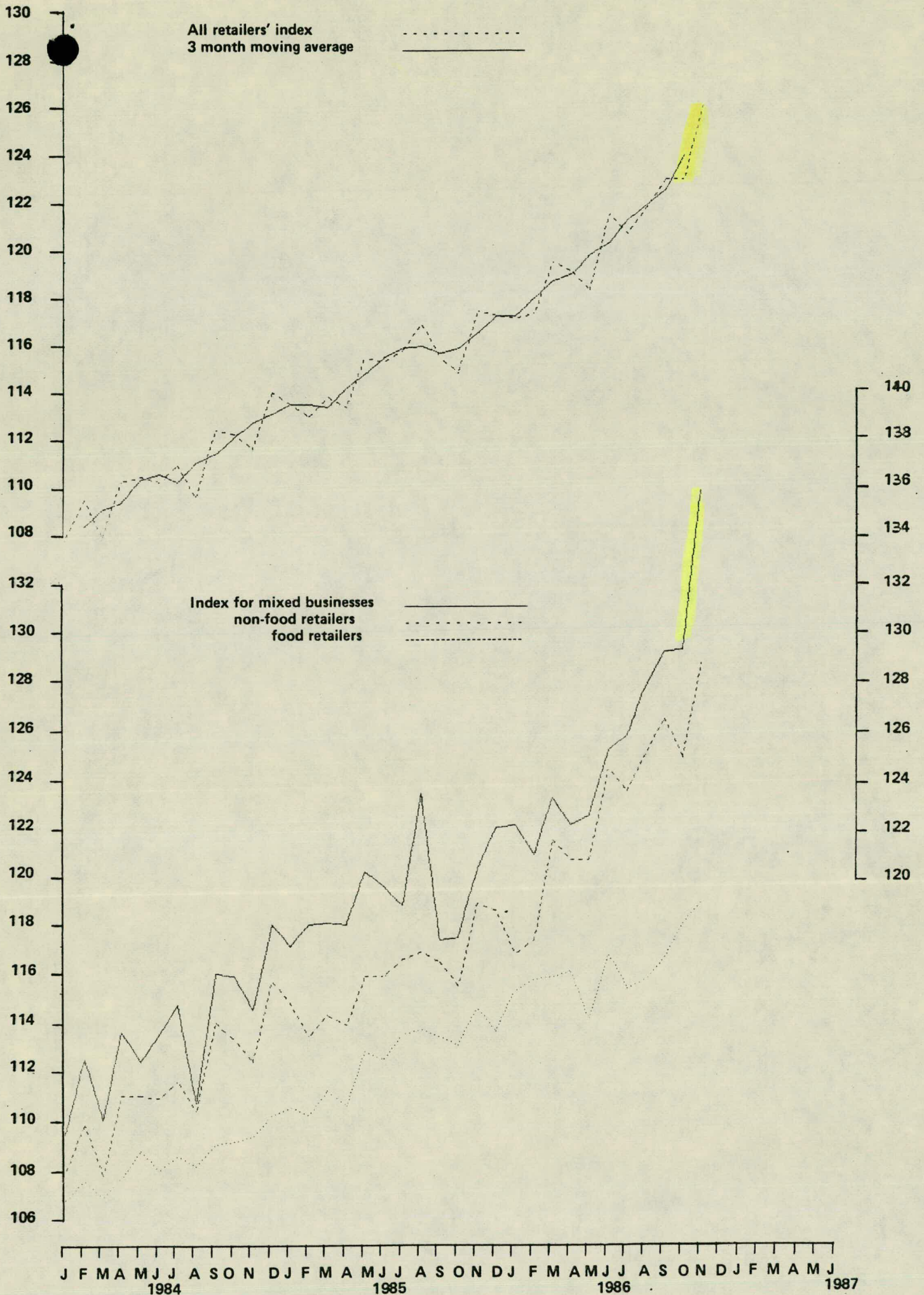
Table 2 Index numbers of value of sales per week (current prices) 1980=100

(Sales in 1980 - £ million)	All retailers (58,377)	Food retailers (22,859)	Mixed retail busin- esses (10,930)	Non-food retailers			
				Total (24,588)	Clothing and footwear (5,413)	Household goods (9,146)	Other non- food (10,029)
1981	108.2	109.7	106.1	107.8	102	107	112
1982	117.1	118.9	115.0	116.4	109	114	122
1983	127.6	128.3	125.8	127.7	121	128	131
1984	137.5	138.5	135.5	137.5	132	137	141
1985	149.5	149.2	149.2	150.0	147	149	152
1985 1st quarter	133.9	139.6	125.3	132.4	118	139	134
2nd quarter	141.4	147.3	133.8	139.1	139	135	143
3rd quarter	145.2	147.0	137.3	147.1	146	146	148
4th quarter	177.7	162.9	200.4	181.5	186	176	184
1986 1st quarter	145.4	151.1	136.3	144.1	129	153	144
2nd quarter	152.7	157.8	143.3	152.1	153	151	153
3rd quarter	157.4	156.4	150.5	161.5	161	164	160
1985 April	140.3	146.5	134.3	137.1	135	135	140
May	141.9	149.5	133.2	138.8	138	135	143
June*	141.8	146.3	133.8	141.1	143	135	145
July	146.9	149.1	138.1	148.8	153	145	150
August	145.4	148.2	137.8	146.2	145	143	150
September*	143.7	144.4	136.3	146.4	142	149	146
October	149.8	147.4	148.7	152.4	148	157	150
November	164.8	155.8	180.1	166.5	168	172	160
December*	210.4	181.0	257.9	216.8	230	194	230
1986 January*	145.6	146.7	142.8	145.9	139	160	136
February	140.9	151.3	125.6	138.2	113	147	143
March*	148.6	155.4	138.2	147.0	132	149	153
April	152.1	158.6	143.9	149.8	147	153	149
May	149.8	155.3	139.9	149.2	149	147	151
June*	155.4	159.0	145.5	156.4	160	152	158
July	158.2	158.0	150.2	161.9	162	162	161
August	155.2	155.7	146.0	158.8	159	158	159
September*	158.7	155.7	154.4	163.4	162	169	159
October	164.7	159.5	167.2	168.5	167	175	163
November	182.1	167.1	208.1	184.5	181	193	178
Percentage Changes:							
Nov '86/Nov '85	+10.5	+7.3	+15.5	+10.8	+7	+12	+11
Year '86/Year '85	+ 8.6	+7.2	+ 9.4	+ 9.4	+9	+11	+ 8

See footnotes to Table 1.

An index of the seasonally adjusted value of retail sales can be provided on request.

Volume of Retail Sales: seasonally adjusted (1980 = 100)



NOTES TO EDITORS

1. The seasonally adjusted volume series includes, where possible, adjustments for the timing of holidays, although there are inevitably problems in adjusting for the effects of Christmas and New Year sales spending. An additional uncertainty this year is the effect of the 5 week trading period in January 1986. This causes November's trading period to be later by 6 calendar days than the corresponding period in 1985 and thus nearer the Christmas peak of sales. However, the limited past evidence suggests that this effect is not significant.
2. The indices for all retailers, food retailers, mixed retail businesses and total non-food retailers are shown to the first decimal place to help interpretation but should not be regarded as necessarily accurate to the final digit. The best indication of the recent trend is normally obtained by comparing the average seasonally adjusted index for the latest three months with the average for the immediately preceding three months. However, sometimes it is more appropriate to make a two or four month comparison.
3. Within the total, sales are analysed by 'kinds of business' ie the statistics are of sales by particular kinds of retailer rather than of sales of particular commodities. For example, while sales by retailers classified as food retailers are mainly of food, many sell other goods. Similarly some food is sold by retailers classified to other kinds of business.
4. The final index is based on returns from a voluntary panel of over 3,200 retailers. The panel includes a sample of the smaller independent retailers (who account for one-third of all retail sales) and nearly all of the very large retailers.
5. Index numbers for more detailed kinds of business than those shown here are published, at current prices only, in Business Monitor SDM28 available from HM Stationery Office, price £17.50 per annum.
6. The Press Notice giving the provisional estimate of the seasonally adjusted index of the volume of retail sales for December will be published on January 19.
7. Press calls to 01-215-4471/4475. Other calls to 0633-22-2609/2987/2630 or 2600.

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Prime Minister's Office

Chancellor's Office

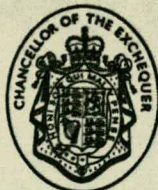
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ps8/13A

SECRET



FROM: A C S ALLAN
DATE: 3 February 1987

MR S DAVIES

cc Sir P Middleton
Sir T Burns
Mr Sedgwick

MONTHLY PATH FOR THE RPI

I owe David Norgrove a note setting out the monthly path of the RPI, and the publication dates, over the next year. I should be grateful for any comments on the attached draft - and if you could add the figures in the covering note.

ACSA
A C S ALLAN

SECRET AND PERSONAL

DRAFT LETTER TO DAVID NORGROVE

THE RPI

Last Autumn you asked for more information on the monthly path of the RPI this year. You will now have seen the relevant information in paragraph 98 and table G3 of the ^{January} forecast report. I attach a summary table, showing also the publication dates. *X from David's note.*

For April 1983 - the most recently published figures when the General Election was fought - the 12 month rate of inflation as measured by the RPI was 4.0 per cent, or 4.9 per cent excluding mortgage interest payments. For 1983 as a whole, the increase in the RPI was ^{4.6}X per cent, or ^{5.2}Y per cent excluding mortgage interest payments.

A C S ALLAN

FROM: S J DAVIES
DATE: 4 FEBRUARY 1987

MR ALLAN

Ch
OK for me to write as flagged below?
AA

One check...

cc : Sir Peter Middleton
Sir Terence Burns
Mr Sedgwick
Mr Brooks

MONTHLY PATHY FOR THE RPI

You asked me to supply figures for the increase in the all items RPI and the RPI excluding mortgage interest payments for 1983. The figures are:

All items RPI	4.6 per cent
RPI excluding mortgage payments	5.2 per cent

2. I have only one comment on your draft letter. I have been having a further look at the RPI figure for January 1987, and I now think our forecast of 4 per cent may have been marginally pessimistic: 3.9 is more likely (or even 3.8), depending on just how much of the January petrol price increase got into the index and on the scale of reductions this year in the January sales. I would not want to change the February figure, or figures for later months. I would suggest you add to the first paragraph:

X | "(I understand that the forecasters' very latest view is that the January 1987 figure may not quite reach 4 per cent, though their forecasts for later months remain as set out in the table)".

P.S. Is there anything we can do re RPI?

SJD
S J DAVIES

for the present

cm
ca-rpi



cc: Sir P Middleton
Sir T Burns
Mr Sedgwick
Mr Brooks
Mr S Davies

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

5 February 1987

David Norgrove Esq
10 Downing Street
LONDON
SW1

Dear David,

THE RPI

Last autumn you asked for more information on the monthly path of the RPI this year. You will now have seen the relevant information in paragraph 98 and table G3 of the January forecast report. I attach a summary table, showing also the publication dates. (I understand that the forecasters very latest view is that the January 1987 figures may not quite reach 4 per cent, though their forecast for later months remain for the present as set out in the table.)

For April 1983 - the most recently published figure when the last general election was fought - the 12 month rate of inflation as measured by the RPI was 4.0 per cent, or 4.9 per cent excluding mortgage interest payments. For 1983 as a whole, the increase in the RPI was 4.6 per cent, or 5.2 per cent excluding mortgage interest payments.

*Yours
Alas*

A C S ALLAN
Principal Private Secretary

FORECAST MONTHLY CHANGES IN RPI

	Year on year increase (%)		Date of Publication
	<u>All-items</u>	<u>Excluding Mortgage interest payment</u>	
1987 January	4.0	3.8	13 February
February	4.1	3.9	20 March
March	4.4	4.2	10 April
April	4.6	4.2	15 May
May	4.8	4.4	12 June
June	5.3	4.4	10 July
July	5.3	4.4	14 August
August	5.3	4.4	11 September
September	5.0	4.1	9 October
October	4.9	4.0	13 November
November	4.3	3.9	11 December
December	4.1	3.8	(*)
1988 January	4.0	3.7	(*)
February	4.0	3.7	(*)
March	3.9	3.6	(*)

(*) not yet fixed

FROM: S BROOKS
DATE: 12 FEBRUARY 1987

*Maena
Pse thank*

1. MR S J DAVIES *SJD*
2. CHANCELLOR OF THE EXCHEQUER

cc : PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr F E R Butler
Mr F Cassell
Mr N Monck
Mr Kemp
Mr Odling-Smee
Mr Sedgwick
Mr Scholar
Mr Bottrill
Mr Culpin
Mr Gilhooly
Mr Mowl
Miss O'Mara
Mr Pickford
Mr Hacche
Mr Halligan
Mr P Davis
Mr Ross Goobey
Mr Cropper
Mr Tyrie

[Red handwritten signature]

THE JANUARY RPI (to be published at 11.30 a.m. on Friday 13 February)

The level of the RPI rose by 0.4 per cent between December 1986 and January 1987. The twelve month rate of inflation rose to 3.9 per cent in January from 3.7 per cent in December. This is as we expected.

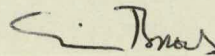
2. Excluding mortgage interest payments, the twelve month rate of increase increased to 3.6 per cent in January from 3.5 per cent in December.

3. Food prices increased by 1.2 per cent between December and January largely because of higher milk prices (up by 1p per pint) and much higher vegetable prices. Vegetable prices increased mainly because of the severe weather which affected their distribution. Petrol prices increased about 2½p per gallon on average following the increase of 5p announced by companies not all of which put their prices up in time to affect the index. Winter sales reduced the prices of durable household goods, clothing and footwear and miscellaneous goods.

RPI
jan

4. In February we expect the twelve month rate of inflation to increase slightly to about 4 per cent. The RPI for February will be published on 20 March 1987.

5. The RPI figures are in line with City expectations. Alexanders Laing and Cruickshank and Wood MacKenzie correctly anticipate an increase of 0.4 per cent between December and January; Philips and Drew expect 0.5; James Capel hedged their bets and expect 0.4-0.5.



S BROOKS
EAL DIVISION
EXT 5401

Pup

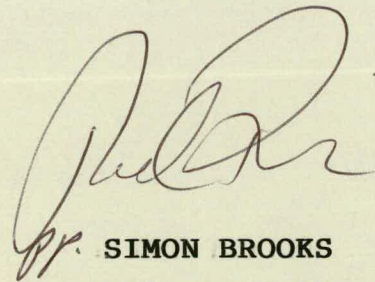
FROM: S BROOKS
 DATE: 13 FEBRUARY 1987

1. MR S J DAVIES *800 13/2*
2. CHANCELLOR OF THE EXCHEQUER

cc : PS/Chief Secretary
 PS/Financial Secretary
 PS/Economic Secretary
 PS/Minister of State
 Sir Peter Middleton
 Sir Terence Burns
 Mr F E R Butler
 Mr F Cassell
 Mr N Monck
 Mr Kemp
 Mr Odling-Smee
 Mr Sedgwick
 Mr Scholar
 Mr Bottrill
 Mr Culpin
 Mr Gilhooly
 Mr Mowl
 Miss O'Mara
 Mr Pickford
 Mr Hacche
 Mr Halligan
 Mr P Davis
 Mr Ross Goobey
 Mr Cropper
 Mr Tyrie

THE JANUARY RPI: ADDENDUM

In my minute of 12 January, the twelve month rate of change of the RPI excluding mortgage interest payments was given as 3.6 per cent. The Department of Employment have revised this to 3.7 per cent.



SIMON BROOKS
EAL DIVISION
X 5401

FROM: M C SCHOLAR
DATE: 13 FEBRUARY 1987

MR A C S ALLAN

RPI EFFECT OF TAX CHANGES

You asked for a table showing some changes to the monthly profile of the RPI relative to the January Forecast base.

... 2. I attach a table, which has been agreed with Mr S Davies.

*Send simply
to April & May
changes. Rate w/ ans
for non-uncertainties, plus the
a reduction in the rate to be
this w/ me to Base Rate of 11,
0.08 for each penny off
stress again on RPI margin
of error on RPI margin
uncertainty, which is
still lower than before.*

MCS

M C SCHOLAR

Ch

OK for me to send these to No 10?
(as requested)

I am inclined to send just the
April & May changes, and to
stress again the uncertainties/margin
of error on the RPI monthly forecasts.

AA

FROM: P N SEDGWICK
DATE: 16 FEBRUARY 1987

SIR T BURNS

cc Sir P Middleton
Mr Cassell
Mr Odling-Smee
Mr Scholar
Mr S Davies

RPI PROFILES

Because there has been interest in the likely RPI outturn at different times of the year on various assumptions you might find the attached table useful.

Column 2 shows the monthly RPI path with the assumption of no revalorisation more than offsetting the positive effect on the RPI (through the change in mortgage interest costs) of a change in the basic rate.

Column 3 assumes as well a cut in the mortgage rate of $\frac{3}{4}$ of a point following a one point fall in base rates.

2. These profiles could change if we altered the underlying forecast, though it does not look likely that there will be any significant changes. We will probably have the oil price falling back to \$15 a little earlier than in the January forecast, but this would hardly alter the mid year hump which is a feature of all these profiles.

P.N.S.
P N SEDGWICK

3.7/2/75

Table 1:

RPI and TPI forecast

	with revalorisation		without revalorisation	
	RPI	TPI	RPI	TPI
1987				
J	3.9	2.6	3.9	2.6
F	4.1	2.8	4.1	2.8
M	4.4	3.2	4.4	3.2
A	4.6	2.3	4.4	2.0
M	4.8	2.6	4.5	2.2
J	5.3	3.1	5.0	2.7
J	5.3	3.2	5.0	2.8
A	5.3	3.1	5.0	2.7
S	5.0	2.8	4.7	2.3
O	4.9	2.8	4.6	2.3
N	4.3	2.0	4.0	1.5
D	4.1	1.7	3.8	1.3
1988				
J	4.0	1.9	3.7	1.4
F	4.0	1.7	3.7	1.3
M	3.9	1.6	3.6	1.2

FROM: S J DAVIES

DATE: 17 FEBRUARY 1987

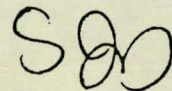
SIR PETER MIDDLETON

cc : Sir Terence Burns
Mr Scholar
Mr Sedgwick

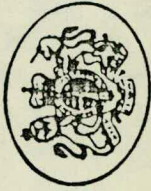
THE TPI IN THE JANUARY FORECAST

Further to the figures I sent you yesterday, I have discovered the error that I had suspected in the figures. The TPI will be rather lower than yesterday's figures suggested.

2. The figures are predicted on a fiscal adjustment of about £3 billion all taken in the form of increased tax allowances. A reduction in the fiscal adjustment raises the TPI (by roughly $\frac{3}{4}$ per cent for each £1 billion reduction in the fiscal adjustment).



S J DAVIES



Chief Economic Adviser to the Treasury

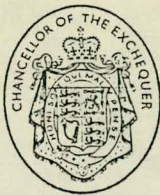
Mr Alkin *cutts*

Sir Terence Burns asked
me to send you the
attached notes which
came up in his
discussion with the
Cancellor earlier
today.

As necessary.
20/2/87

Thanking you,
I am, Sir,
Yours faithfully,
D. G. *D. G. D. G.*
D. G. *D. G. D. G.*
D. G. *D. G. D. G.*
D. G. *D. G. D. G.*

covering sheet



Mrs Komessary

TPI

The Chancellor was grateful for your manuscript note and attachments of 20 February.

He would be interested to see the TPI on the basis of cols 2 and 3 of Mr Sedgewick's table.

Cathy Ryding

23 Feb.

507/2/178

RPI PROFILES ON DIFFERENT ASSUMPTIONS

	(1) Winter forecast	(2) Winter forecast + 2p basic rate cut + no reevaluation of specific duties	(3) As (2), plus cut in mortgage rates* from end of June
January 1987	3.9	3.9	3.9
February	4.1	4.1	4.1
March	4.4	4.4	4.4
April	4.6	4.5	4.5
May	4.8	4.6	4.6
June	5.3	5.1	5.1
July	5.3	5.1	4.8
August	5.3	5.1	4.7
September	5.0	4.8	4.4
October	4.9	4.7	4.3
November	4.3	4.1	3.7
December	4.1	3.9	3.5
January 1988	4.0	3.8	3.4
February	4.0	3.8	3.4
March	3.9	3.7	3.3

* cut of $\frac{3}{4}$ point assumed announced towards end of June - some societies would not implement until August.

SECRET

The info you requested.

CR 23/2

FROM: S J DAVIES

DATE: 23 FEBRUARY 1987

CHANCELLOR OF THE EXCHEQUER

cc : Sir Peter Middleton
Sir Terence Burns
Mr Scholar
Mr Sedgwick

RPI/TPI PROFILES

As requested I attach monthly RPI and TPI profiles on three different assumptions.

S J DAVIES

Handwritten notes in red ink:
Check
How can we
TPI for waste/industry
under ② Nam ①?

RPI AND TPI PROFILES ON DIFFERENT ASSUMPTIONS

	(1) Winter Forecast		(2) Winter Forecast, plus 2p basic rate cut, plus no revalorisation of specific duties		(3) As (2), plus cut in mortgage rates from end June	
	RPI	TPI	RPI	TPI	RPI	TPI
January 1987	3.9	2.6	3.9	2.6	3.9	2.6
February	4.1	2.8	4.1	2.8	4.1	2.8
March	4.4	3.2	4.4	3.2	4.4	3.2
April	4.6	2.3	4.5	2.8	4.5	2.8
May	4.8	2.6	4.6	3.1	4.6	3.1
June	5.3	3.1	5.1	3.5	5.1	3.5
July	5.3	3.2	5.1	3.6	4.8	3.1
August	5.3	3.1	5.1	3.5	4.7	3.1
September	5.0	2.8	4.8	3.1	4.4	2.7
October	4.9	2.8	4.7	3.1	4.3	2.7
November	4.3	2.0	4.1	2.3	3.7	1.9
December	4.1	1.7	3.9	2.1	3.5	1.7
January 1988	4.0	1.9	3.8	2.2	3.4	1.8
February	4.0	1.7	3.8	2.1	3.4	1.7
March	3.9	1.6	3.7	2.0	3.3	1.6

SECRET



FROM: CATHY RYDING
DATE: 24 FEBRUARY 1987

*BIF
27/2*

MR S J DAVIES

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Sedgwick

RPI/TPI PROFILES

The Chancellor was grateful for your minute of 23 February.

2. The Chancellor was puzzled by the fact that the TPI was worse/higher under (2) than (1), and would be grateful for an explanation.

CR

CATHY RYDING

Pipes
PsePse + thankFROM: S J DAVIES
DATE: 24 FEBRUARY 1987

CHANCELLOR OF THE EXCHEQUER

cc : Sir Peter Middleton
Sir Terence Burns
Mr Scholar
Mr Sedgwick

RPI/TPI PROFILES

You asked why the TPI was worse under the package considered in the second set of columns in the table attached to my minute of 23 February than the first set of columns (which related to the January forecast).

2. The main reason is that the January forecast had a fiscal adjustment of almost £3 billion, whereas the package assumed in the second set of columns has a cut in income taxes of around £2 billion. Thus taxes, and hence the TPI, are higher in the package than in the January forecast. A second, less important reason is that the January forecast assumed a tax cut in the form of increased personal allowances. Cutting the basic rate rather than raising personal allowances raises both the RPI and the TPI, because of the effect on the mortgage interest payment component of the RPI.

S J DAVIES

W



FROM: MRS M HENSON

DATE: 25 February 1987

MR S J DAVIES

RRI/TPI PROFILES

The Chancellor has seen and was grateful for your minute of 24 February.

Meena Henson
MEENA HENSON



1 Andes
2 pup

FROM: A C S ALLAN

DATE: 4 March 1987

MR S J DAVIES

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Sedgwick**RPI/TPI PROFILES**

The Chancellor has been thinking further about the helpful figures you put forward earlier, showing the monthly path of the RPI and TPI. He feels it would be worth adding a sentence to the FSBR (presumably chapter 3) on the lines that the increase in the TPI will be some $1\frac{1}{2}$ to $1\frac{3}{4}$ per cent smaller than the increase in the RPI following the Budget changes; the ^{TPI} peak would be no more than $3\frac{1}{2}$ per cent and it would have fallen to about 2 per cent by Q4.

2. I should be grateful if you could provide a suitable draft sentence to be slotted in with the next batch of changes to the FSBR.

ACSA

A C S ALLAN

AWD



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6460
Switchboard 01-213 3000 GTN Code 213
Facsimile 01-213 5465 Telex 915564

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON
SW1

12 March 1987

✓

Dear David

OUTLOOK FOR RPI

... I enclose a numbered copy of the latest DE note.

Copies also go to Mr Alex Allan (Treasury), Sir Peter Middleton (Treasury), Mr Timothy Walker (Trade and Industry), Ms R Passmore (CSO), John Footman (Bank of England), Chris Cloake (CO).

Yours sincerely

Yours

Nick

NICK BAXTER
Private Secretary

PERSONAL AND CONFIDENTIAL

OUTLOOK FOR RETAIL PRICES: FEBRUARY AND MARCH

1. The annual rates of inflation for both February and March, as measured by the 12-month change in the retail prices index, are expected to be little changed from the 3.9 per cent recorded for January.
2. The increase in the overall level of prices between January and February is expected to be close to the 0.4 per cent, recorded between the corresponding months last year. Higher prices are expected for petrol, some fresh foods and following the end of the winter sales, for clothing and footwear.
3. In March small price rises across the whole range of goods and services are likely to contribute to an expected monthly increase in the overall level of prices of about $\frac{1}{4}$ per cent, compared with an increase of 0.1 per cent recorded a year earlier.
4. Prices for the March index were collected yesterday. Any changes in mortgage interest rates - which seem possible in the light of the latest reduction in base interest rates - and any tax changes, etc, announced in next week's Budget cannot affect the index until April.

Percentage change in the RPI

	12 months all items	all items	over 1 month all excluding seasonal food
November	3.5	0.8	0.9
December	3.7	0.3	0.3
January	3.9	0.4	0.3

FORECASTS

February	4	$\frac{1}{4}$ - $\frac{1}{2}$	$\frac{1}{3}$
March	4	$\frac{1}{4}$	$\frac{1}{4}$

To:
PS/SECRETARY OF STATE

(Circulation list attached)

From:

ROGER NORTON
Head/Branch 3
Room 1.212
Business Statistics Office
NEWPORT, Gwent
GTN: 2411/2069

13 March 1987

RETAIL SALES: PROVISIONAL ESTIMATE FOR FEBRUARY

A Press Notice giving the provisional estimate for retail sales for February is attached for information.

2. The provisional index for February at 125.0 is well above the weather-depressed January figure and about the same as the average level in the fourth quarter. The February index provides some initial evidence that the recent trend in sales, although remaining upward, may have been a little less strong than earlier.

3. This Notice will be published at 11.30 am on Monday 16 March. As usual, the contents should be treated as confidential until then.

R M NORTON

DTI Press Notice

Department of Trade and Industry

1 Victoria Street SW1H 0ET

Press Office: 01-215-4471/4475

Ref: 154

Out of hours: 01-215 7877

March 16 1987

RETAIL SALES: PROVISIONAL ESTIMATE FOR FEBRUARY 1987

VOLUME

The provisional estimate of the seasonally adjusted index of the volume of retail sales in February was 125.0 (1980=100). This is similar to the average level in the fourth quarter although well above the January index which was depressed by the effects of the severe weather.

In the three months December to February, the level of sales was little changed from that in the previous three months but was nearly 6 per cent higher than in the corresponding period a year earlier.

VALUE

Based on non-seasonally adjusted data, the provisional estimate of the value of retail sales was 9 per cent higher than in February 1986.

RETAIL SALES

		Volume: seasonally adjusted index of sales per week (1980=100)	Value: percentage change compared with a year earlier
1986	1st Quarter	118.2	+ 9
	2nd Quarter	120.0	+ 8
	3rd Quarter	122.1	+ 8
	4th Quarter	124.8	+ 8
1986	January*	117.3	+ 8
	February	117.5	+ 8
	March*	119.7	+ 9
	April	119.3	+ 8
	May	118.5	+ 6
	June*	121.7	+10
	July	120.9	+ 8
	August	122.0	+ 7
	September*	123.2	+10
	October	123.2	+10
	November	126.4	+10
	December*	125.0	+ 6
1987	January	122.3	+ 8
	February (provisional)	125.0	+ 9

Note: The monthly periods consist of 4 weeks except those marked * which are 5 weeks.



NOTES TO EDITORS

1 Estimates are based on early returns to the monthly inquiry. These returns cover over three-quarters, by turnover, of information available at the final stage. Over the last 12 months the average difference (ignoring sign) between provisional and final estimates has been about 0.3 per cent.

2 The seasonally adjusted volume series includes, where possible, adjustments for the timing of holidays, although there are inevitably problems in adjusting for the effects of Christmas and New Year sales spending.

3 The best indication of the recent trend is normally obtained by comparing the average seasonally adjusted index for the latest three months with the average for the immediately preceding three months. However, it is sometimes more appropriate to make a two or four month comparison.

4 The February trading period comprised the 4 weeks February 1 to 28.

5 Final figures for February will be published on April 6 1987.

6 Press enquiries to: 01-215-4471/4475. Other calls to 0633-22-2609/2987/2630 or 2600.

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Chancellor's Office

Sir Terence Burns	Treasury
Mr P N Sedgwick	Treasury
Miss M O'Mara	Treasury
Mr P Allum	Treasury

Miss S P Carter	CSO
Mr R Clare	CSO
Mr E Lomas	CSO

Mr M Dicks	Bank
Mr J Exeter	Bank

*ms*

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

13 March 1987

David Norgrove Esq
10 Downing Street
LONDON
SW1

Dear David

MONTHLY PATH OF THE RPI

I thought you might be interested to know the latest forecast path of the RPI, underlying the Budget Forecast. This assumes a $\frac{1}{2}$ per cent cut in the mortgage rate effective from the beginning of May. The figures are:

February	4.0
March	4.1
April	4.3
May	4.4
June	4.8
July	4.8
August	4.6
September	4.3
October	4.4
November	3.7
December	3.6

*Yours
Allan*

A C S ALLAN

PERSONAL AND CONFIDENTIAL



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6460

Switchboard 01-213 3000

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON SW1

18 March 1987

Dear David

RETAIL PRICE INDEX : FEBRUARY 1987

... I enclose a numbered copy of the DE note and draft press release on the Index of Retail Prices due to be released at 11.30 on Friday 20 March.

Numbered copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Timothy Walker (Trade and Industry), Rachel Passmore (CSO), John Footman (Bank of England), Chris Cloke (CO) and Andrew Lansley (Chancellor of the Duchy of Lancaster's Office).

Yours sincerely

Nick

Nick

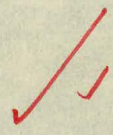
NICK BAXTER
Private Secretary

PERSONAL AND CONFIDENTIAL

RP

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GENERAL INDEX OF RETAIL PRICES : FEBRUARY 1987

The annual rate of inflation, as measured by the 12-month change in the retail prices index, was 3.9 per cent in February - the same as in January. The overall level of prices increased by 0.4 per cent between January and February - matching the increase recorded between the corresponding months last year. Higher prices were recorded for petrol, fresh vegetables, cars and car maintenance.

2. The presentation of the February index will be complicated following the implementation of the recommendations made by the Retail Prices Index Advisory Committee. In particular the index has been re-referenced to make January 1987 = 100.

3. In March small price rises across the whole range of goods and services are likely to contribute to an expected monthly increase in the overall level of prices of about ¼ per cent, compared with an increase of 0.1 per cent recorded a year earlier. Consequently a small rise in the 12-month rate seems likely.

4. In his Budget speech yesterday the Chancellor gave a forecast for inflation of around 4 per cent for the fourth quarter of this year (a little higher than his forecast of 3½ per cent given in his Autumn Statement). He also indicated that he expected inflation to continue to edge up over the next few months, rising temporarily to a little over 4½ per cent.

5. The reduction in the standard rate of income tax announced yesterday will reduce the tax relief on mortgage interest payments and so increase the amount of mortgage interest included in the calculation of the RPI. The effect of this will be to add about 0.12 per cent to the 'all items' index for April. (A one percentage point cut in mortgage interest rates, were it to occur, would reduce the 'all items' index by 0.36 per cent.)

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fals 0.15

Producer Prices

6. Prices for materials and fuels purchased by manufacturing industry, when seasonally adjusted, were unchanged in February compared with January. Prices were nevertheless 2.9 per cent lower in February than in February 1986. Almost half of the fall over the year is the result of lower fuel prices.

PERSONAL AND CONFIDENTIAL

7. The annual change in the price index for home sales of manufactured products has shown little change at around 4% per cent for the past five months..

Tax and Price Index

8. The tax and prices index increased by 2.7 per cent in the year to February compared with 2.6 per cent recorded for January.

International comparisons

9. The latest 12-month percentage changes in consumer prices in the main OECD countries and the averages for all EEC and OECD countries are as follows:-

	UK	FRANCE	FEDERAL GERMANY	ITALY	NETHER -LANDS	JAPAN	USA	CANADA	OECD Averages	EEC
1985										
Q4	5.5	4.8	1.8	8.9	1.7	1.6	3.5	4.2	4.1	7.9
1986										
Q1	4.9	3.6	0.7	7.6	1.2	1.6	3.1	4.2	3.8	4.4
Q2	2.8	2.4	-0.2	6.1	0.4	0.9	1.6	3.9	2.5	3.2
Q3	2.6	2.1	-0.4	5.4	-0.2	0.0	1.7	4.2	2.4	3.0
Q4	3.4	2.1	-1.1		-1.8		1.3	4.3	2.1	2.9
Sept	3.0	2.3	-0.4	5.3	-0.6	0.2	1.8	4.1	2.5	3.1
October	3.0	2.2	-0.9	4.7	-0.2	-0.6	1.5	4.4	2.3	3.0
November	3.5	2.1	-1.2		-0.2	-0.3	1.3	4.5	2.2	2.9
December	3.7	2.1	-1.1		-0.1		1.1	4.2	2.1	2.8
1987										
January	3.9	3.0	-0.8		-1.3		1.4	3.9	2.3	2.8
February	3.9									

40/87

March 20 1987

GENERAL INDEX OF RETAIL PRICESFEBRUARY 1987

The general index of retail prices for all items for February 10, 1987 was 100.4 (January 13, 1987 = 100). This represents an increase of 0.4 per cent on January 1987 (100.0) and an increase of 3.9 per cent on February 1986 (381.1, January 1974 = 100).

The rise in the index between January and February was mainly the result of higher prices for petrol, fresh vegetables, cars and car maintenance.

The movements for the main groups in the index are shown in Table 2.
Table 1.

	All items				All items except seasonal food			
	Index Jan 15 1974 = 100	Percentage change over			Index Jan 15 1974 = 100	Percentage change over		
		1 month	6 months	12 months		1 month	6 months	
1986								
September	387.8	+0.5	+1.6	+3.0	390.0	+0.5	+1.7	
October	388.4	+0.2	+0.8	+3.0	390.9	+0.2	+1.0	
November	391.7	+0.8	+1.5	+3.5	394.3	+0.9	+1.8	
December	393.0	+0.3	+1.9	+3.7	395.3	+0.3	+2.1	
1987								
January	<u>394.5</u>	+0.4	+2.5	+3.9	<u>396.4</u>	+0.3	+2.5	
	Index Jan 13 <u>1987=100</u>				Index Jan 13 <u>1987=100</u>			
February	100.4	+0.4	+2.6	+3.9	100.3	+0.3	+2.5	

TABLE 2

Indices (13 January 1987 = 100)			
	January 13, 1987	February 10, 1987	Percentage change over the month
All items	100.0	100.4	+0.4
All items excluding food	100.0	100.4	+0.4
All items excluding housing	100.0	100.4	+0.4
Food	100.0	100.7	+0.7
Seasonal food	100.0	103.2	+3.2
Non seasonal food	100.0	100.2	+0.2
Catering	100.0	100.4	+0.4
Alcoholic drink	100.0	100.3	+0.3
Tobacco	100.0	99.9	-0.1
Housing	100.0	100.3	+0.3
Fuel and light	100.0	100.0	+0.0
Household goods	100.0	100.4	+0.4
Household Services	100.0	100.1	+0.1
Clothing and footwear	100.0	100.3	+0.3
Personal Goods and Services	100.0	100.3	+0.3
Motoring Expenditure	100.0	101.0	+1.0
Fares and Other Travel Costs	100.0	99.8	-0.2
Leisure Goods	100.0	100.2	+0.2
Leisure Services	100.0	100.1	+0.1

FROM: S BROOKS
DATE: 19 MARCH 1987

1. MR S J DAVIES *sgj*
2. CHANCELLOR OF THE EXCHEQUER

cc : PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr F E R Butler
Mr F Cassell
Mr N Monck
Mr Kemp
Mr Odling-Smee
Mr Sedgwick
Mr Scholar
Mr Bottrill
Mr Culpin
Mr Gilhooly
Mr Mowl
Miss O'Mara
Mr Pickford
Mr Hacche
Mr Halligan
Mr P Davis
Mr Ross Goobey
Mr Cropper
Mr Tyrie

Nigel
Pse thank

THE FEBRUARY RPI (to be published at 11.30 a.m. on Friday 20 March)

1. The level of the RPI rose by 0.4 per cent between January and February. The twelve month rate of inflation was 3.9 per cent in February, the same as in January. This is a little lower than we expected.

2. Excluding mortgage interest payments, the twelve month rate of increase rose to 3.7 per cent in February from 3.6 per cent in January.

3. The main price rises were for foods, where seasonal foods continued to be affected by the severe weather, and for motoring expenditure where petrol prices were up by about 3p per gallon and maintenance charges were nearly 1½ per cent higher than in January. Some price falls were recorded in tobacco and in some parts of the clothing and footwear group. The latter may reflect a prolongation of winter sales. In general the increases in the prices of goods likely to be most affected by sales were smaller than anticipated which may indicate that some further recovery in these prices is to be expected in March.

4. In March we expect the twelve month rate of inflation to increase slightly to about 4 per cent. The RPI for March will be published on 10 April 1987.

5. The RPI figures are a little better than City expectations. Alexanders Laing and Cruickshank, Wood MacKenzie, James Capel and Phillips and Drew all expect an increase of 0.5 per cent between January and February; Goldman Sachs have correctly forecast 0.4 per cent.



SIMON BROOKS
EAI DIVISION
X 5401

conqueror

44
105
250

ECONOMIC BRIEFING

No 144
UK SECTION

* *ALSA*
PM let us have RPI
a sunset clause
propose a no type of no
later Budget decisions.

MAGGIE MAY — IN JUNE OR OCTOBER

By Bill Martin and Chris Tinker of the Phillips & Drew Economics Unit

1. The Chancellor wisely decided not to go for a massive giveaway Budget last Tuesday. As a result, the economy will provide a fairly sunny setting for the Conservatives if they go to the country this year.
2. Inflation is expected to fall below 4% in April and thereafter rise to 4³/₄% by July. It stays below 5% throughout 1987 but breaches that barrier in 1988. The headline unemployment total should be on a declining trend and might fall below 3 million in the autumn. The economic setting is favourable in 1987 but deteriorates in 1988 as inflation rises and total income growth slows down.
3. We do not expect the Prime Minister to feel comfortable calling an election unless the polls show a level of Tory support consistently above 40%. This figure provides a safety margin for tactical voting.
4. As regards election timing, we conclude:
 - If the Prime Minister could overcome her concern about 'cutting and running' before 9 June, a 7 May General Election looks opportune. However, the evidence to date is that this option is out.
 - June is difficult if the Tories fare badly in the May local elections. A possible gambit would be to announce a post-9 June election in the first week of May in the hope of favourably influencing the local election results. The Prime Minister might still construe this as cutting and running, however.
 - An early October election would not run into the same objection. As regards the economy, the fall in unemployment by the autumn is likely to be more vote-grabbing than the rise in inflation is vote-losing. Tactically the announcement of the election could be made to rob the opposition parties of 'air time' during their normal conference season. We plump for early October as the most likely option.

It was certainly a Budget for votes. But wooing the voters with tax cuts was not the only thing on the Chancellor's mind last Tuesday. Just as important was the need to keep the Party's options open regarding election timing. A boom and bust Budget would have forced Mrs Thatcher, possibly

against her better judgement, into an early election. Mr Lawson chose instead to exercise restraint. The result is that the economy will provide a fairly sunny setting for the Conservatives if they go to the country this year.

Sunny setting

Table 1 shows our post-Budget profile of vote-sensitive economic numbers — inflation, unemployment and growth in post-tax personal incomes. The general picture is of mildly escalating inflation and of mildly falling unemployment and income growth. Higher inflation may put off the voter but any decrement here is likely to be outweighed by the improving unemployment prospects. Commonsense and our own research suggests that the Tory vote-pulling power of a 1 point fall in the rate of unemployment far outweighs (by five times on our tentative calculations) the vote-repelling effect of a 1 point increase in inflation from current levels. As we predicted last summer, this voter preference has encouraged the Chancellor to take chances with inflation in order to get unemployment down (see 'Can the economy save Mrs Thatcher?' *Economic Briefing* No 116, 2 June 1986).

Table 1: Economy helps the Tories in 1987

	Inflation %	Unemployment§ (000)	Real personal disposable income growth %
1987 January*	3.9	3297	3.8
February	4.0	3287	
March	4.3	3210	
April	3.9	3199	4.2
May	4.2	3131	
June	4.5	3063	
July	4.8	3101	3.1
August	4.6	3097	
September	4.4	3165	
October	4.6	3089	2.9
November	4.2	3081	
December	4.3	3108	
1988 January	4.3	3160	2.4
February	4.9	3145	
March	5.0	3084	
April	5.4	3080	2.1
May	5.5	3018	
June	5.7	2961	

*Last actual. §Headline total including school-leavers.

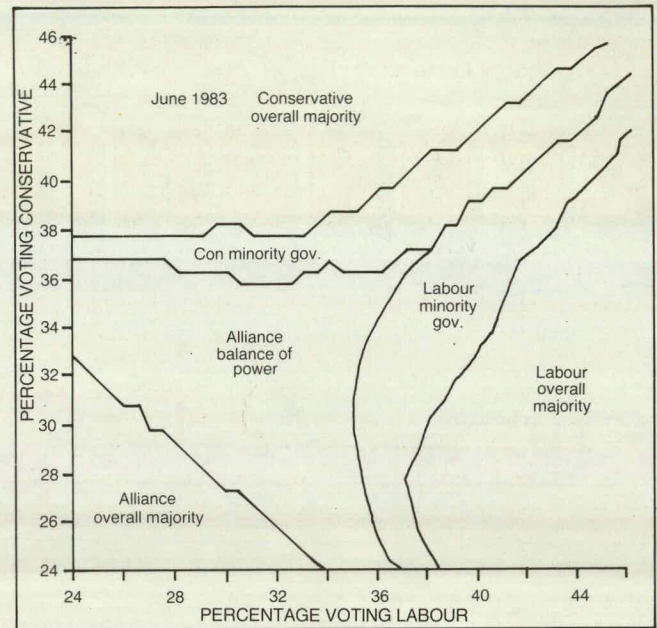
This kind of strategy cannot be pushed too far, however. Voters may well become more inflation sensitive as the rate rises. In 1988, inflation breaches the 5% barrier on our numbers. And there will be other risks later on. Higher inflation and balance of payments difficulties — both symptoms of economic overheating — will eventually demand tighter policies not giveaway Budgets. Voters' real incomes will start to slow significantly even if the tax burden does not rise. Of course, our cheerful Chancellor claims that the economy will still be performing well by the end of 1987 and into 1988. But it is hardly worth taking the chance of a late election if the economic numbers look good this summer and autumn.

How many votes?

Mrs Thatcher will not, of course, want to call an election this year unless she is confident of victory. The key question is what rating she will want to see in the polls before taking the plunge.

The graph provides a guide. It maps out combinations of seats according to the share of votes achieved by the Conservatives (vertical axis) and by Labour (horizontal axis). The Alliance share is implied by residual after allowing for a small (1%) constant share of the vote for minority parties. The translation of share of votes into seats uses the 'uniform swing' method which lies behind the figures in Table 2.

UK election battleground



The main contours, defining areas of overall majority, are lines along which one of the three main parties achieve 326 seats. The areas of minority government show seat combinations in which the party with the largest number of seats falls short of 326 but exceeds the sum of seats of the two main opposition parties. The balance of power area (hung parliament) defines combinations of seats under which no party can form a Commons majority without the support or tacit acquiescence of another party. The graph was constructed by our colleague Tim O'Dell and based on an idea by the Oxford social scientists, Mr Clive Payne.

Table 2: P&D election model predictions

	Poll %			Seats			Who wins*
	Con	Lab	Alliance	Con	Lab	Alliance	
1986 Q1	30.1	35.9	32.2	218	309	94	M (Labour)
Q2	32.0	38.7	26.8	256	328	37	Labour
July	33.5	38.3	25.8	271	316	34	M (Labour)
Aug	32.8	38.1	26.5	264	320	37	M (Labour)
Sept	33.8	38.3	25.8	276	317	28	M (Labour)
Oct	38.3	40.0	19.8	301	307	15	H (Labour)
Nov	39.0	37.4	21.0	312	293	17	M (Con)
Dec	40.5	36.1	21.1	334	272	18	Conservative
1987 Jan	39.5	37.1	21.1	320	284	19	M (Con)
Feb	38.0	36.8	23.6	309	291	22	M (Con)
Mar ^p	38.5	33.5	25.5	327	265	31	Conservative

^pProvisional. §Average of main poll findings in the month.

*M (party) indicates party forming a minority government; H (party) indicates party with largest number of seats in a hung parliament — see graph for definitions. The current distribution of the 650 seats is: Conservative (391), Labour (207), Alliance (27), Other (25), where 'other' includes the Speaker and three deputies drawn equally from Conservative and Labour parties. Further details can be found on TOPIC pages 3091-3095. The model, an extension of the 'swingometer' pioneered by the late Robert McKenzie, uses the absolute shift in the three main parties' share of the vote comparing the voting intention in the poll with the 1983 General Election results — Conservatives (43.5%), Labour (28.3%), Alliance (26%). The same swing is applied to all constituencies. The method is rather crude but it performed encouragingly well in the 1983 election, getting within six seats of the outcome for the Conservatives.

On this reckoning, the Conservatives will need at least 38% of the vote if they are to win an outright majority at the next election. This is very much a bare minimum, however, and it would have to rise in two sets of circumstances.

The first is if the non-Tory vote shifts to the benefit of Labour. The Tory minimum rises to 40% of the vote when Labour's

share rises to 36%. The second is if the electorate engages in tactical voting. By supporting the alternative party with the best chance, the voters can undermine the advantage conferred on the Government by the combination of a split opposition and a first-past-the-post voting system. Tactical voting could therefore boost the minimum share of the vote required for an overall Conservative majority. On one estimate, the extra safety margin would be no more than 3 percentage points. But by its very nature, the potential scale of tactical voting is very difficult to judge.

This uncertainty combined with Mrs Thatcher's natural caution may well outweigh the encouraging news coming from detailed polls of marginal constituencies. These polls suggest a Tory performance significantly better than the national average. **On balance, our judgement is that the Prime Minister is unlikely to feel comfortable calling an election unless the polls show a level of Tory support consistently above 40%.** Despite the impressive recovery over the past year (Table 2), the Conservatives' current poll standing may well leave the lady undecided.

Clues to Election timing

There are several other clues dotted around the political landscape which point to an election rather later into 1987. We review the possibilities from May onwards in the belief that the Easter religious holidays make an April election impracticable.

May: According to a Financial Times report, Mrs Thatcher in a speech to senior backbenchers has ruled out the option of a General Election coinciding with the 7 May local council elections (see Table 3 for details). If this is accurate, it is an indication of the logistical problems of an early election and, as importantly, of her sensitivity to the charge of 'cutting and running'. The implication is that Mrs Thatcher will want to have completed the fourth year of the second term before holding an election. This takes us past 9 June.

June: 11 June, 18 June and 25 June are possible, all being Thursdays. 11 June might be regarded as too close to the fourth year anniversary date. A disadvantage of the 18 June is that it coincides with, and therefore might fail to capitalise on, the publication of a probably favourable May unemployment number (Table 4 gives release dates of economic statistics). A much bigger disadvantage is that it clashes with Royal Ascot week (16-19 June). The 25th therefore looks favourite.

While the economic numbers look reasonable in June, political developments may not be so favourable. It is widely expected that the Conservatives will fare comparatively poorly — certainly against the Alliance — in the May local elections. This applies in particular to the district councils which are re-elected every four years. Voting patterns last time may well have been influenced by the 1983 General Election campaign.

A poor May local election performance will not give the Prime Minister the clear signals she wants to call a General Election. This is especially so if the Alliance score major advances: nationally, the Alliance runs second, absolutely and proportionately, in many more Tory seats than Labour seats (Table 5). Indeed the possibility of a poor result provides the strongest reason for choosing a 7 May date for the General Election despite Mrs Thatcher's unease of 'going early'.

July-August: In the last 87 years, only one election — that in 1945 — was held in either of the two holiday months (Table 6).

Table 3: Political calendar

Date	
26 February	— Greenwich by-election
5 March	— West Midlands Euro by-election
12 March	— Truro by-election
17 March	— UK Budget
28 March-1 April	— Prime Minister's visit to USSR
16 April	— Maunday Thursday
17 April	— Good Friday
20 April	— Easter Monday
7 May	— Local council elections
9 June	— 4th anniversary of Conservatives' second term
16-19 June	— Royal Ascot
24 September	— 1st day of Jewish New Year
8 October	— 1st day of Succoth (tabernacle)
25 October	— British summertime ends

Conference dates:	
Conservative	— 6-9 October
Labour	— 28 September-2 October
Liberal	— 13-18 September
SDP	— 1-4 September

Local council elections	
Councils which hold elections every year, one-third at a time:	
121 Shire districts	
36 Metropolitan districts	
6 Welsh districts	
Councils which elect the whole council every four years:	
176 Shire districts	
30 Welsh districts	
no Metropolitan districts	

Table 4: Economic calendar in 1987

Statistic for	Release dates	
	RPI	Unemployment
February	March 20	March 19
March	April 10	April 15
April	May 15	May 14
May	June 12	June 18
June	July 10	July 16
July	August 14	August 13
August	September 11	September 17
September	October 9	October 15
October	November 13	November 12
November	December 11	December 17

Table 5: Distribution of second and third votes*

	Conservative-held		Labour-held		Alliance-held		Other-held	
	2nd	3rd	2nd	3rd	2nd	3rd	2nd	3rd
Conservative	—	—	157	48	20	7	2	2
Labour	123	262	—	—	7	19	2	1
Alliance	263	129	51	156	—	—	0	1
Other	7	2	1	5	0	1	—	—
Total	393	393	209	209	27	27	4	4

*Covers all but the 17 Northern Ireland seats. 1983 elections results adjusted for by-elections.

September: The Party Conference season begins in September, starting with the SDP Conference (1-4 September). The Prime Minister could score a tactical goal by announcing an election thereby depriving the SDP, and subsequently the Liberals and Labour, of normal 'air time' and other media coverage.

If so, the **earliest** that an election could be held (assuming it to be on a Thursday) is 24 September. (It could also be deferred to after the Tory Party Conference on 6-9 October. Table 7 gives details of the rules governing the minimum span between announcement and polling day.) By 24 September, the inflation and unemployment statistics for August will have been published. On our forecasts, inflation will be around 4½-4¾%. Headline unemployment should be seasonally low and with a little help from special measures could be encouraged to fall below 3 million. A distinct disadvantage of 24 September, however, is that it is also the first day of the Jewish New Year. This probably rules it out as an option.

October-December: The same objection applies, but to a lesser extent, to the 8 October, the first day of the tabernacle observed by Orthodox Jews. The 1 October is the favourite date in the first half of October. As regards the second half of October or later, we note several disadvantages. First, the September unemployment number is released on 15 October. There is usually a seasonal jump in headline unemployment in September as school-leavers appear on the count.

The second disadvantage of late October onwards is also seasonal in nature. The weather is cold. British summertime ends on 25 October. Electorates typically do not like voting in the cold and dark.

Opting for October

On the basis of these clues, we conclude:

- **If the Prime Minister could overcome her concern about 'cutting and running', a 7 May General Election looks opportune. However, the evidence to date is that this option is out.**
- **June is difficult if the Tories fare badly in the May local elections. A possible gambit would be to announce a post-9 June election in the first week of May in the hope of favourably influencing the local election results. The Prime Minister might still construe this as cutting and running, however.**
- **An early October election would not run into the same objection. As regards the economy, the fall in**

unemployment by the autumn is likely to be more vote-grabbing than the rise in inflation is vote-losing. Tactically the announcement of the election could be made to rob the opposition parties of 'air time' during their normal conference season.

On balance, we continue to plump for the early October option. Financial markets are probably more inclined towards June. Our choice, if correct, could therefore cause some disappointment. But much greater disappointment would come if the Conservatives did not win. The Chancellor at least has done his best to ensure that they do.

Table 6: Election date history

28 September-24 October 1900*	Thur, 23 February 1950
12 January-7 February 1906*	Thur, 25 October 1951
14 January-9 February 1910*	Thur, 26 May 1955
2-19 December 1910*	Thur, 8 October 1959
Sat, 14 December 1918	Thur, 15 October 1964
Wed, 15 November 1922	Thur, 31 March 1966
Thur, 6 December 1923	Thur, 18 June 1970
Wed, 29 October 1924	Thur, 28 February 1974
Thur, 30 May 1929	Thur, 10 October 1974
Tues, 27 October 1931	Thur, 3 May 1979
Thur, 14 November 1935	Thur, 9 June 1983
Thur, 5 July 1945	

*Prior to the 1918 representation of the People Act, elections were not held on one day.

Source: British Political Facts 1900-1985 by David Butler and Gareth Butler.

Table 7: Election lead times

At a General Election, all polls must be held on the tenth clear day after the last day for the delivery of nomination papers. The last day for nominations is six clear days after the proclamation summoning the new parliament (and the simultaneous dissolution of the old one). This is effectively a three week period and should be added to any period the government sees fit to leave between the announcement of impending proclamation and its occurrence. This is determined by the amount of pending business the Government wishes to pass before dissolution of the present Parliament.

Examples:

Election on:	has to be announced by:
1987	
7 May	10 April
11 June	19 May
18 June	27 May
25 June	3 June
24 September	2 September
1 October	9 September
2 November	9 October
1988	
7 July*	15 June

*Last possible date for General Election.

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ECONOMIST COMMODITY PRICE INDICES

1980=100

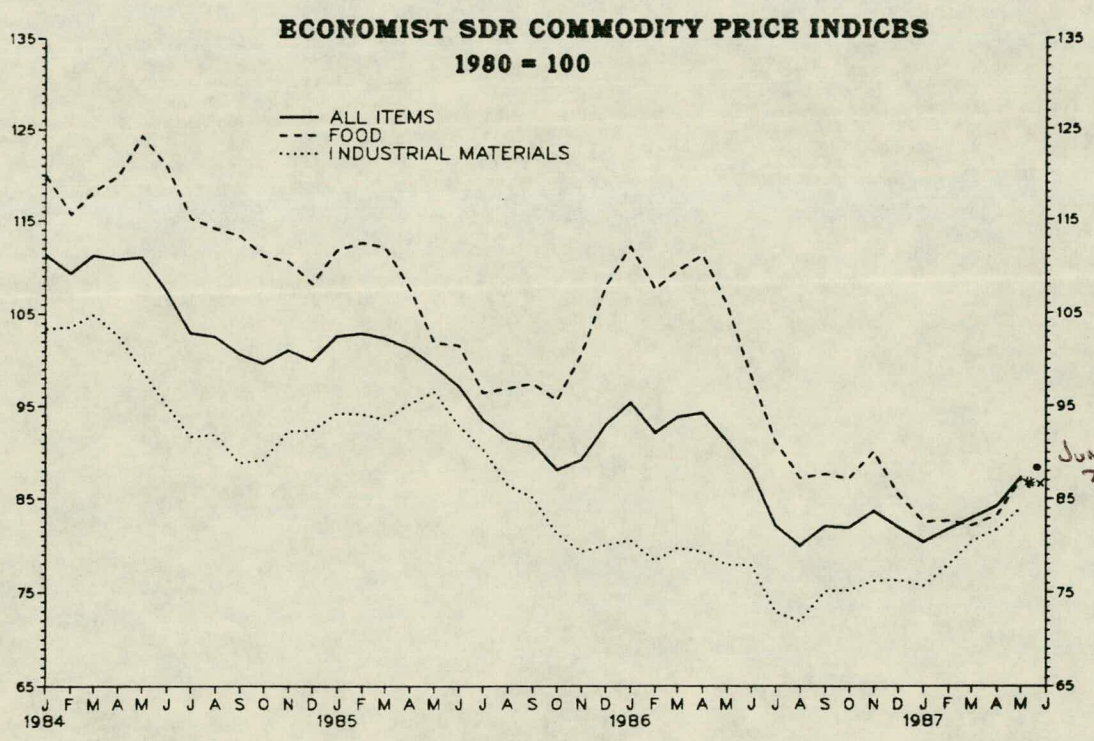
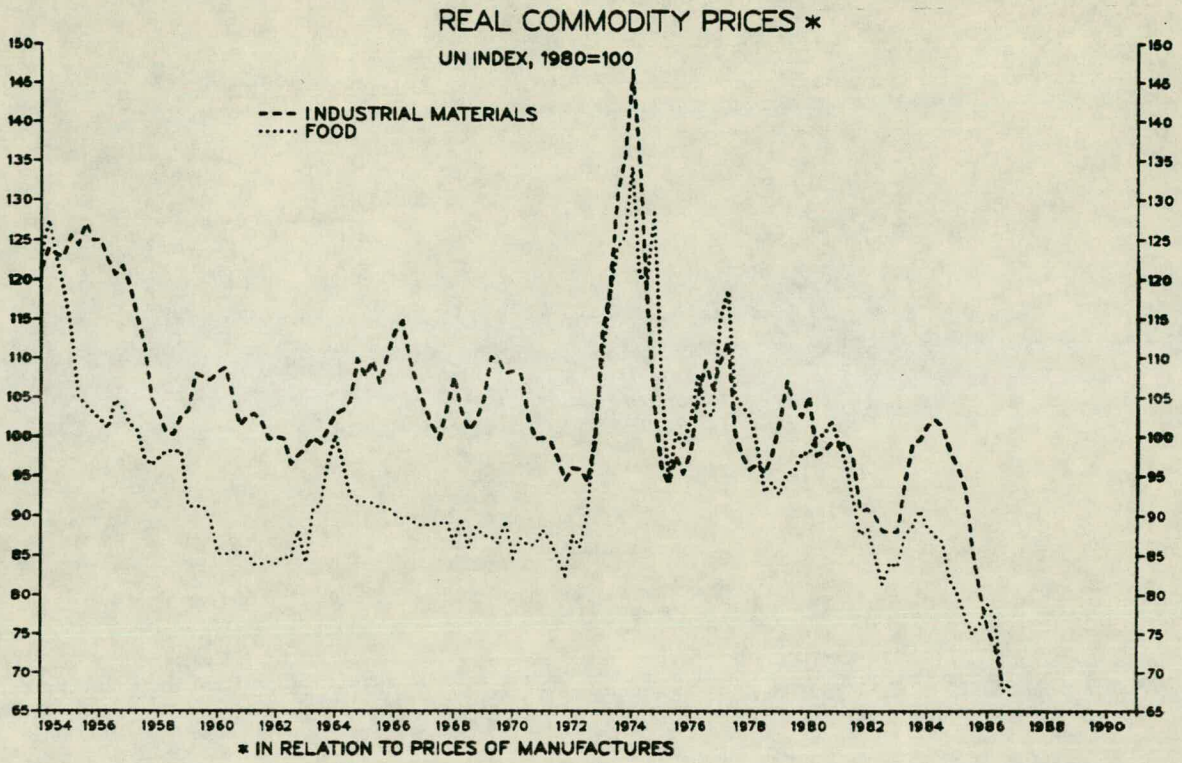
All items indices

SDR indices

	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
Annual							
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982	87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983	102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984	105.7	83.4	144.9	98.1	116.1	105.1	89.5
1985	95.8	74.8	135.2	87.6	103.4	94.2	84.3
1986	86.9	77.7	124.0	76.7	97.3	85.0	70.5
Quarterly							
1985 Q2	99.4	75.8	140.5	90.2	103.9	99.0	90.9
Q3	92.1	72.7	122.9	82.6	96.9	93.2	82.7
Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986 Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
Q2	91.0	81.1	125.0	80.3	104.9	86.9	71.8
Q3	81.4	75.2	117.4	71.8	88.8	80.1	68.3
Q4	82.4	76.4	123.9	72.1	87.4	86.5	68.4
1987 Q1	81.6	79.2	119.2	71.1	82.4	91.0	69.0
Monthly							
June	87.9	78.6	121.1		98.1	83.9	72.9
July	82.1	75.1	115.5		91.2	78.8	68.3
August	79.9	74.1	115.6		87.2	78.8	66.7
September	82.0	76.3	120.7		87.6	82.5	69.5
October	81.8	76.2	123.9		87.1	84.6	68.3
November	83.6	76.9	125.4		90.0	87.0	68.4
December	81.9	76.1	122.7		85.4	87.5	68.4
January	80.3	77.0	118.8		82.5	88.8	66.7
February	81.7	79.6	120.5		82.6	91.7	68.5
March	82.9	81.0	118.2		82.1	92.4	71.8
April	84.2	83.8	119.0		83.2	94.8	72.6
May	87.3	87.6	122.0		87.1	97.2	74.8
Weekly							
Mar	24	83.0	81.8	117.9		92.4	72.0
	31	82.7	81.7	118.3	82.3	93.4	72.8
April	7	82.8	81.7	117.3	81.2	93.3	72.2
	14	84.1	83.8	119.2	83.7	94.5	72.0
	21	84.9	84.5	120.1	83.8	96.0	73.3
	28	84.8	85.0	119.5	84.3	95.2	72.8
May	5	85.8	86.8	119.5	85.8	95.5	73.4
	12	88.7	88.9	123.8	88.5	97.2	76.7
	19	87.5	87.9	121.4	87.0	97.4	75.6
	26	87.2	86.9	123.4	87.2	98.7	73.7
June	2 (prov)	88.2	87.3	123.5	86.3	99.9	76.9

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals



- ALL ITEMS
- x FOOD
- * INDUSTRIAL MATERIALS



20

FROM: N G FRAY
DATE: 23 MARCH 1987

MR S BROOKS

THE FEBRUARY RPI

The Chancellor has seen and was grateful for your minute of 19 March.

Nigel Fray
N G FRAY

FROM: S BROOKS
 DATE: 23 MARCH 1987

PS/CHANCELLOR OF THE EXCHEQUER

cc : Sir Peter Middleton
 Sir Terence Burns
 Mr Kemp
 Mr Sedgwick
 Mr S J Davies

Handwritten signature in red ink.

MONTHLY PATH FOR THE RPI

The table below shows our current monthly forecast for the RPI. Since the FSBR, the RPI for February has been published and some building societies have announced that their mortgage rates will be cut by 1 per cent from 1 May. The monthly profile below assumes that all the other building societies will fall into line in time for a general cut to affect the May index. The cut of 1 per cent is $\frac{1}{2}$ per cent greater than we assumed in the FSBR forecast.

Percentage changes on a year earlier

1987 March	4.1
April	4.3
May	4.2
June	4.6
July	4.6
August	4.4
September	4.1
October	4.2
November	3.6
December	3.5

} $3\frac{3}{4}\%$

A

Handwritten signature of S Brooks.

S BROOKS

cc Sir P Middleton
Sir T Burns
Mr Kemp
Mr Sedgwick
Mr S J Davies
Mr Books



RD

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

25 March 1987

David Norgrove Esq
10 Downing Street
LONDON
SW1

Dear David

MONTHLY PATH FOR THE RPI

I understand that at their bilateral this afternoon, the Chancellor said that he would send the Prime Minister the Treasury's latest monthly forecast for the RPI. This is given below. *it assumes that all building societies follow the lead of Halifax, Abbey National etc & cut rates by 1/8 from 1 May.*

Percentage changes on a year earlier

1987	March	4.1	
	April	4.3	
	May	4.2	
	June	4.6	
	July	4.6	
	August	4.4	
	September	4.1	
	October	4.2)	
	November	3.6)	3 3/4 %
	December	3.5)	

*Yours
Alex*

A C S ALLAN
Principal Private Secretary

Mythos 0.15 for 2x

Table 1 Recent Mortgage Rate Changes

Date	Old Rate	New Rate	Change	Effect on RPI
1 April 1986	12 $\frac{3}{4}$	12	- $\frac{3}{4}$	-0.32%
1 June 1986	12	11	-1	-0.45%
1 Nov 1986	11	12 $\frac{1}{4}$	+1 $\frac{1}{4}$	+0.61%

Prospects

1 May 1987 12 $\frac{1}{4}$ 11 $\frac{1}{4}$ -1 -0.36% ⁽²⁾

Table 2 All items RPI and RPI excluding mortgage interest payments

Percentage increases over previous 12 months
all items RPI excl.
Mortgage interest payments

May 1979	10.3	9.3
April 1983	4.0	4.9
June 1983	3.7	4.5
Feb 1987	3.9	3.7

Notes

(1) The figures in this column show the effect of the change in the level of the RPI. So, for example, if the interest rate increase of November 1986 had not taken place, the RPI would have been 0.6 points lower.

RPI

(2) Using the 1986 weights a one point cut in mortgage rates would have been worth 0.44 points of the RPI rather than 0.36 points. The reduction in the weight reflects both the implementation of the Advisory Committee's recommendation and the usual annual revision of the RPI weights.

MORTGAGE RATE CHANGES

my

from S Brooks

PPS

- cc Sir P Middleton
- Sir T Burns
- Mr Oelling Snee
- Mr Peretz
- Mr Scholar
- Mr Sedgwick
- Mr Culpin

TLSC:

RPI letters

9 attach letters comparing the all-items RPI and the RPI excluding mortgage interest payments.

S Brooks

30/3/87

PERSONAL AND CONFIDENTIAL

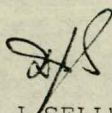
MR BAXTER

- cc. PS/Secretary of State
- PS/Paymaster General
- Mr H James
- Mr J Hill
- PS/Secretary
- Mr I Manley
- Mr Tucker
- Mr Dworkin
- Mr Whybrew
- Mr Reid
- Mr Sutlieff
- Mrs Hornstein
- Ms Craker
- Ms Trewartha

OUTLOOK FOR RETAIL PRICES

I attach a note on the outlook for March and April 1987. Copies for you to circulate to No 10 and Departments (as at Doc 1) are attached.

STATISTICS D


D J SELLWOOD
2 April 1987

PERSONAL AND CONFIDENTIAL

OUTLOOK FOR RETAIL PRICES: MARCH AND APRIL

1. The annual rate of inflation for March, as measured by the 12-month change in the retail prices index, is expected to rise to between 4 and 4½ per cent, compared with the 3.9 per cent recorded for February.
2. The increase in the overall level of prices between February and March is expected to be around ¼ per cent - ie. higher than the 0.1 per cent recorded between the corresponding months last year. Higher prices are expected across a range of goods and services, notably, for household goods, clothing and footwear.
3. Little change in the 12-month rate is expected for April compared with March. Increases in local authority rents and rates and in mortgage interest payments (following the reduction in tax rates announced in the Budget) will contribute to an expected increase in the overall level of prices in April of about one per cent. This is comparable with the increase recorded for April last year.
4. Most mortgages will not be affected by the recent reductions in mortgage interest rates until May.

Percentage change in the RPI

	12 months all items	all items	over 1 month all excluding seasonal food
December	3.7	0.3	0.3
January	3.9	0.4	0.3
February	3.9	0.4	0.3

FORECASTS

March	4-4½	¼	¼
April	4-4½	1	1

ECONOMIST COMMODITY PRICE INDICES

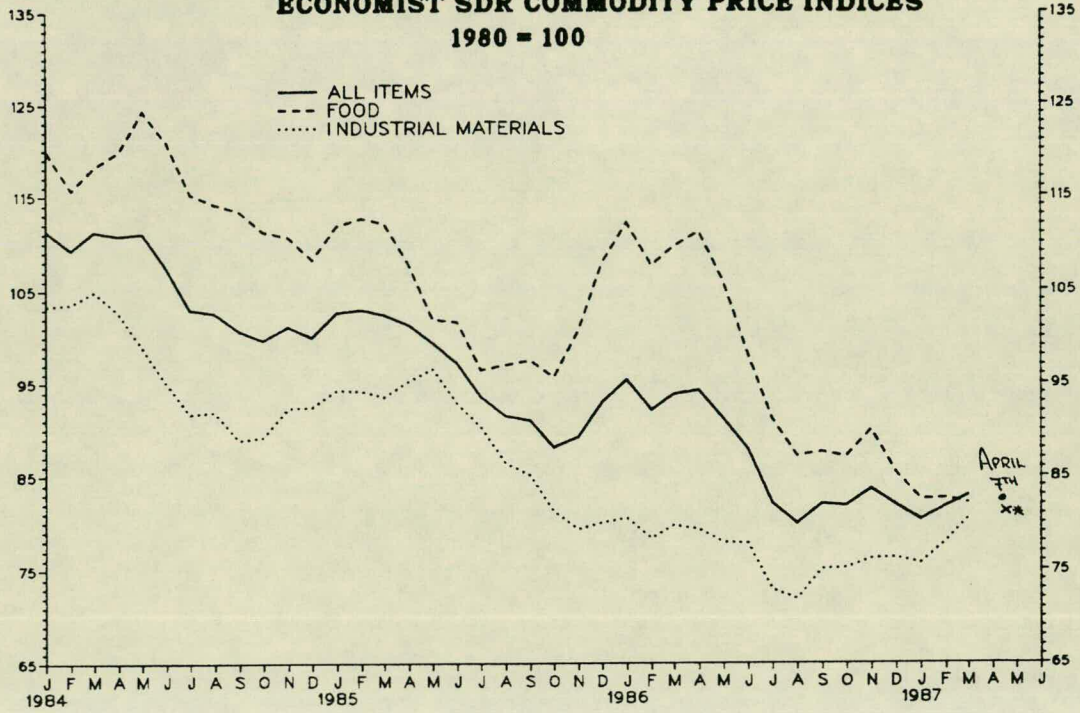
1980=100

	<u>All items indices</u>				Food	<u>SDR indices</u>	
	SDR	Dollar	Sterling	Real*		Nfa**	Metals
<u>Annual</u>							
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982	87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983	102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984	105.7	83.4	144.9	98.1	116.1	105.1	89.5
1985	95.8	74.8	135.2	87.6	103.4	94.2	84.3
1986	86.9	77.7	124.0	76.7	97.3	85.0	70.5
<u>Quarterly</u>							
1985 Q2	99.4	75.8	140.5	90.2	103.9	99.0	90.9
Q3	92.1	72.7	122.9	82.6	96.9	93.2	82.7
Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986 Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
Q2	91.0	81.1	125.0	80.3	104.9	86.9	71.8
Q3	81.4	75.2	117.4	71.8	88.8	80.1	68.3
Q4	82.4	76.4	123.9	72.1	87.4	86.5	68.4
1987 Q1	81.6	79.2	119.2	71.1	82.4	91.0	69.0
<u>Monthly</u>							
April	93.6	82.7	128.5		110.3	88.8	71.7
May	90.8	81.6	124.5		105.1	87.3	70.8
June	87.9	78.6	121.1		98.1	83.9	72.9
July	82.1	75.1	115.5		91.2	78.8	68.3
August	79.9	74.1	115.6		87.2	78.8	66.7
September	82.0	76.3	120.7		87.6	82.5	69.5
October	81.8	76.2	123.9		87.1	84.6	68.3
November	83.6	76.9	125.4		90.0	87.0	68.4
December	81.9	76.1	122.7		85.4	87.5	68.4
January	80.3	77.0	118.8		82.5	88.8	66.7
February	81.7	79.6	120.5		82.6	91.7	68.5
March	82.9	81.0	118.2		82.1	92.4	71.8
<u>Weekly</u>							
January 27	81.0	78.9	119.4		84.0	89.7	66.4
Feb 3	81.0	79.3	120.5		83.2	90.7	66.7
10	82.0	79.7	120.6		83.3	92.9	67.6
17	82.0	79.8	121.0		81.9	92.2	69.7
24	81.9	79.5	120.0		82.1	91.1	69.9
Mar 3	82.7	80.3	119.6		82.4	91.5	71.3
10	83.6	80.9	118.7		83.1	92.7	72.3
17	82.3	80.3	116.7		81.8	92.1	70.7
24	83.0	81.8	117.9		82.3	92.4	72.0
31	82.7	81.7	118.3		80.7	93.4	72.8
April 7 (prov)	82.8	81.8	117.4		81.2	93.7	72.2

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals

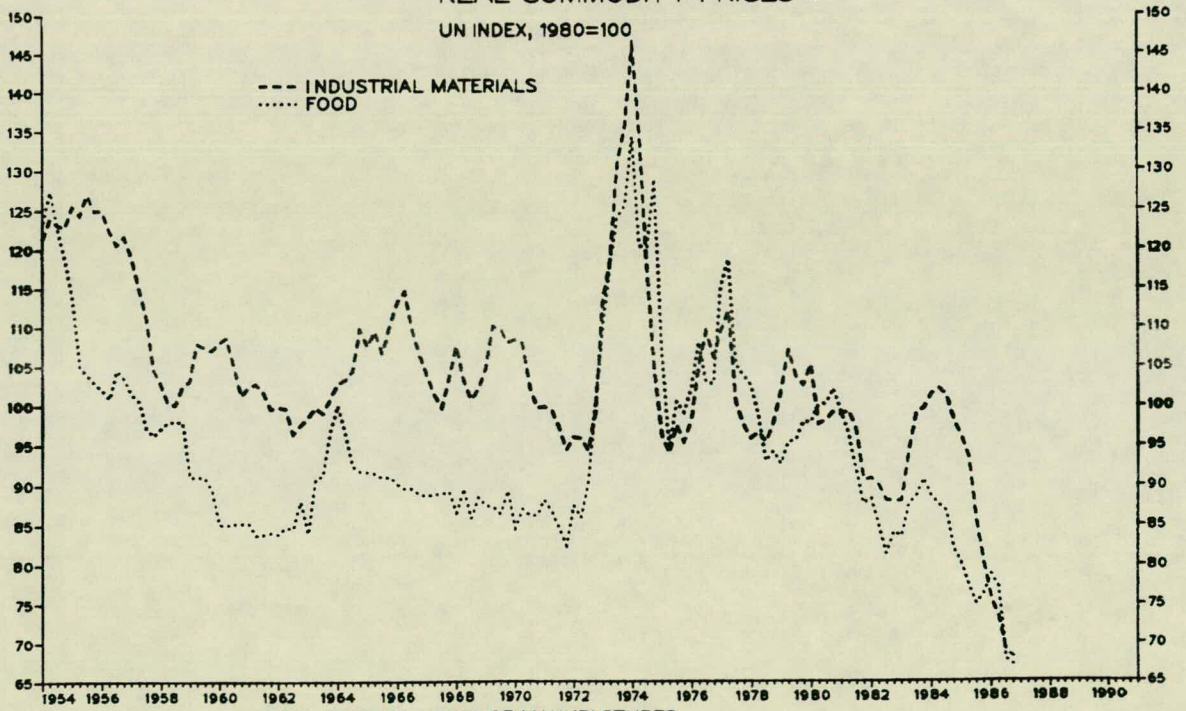
ECONOMIST SDR COMMODITY PRICE INDICES
1980 = 100



- ALL ITEMS
- × FOOD
- * INDUSTRIAL MATERIALS

REAL COMMODITY PRICES *

UN INDEX, 1980=100



* IN RELATION TO PRICES OF MANUFACTURES

ECONOMIST COMMODITY PRICE INDICES

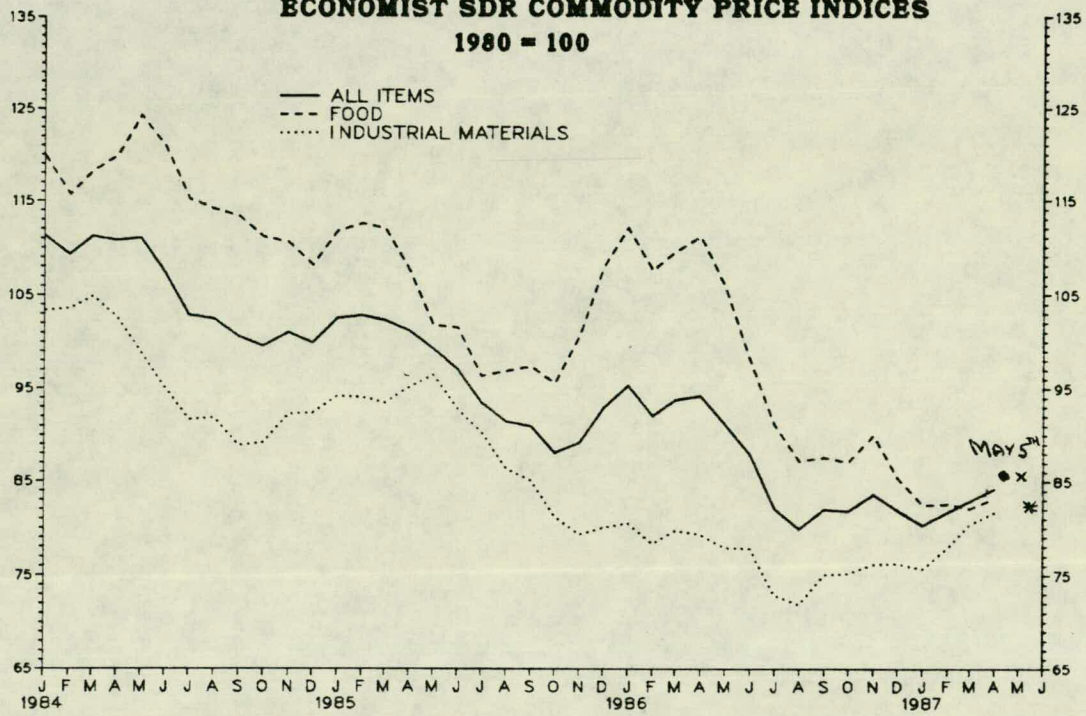
1980=100

	<u>All items indices</u>				<u>SDR indices</u>		
	SDR	Dollar	- Sterling	Real*	Food	Nfa**	Metals
<u>Annual</u>							
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982	87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983	102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984	105.7	83.4	144.9	98.1	116.1	105.1	89.5
1985	95.8	74.8	135.2	87.6	103.4	94.2	84.3
1986	86.9	77.7	124.0	76.7	97.3	85.0	70.5
<u>Quarterly</u>							
1985 Q2	99.4	75.8	140.5	90.2	103.9	99.0	90.9
Q3	92.1	72.7	122.9	82.6	96.9	93.2	82.7
Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986 Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
Q2	91.0	81.1	125.0	80.3	104.9	86.9	71.8
Q3	81.4	75.2	117.4	71.8	88.8	80.1	68.3
Q4	82.4	76.4	123.9	72.1	87.4	86.5	68.4
1987 Q1	81.6	79.2	119.2	71.1	82.4	91.0	69.0
<u>Monthly</u>							
May	90.8	81.6	124.5		105.1	87.3	70.8
June	87.9	78.6	121.1		98.1	83.9	72.9
July	82.1	75.1	115.5		91.2	78.8	68.3
August	79.9	74.1	115.6		87.2	78.8	66.7
September	82.0	76.3	120.7		87.6	82.5	69.5
October	81.8	76.2	123.9		87.1	84.6	68.3
November	83.6	76.9	125.4		90.0	87.0	68.4
December	81.9	76.1	122.7		85.4	87.5	68.4
January	80.3	77.0	118.8		82.5	88.8	66.7
February	81.7	79.6	120.5		82.6	91.7	68.5
March	82.9	81.0	118.2		82.1	92.4	71.8
April	84.2	83.8	119.0		83.2	94.8	72.6
<u>Weekly</u>							
Feb 24	81.9	79.5	120.0		82.1	91.1	69.9
Mar 3	82.7	80.3	119.6		82.4	91.5	71.3
10	83.6	80.9	118.7		83.1	92.7	72.3
17	82.3	80.3	116.7		81.8	92.1	70.7
24	83.0	81.8	117.9		82.3	92.4	72.0
31	82.7	81.7	118.3		80.7	93.4	72.8
April 7	82.8	81.7	117.3		81.2	93.3	72.2
14	84.1	83.8	119.2		83.7	94.5	72.0
21	84.9	84.5	120.1		83.8	96.0	73.3
28	84.8	85.0	119.5		84.3	95.2	72.8
May 5 (prov)	86.0	86.9	119.6		85.8	96.0	73.4

* In relation to prices of manufactured exports. Recent figures are estimated.

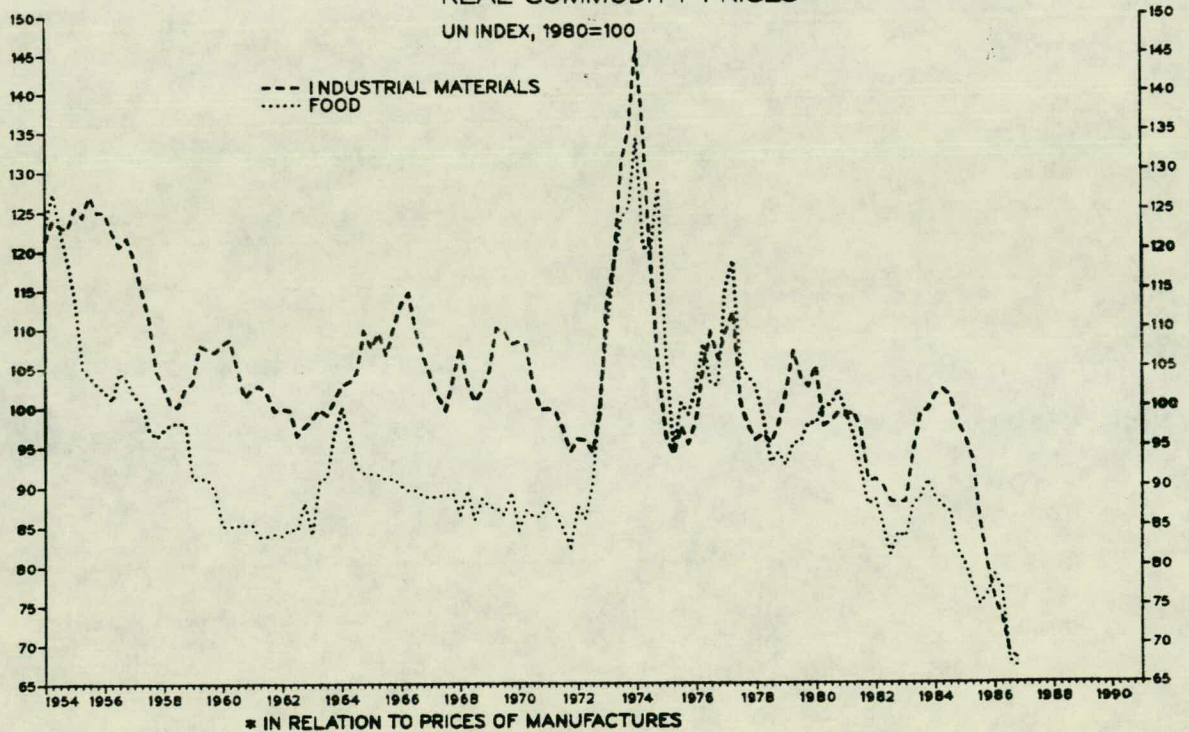
** Non-food agriculturals

ECONOMIST SDR COMMODITY PRICE INDICES 1980 = 100



● ALL ITEMS
 x FOOD
 * INDUSTRIAL MATERIALS

REAL COMMODITY PRICES * UN INDEX, 1980=100





Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6460
Switchboard 01-213 3000 GTN Code 213
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David Norgrove Esq
Private Secretary
10 Downing Street
LONDON
SW1

2 April 1987

Dear David

OUTLOOK FOR RPI

... I enclose a numbered copy of the latest DE note.

Copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Timothy Walker (Trade and Industry), Ms R Passmore (CSO), John Footman (Bank of England), Chris Cloake (CO) and Sir Brian Hayes (Trade and Industry).

Yours sincerely

Yours

Nick

NICK BAXTER
Private Secretary

PERSONAL AND CONFIDENTIAL



20

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6460.....

Switchboard 01-213 3000

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON SW1

8 April 1987

RETAIL PRICE INDEX : MARCH 1987

... I enclose a numbered copy of the DE note and draft press release on the Index of Retail Prices due to be released at 11.30 on Friday 10 April.

Numbered copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Timothy Walker (Trade and Industry), Rachel Passmore (CSO), John Footman (Bank of England), Chris Cloke (CO) and Andrew Lansley (Chancellor of the Duchy of Lancaster's Office) and Sir Brian Hayes (Trade and Industry).

Yours sincerely

NICK BAXTER
Private Secretary

PERSONAL AND CONFIDENTIAL

GENERAL INDEX OF RETAIL PRICES : MARCH 1987

The annual rate of inflation, as measured by the 12-month change in the retail prices index, rose to 4.0 per cent in March from the 3.9 per cent recorded for February.

2. The overall level of prices increased by 0.2 per cent between February and March. This was larger than the increase of 0.1 per cent recorded between the corresponding months last year. Higher prices were recorded across a range of goods and services, notably motor vehicles, household goods, clothing and footwear.

3. Little change in the 12-month rate is expected for April. Increases in local authority rents and rates and in mortgage interest payments (following the reduction in tax rates announced in the budget) will contribute to an expected increase in the overall level of prices in April of about one per cent. This is similar to the monthly increase recorded for April last year.

4. Most mortgages will not be affected by the recent reductions in mortgage interest rates until May.

Producer Prices

5. Producer prices indices for March will be published next week. Ministers might like to be reminded that in February the price index for materials and fuels purchased by manufacturing industry was 2.9 per cent lower than in February 1986. Almost half of the fall over the year was the result of lower fuel prices. The annual increase in the price index for home sales of manufactured products has shown little change at around 4% per cent for the past five months..

Tax and Price Index

6. The tax and prices index increased by 2.8 per cent in the year to March compared with 2.7 per cent recorded for February.

PERSONAL AND CONFIDENTIAL

International comparisons

7. The latest 12-month percentage changes in consumer prices in the main OECD countries and the averages for all EEC and OECD countries are as follows:-

	UK	FRANCE	FEDERAL GERMANY	ITALY	NETHER -LANDS	JAPAN	USA	CANADA	OECD Averages	EEC
1986										
Q1	4.9	3.6	0.7	7.6	1.2	1.6	3.1	4.2	3.8	4.4
Q2	2.8	2.4	-0.2	6.1	0.4	0.9	1.6	3.9	2.5	3.2
Q3	2.6	2.1	-0.4	5.4	-0.4	0.0	1.7	4.2	2.4	3.0
Q4	3.4	2.1	-1.1		-1.8	-0.3	1.3	4.3	2.1	2.9
1987										
Q1	3.9									
1986										
November	3.5	2.1	-1.2	4.4	-0.2	-0.3	1.3	4.5	2.2	2.9
December	3.7	2.1	-1.1		-0.1	-0.5	1.1	4.2	2.1	2.8
1987										
January	3.9	3.0	-0.8		-1.3		1.4	3.9	2.3	2.8
February	3.9	3.4	-0.5	4.2	-1.2	-1.5		4.0		
March	4.0									

Note that the figures for February are provisional

40/87

April 10, 1987

GENERAL INDEX OF RETAIL PRICES

March 1987

The general index of retail prices for all items for March 10, 1987 was 100.6 (January 13, 1987 = 100). This represents an increase of 0.2 per cent on February 1987 (100.4) and an increase of 4.0 per cent on March 1986 (381.6, January 1974 = 100).

The rise in the index between February and March was mainly the result of higher prices for motor vehicles, household goods, clothing and footwear.

The movements for the main groups in the index are shown in Table 2.
Table 1.

	All items				All items except seasonal food			
	Index Jan 15 1974 = 100	Percentage change over			Index Jan 15 1974 = 100	Percentage change over		
		1 month	6 months	12 months		1 month	6 months	
1986								
October	388.4	+0.2	+0.8	+3.0	390.9	+0.2	+1.0	
November	391.7	+0.8	+1.5	+3.5	394.3	+0.9	+1.8	
December	393.0	+0.3	+1.9	+3.7	395.3	+0.3	+2.1	
1987								
January	<u>394.5</u>	+0.4	+2.5	+3.9	<u>396.4</u>	+0.3	+2.5	
	Index Jan 13 <u>1987=100</u>				Index Jan 13 <u>1987=100</u>			
February	100.4	+0.4	+2.6	+3.9	100.3	+0.3	+2.5	
March	100.6	+0.2	+2.3	+4.0	100.6	+0.3	+2.3	

TABLE 2

	Indices (13 January 1987 = 100)			Percentage change over the month
	February 10, 1987	March 10, 1987		
All items	100.4	100.6	+0.2	
All items excluding food	100.4	100.6	+0.2	
All items excluding housing	100.4	100.6	+0.2	
Food	100.7	100.7	+0.0	
Seasonal food	103.2	103.0	-0.2	
Non seasonal food	100.2	100.3	+0.1	
Catering	100.4	100.8	+0.4	
Alcoholic drink	100.3	100.6	+0.3	
Tobacco	99.9	99.9	0.0	
Housing	100.3	100.7	+0.4	
Fuel and light	100.0	99.8	-0.2	
Household goods	100.4	101.0	+0.6	
Household Services	100.1	100.3	+0.2	
Clothing and footwear	100.3	100.8	+0.5	
Personal Goods and Services	100.3	100.7	+0.4	
Motoring Expenditure	101.0	101.3	+0.3	
Fares and Other Travel Costs	99.8	99.9	+0.1	
Leisure Goods	100.2	100.3	+0.1	
Leisure Services	100.1	100.1	0.0	

FROM: S BROOKS
DATE: 9 APRIL 1987

- 1. MR SEDGWICK
- 2. CHANCELLOR OF THE EXCHEQUER

Not available

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Economic Secretary
- PS/Minister of State
- Sir Peter Middleton
- Sir Terence Burns
- Mr F E R Butler
- Mr F Cassell
- Mr N Monck
- Mr Kemp
- Mr Odling-Smee
- Mr Scholar
- Mr Bottrill
- Mr Culpin
- Mr S Davies o/r
- Mr Gilhooly
- Mr Mowl
- Miss O'Mara
- Mr Pickford
- Mr Halligan
- Mr Patterson
- Mr Ward
- Mr Ross Goobey
- Mr Cropper
- Mr Tyrie

Original

[Red signature]

THE MARCH RPI (to be published at 11.30 am on Friday 10 April)

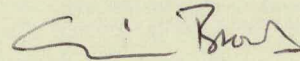
The level of the RPI rose by 0.2 per cent between February and March. The twelve month rate of inflation rose to 4.0 per cent in March from 3.9 per cent in February. This is marginally lower than expected in my minute of 23 March (attached - top copy only).

2. Excluding mortgage interest payments, the twelve month rate of inflation rose to 3.8 per cent in March from 3.7 per cent in February.

3. The most significant price rises were in the clothing and footwear and household goods sectors - probably as a result of recovery from winter sales. Car prices also increased. Price falls were recorded for heating oil and for petrol and oil (4 star petrol fell in price by ½p per gallon).

CONFIDENTIAL

4 The RPI figures are better than City expectations. Wood MacKenzie and James Capel expect an increase of 0.3 per cent between February and March; Phillips and Drew and Lloyds Merchant Bank expect 0.4 per cent; Alexander Laing and Cruickshank expect 0.5 per cent. The correct figure is 0.2 per cent.



**SIMON BROOKS
EAL DIVISION
x 5401**

VS

FROM: S BROOKS ✓
 DATE: 23 MARCH 1987

PS/CHANCELLOR OF THE EXCHEQUER

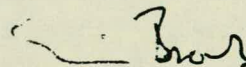
cc : Sir Peter Middleton
 Sir Terence Burns
 Mr Kemp
 Mr Sedgwick
 Mr S J Davies

MONTHLY PATH FOR THE RPI

The table below shows our current monthly forecast for the RPI. Since the FSBR, the RPI for February has been published and some building societies have announced that their mortgage rates will be cut by 1 per cent from 1 May. The monthly profile below assumes that all the other building societies will fall into line in time for a general cut to affect the May index. The cut of 1 per cent is $\frac{1}{2}$ per cent greater than we assumed in the FSBR forecast.

Percentage changes on a year earlier

1987 March	4.1
April	4.3
May	4.2
June	4.6
July	4.6
August	4.4
September	4.1
October	4.2
November	3.6
December	3.5



S BROOKS

UNCLASSIFIED

prv



FROM: N G FRAY

DATE: 13 April 1987

MR S BROOKS

THE MARCH RPI

The Chancellor has seen and was grateful for your minute of 9 April.

Nigel Fray
N G FRAY

CONFIDENTIAL

The exchange rate / oil price adjustments we have made for the purpose of the RPI projection below are rather ad hoc, but do not much affect the RPI figures for the next couple of months, which you particularly asked Sir T Burns about.

FROM: S BROOKS

DATE: 16 April 1987

1. MR DAVIES
2. CHANCELLOR OF THE EXCHEQUER

cc: Sir P Middleton
 Sir T Burns
 Mr Kemp
 Mr Sedgwick

Ch
 Shall I pass
 these to DW or
 again?
 AA

John
 J. M.

MONTHLY PROFILE OF THE RPI

We have been looking again at our projection of the monthly path of the RPI. In the first three months of the year the increase in retail prices has been a little below what we had expected in January and below the view taken at the time of the Budget forecast. The rise in producer price inflation at the end of 1986 (and the associated rise in the balance of CBI respondents saying that they were intending to raise prices) does not seem to have been reflected in retail prices to the extent that we expected. When the January and February RPI figures appeared we attributed the low price increases to unusually large and extended effects of winter sales. While this may have been one reason, the lower than expected figures for March suggest that we need to reduce our estimate of the current underlying trend a little.

2. In the light of developments in recent weeks we have revised our assumptions about the exchange rate and dollar oil prices over the next few months. In both cases, we have assumed that they will return to the levels projected in the FSBR forecast at the end of the year. This implies rather higher crude oil prices in sterling in the first half of the year. The beneficial effect of the exchange rate on input prices does not show up as the trade figures for January and February show that our estimates for manufactured input prices were too low.

3. Food prices turned out lower in March than we had expected. We have been in touch with MAFF and on the basis of our discussions have revised down our forecast for food price inflation over the next few months. There is particular uncertainty about the likely pattern of seasonal food prices over this period.

4. In the housing sector we now have a better idea of the likely outturn for Local Authority rent and rates. We have retained our view that all the Building Societies will implement a cut in their rates to borrowers of one percentage

point in time to affect the May index. We have also revised down a little our estimates for other elements of housing prices in the light of recent outturns and on the basis of new information on changes in collection procedures resulting from the Advisory Committee's report.

5. The revised path is shown below.

		Increases in the RPI on the same month a year earlier		
1987				<u>Published (Fridays)</u>
April	4.0	-	May 15	May
May	3.8	-	June 12	June
June	4.1		July 10	
July	4.2		Aug 14	
August	4.2		Sept 11	
September	4.0		Oct 9	
October	4.0	}		
November	3.5			
December	3.3			

pp
SJM
S BROOKS



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

22 April 1987

David Norgrove Esq
10 Downing Street
LONDON SW1

Dear David

MONTHLY PATH FOR THE RPI

Further to my letter of 25 March, we have now looked again at our projections for the monthly path of the RPI. The recent increases in the RPI have been a little below what we had expected, and we have taken on board more up-to-date information about sterling oil prices and local authority rent and rates. The new projections are:

	Percentage changes on a year earlier	Publication date (Fridays)
April	4.0	May 15
May	3.8	June 12
June	4.1	July 10
July	4.2	Aug 14
August	4.2	Sept 11
September	4.0	Oct 9
October	4.0)	Nov 3
November	3.5) 3.6	Dec 11
December	3.3)	

Yours
Alas

A C S ALLAN

To:

(Circulation list attached)

PS/SECRETARY OF STATE

From:

R M NORTON
Room 1.212
Business Statistics Office
NEWPORT
GTN 2411 - 2069

✓

22 April 1987

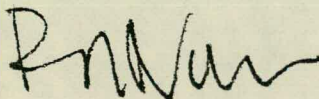
REBASING OF THE RETAIL SALES INDEX

The Secretary of State may wish to know for information that the estimates given by the monthly index of retail sales are about to be revised.

2. The revisions follow one of the regular two-yearly exercises to "rebase" the index. The rebasing has aligned the index with the level of sales given by the more reliable large-scale annual inquiry for 1984 and uses the pattern of trade in 1984 in re-calculating index numbers for later years.

3. The growth rates given by the new series are relatively little changed and no significant criticism of the revisions is expected. The biggest change is in the increase in sales volume in 1986 compared with 1985. This has been revised to 5.4 per cent from the earlier estimate of 4.9 per cent. Further comparisons will be given in an article, copy attached, to be published in British Business on Friday 24 April.

4. The new series will be used from 29 April - the date of publication of the provisional index for March.



R M Norton

REBASING OF THE RETAIL SALES INDEX

The retail sales index has been rebased using detailed information from the 1984 retailing inquiry (British Business 11 July 1986). However, the reference year has been retained at 1980=100 for the convenience of users of the index. The new series will be used from the date of publication of the provisional index for March on Wednesday 29 April.

The main features of the new series are:

The new series takes account of the final results of the 1984 retailing inquiry, as published in 'Business Monitor SDO 25'. The figures of sales in the reference year 1980, although unchanged in total, have been amended for some individual kinds of business to take account of changes of classification of certain retailers resulting from changes in the mix of commodities sold. The new series are based on the classification of retailers' returns to the 1984 retailing inquiry. Retrospective adjustments have generally been made to the figures for the years 1980-83 to ensure consistency in the individual series from 1980 onwards.

New price deflators have been calculated for each kind of business, based on the pattern of trade shown by the 1984 retailing inquiry: partial adjustments have been made to the 1983 deflators to reflect the changed pattern. These deflators are used to convert the value estimates onto a constant price or volume basis: most components of the retail sales index are deflated onto a volume basis using price data from the retail prices index. One important outcome of the reweighting of the price deflators is that the weight given to audio and visual-electrical goods has increased between 1982 and 1984. The prices of these goods have risen substantially less than other shop prices: in fact the average price of electrical goods fell during 1986. Hence the upward revisions to the volume series of sales by household goods retailers have been proportionately greater than the revisions to the value series.

The seasonal adjustment factors have been re-appraised for the new series.

The rebasing of the retail sales index onto 1984 has been a full rebasing following broadly the methods used for the 1976, 1978, 1980 and 1982 rebasings. This involved allocating the panel of retailers contributing to the monthly inquiry to cells for estimation purposes on the basis of their kind of business and annual turnover in 1984. This procedure determined, amongst other things, the monthly seasonal pattern of sales for 1984 for each kind of business.

The monthly retail sales index projects forward the results of the 1984 retailing inquiry, albeit on a less detailed and less precise basis. An attempt is made to correct for small biases where the trend in sales from the panel of retailers has been seen in the past to differ from the movements observed from the more comprehensive inquiries. These corrections consist of upward adjustments to six kinds of business, namely retailers of womenswear, footwear, electrical goods, toys and sports goods, jewellers and booksellers. For all retailers the adjustments average out to about one-third of one per cent per annum.

A comparison of the annual indices for all retailers between the existing series and the rebased series is shown in the following table.

Retail sales indices for all retailers (1980=100)

	Existing Series		Rebased Series		Percentage difference	
	Value	Volume	Value	Volume	Value	Volume
1981	108.2	100.2	108.2	100.2	-	-
1982	117.1	102.2	117.1	102.1	-	-
1983	127.6	107.1	127.9	107.4	+0.2	+0.2
1984	137.5	110.7	138.2	111.3	+0.5	+0.6
1985	149.5	115.3	150.4	116.4	+0.5	+0.9
1986	161.7	121.0	162.9	122.6	+0.8	+1.4

The differences between the two value series are generally small for all years although the differences between the two volume series are somewhat greater. However, the year on year growth rates given by the new series are relatively little changed. The biggest difference is for the increase in volume of sales between 1985 and 1986; on the revised series growth was 5.4 per cent compared with the earlier estimate of 4.9 per cent.

Acknowledgement is made to the 3200 retailers who comprise the voluntary panel, without whose continuing co-operation the retail sales index could not be compiled.

Distribution:

PS/ Mr Alan Clark
PS/ Mr Geoffrey Pattie
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Mr Treadgold GP
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Mr R Clare CSO
Mr E Lomas CSO

Mr M Dicks Bank
Mr J Exeter Bank

RD

OUTLOOK FOR RETAIL PRICES: APRIL AND MAY

1. The annual rate of inflation for April, as measured by the 12-month change in the retail prices index, is expected to rise to between 4 and 4½ per cent, compared with the 4.0 per cent recorded for March.

2. The increase in the overall level of prices between March and April is expected to be between 1 and 1½ per cent. There have been increases in local authority rents and rates and in mortgage interest payments (following the reduction in income tax rates announced in the Budget). Higher prices are also expected for some seasonal foods. Excise duties were not increased in this year's Budget.

3. By comparison between March and April last year prices rose by 1.0 per cent - less than the increase anticipated for this year. As well as the annual rates and rents increases, there were reductions in mortgage interest rates and petrol prices. The duty payable on cigarettes was increased in the 1986 Budget and electricity charges were higher.

4. In May the 12-month rate is expected to fall as the recent reductions in mortgage interest rates are taken into the calculation.

Percentage change in the RPI

	12 months all items	all items	over 1 month all excluding seasonal food
January	3.9	0.4	0.3
February	3.9	0.4	0.3
March	4.0	0.2	0.3
FORECASTS			
April	4-4½	1	1
May	3¾-4	-¼-0	0

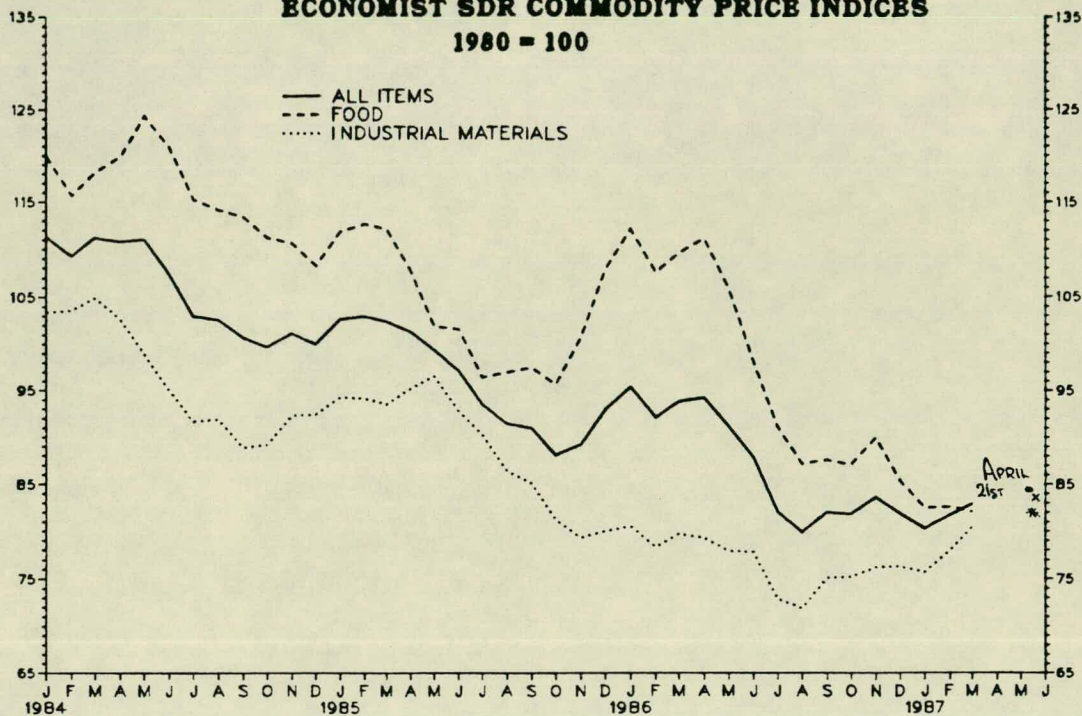
ECONOMIST COMMODITY PRICE INDICES

1980=100

		<u>All items indices</u>				<u>SDR indices</u>		
		SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
<u>Annual</u>								
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982		87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983		102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984		105.7	83.4	144.9	98.1	116.1	105.1	89.5
1985		95.8	74.8	135.2	87.6	103.4	94.2	84.3
1986		86.9	77.7	124.0	76.7	97.3	85.0	70.5
<u>Quarterly</u>								
1985	Q2	99.4	75.8	140.5	90.2	103.9	99.0	90.9
	Q3	92.1	72.7	122.9	82.6	96.9	93.2	82.7
	Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986	Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
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April		93.6	82.7	128.5		110.3	88.8	71.7
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September		82.0	76.3	120.7		87.6	82.5	69.5
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November		83.6	76.9	125.4		90.0	87.0	68.4
December		81.9	76.1	122.7		85.4	87.5	68.4
January		80.3	77.0	118.8		82.5	88.8	66.7
February		81.7	79.6	120.5		82.6	91.7	68.5
March		82.9	81.0	118.2		82.1	92.4	71.8
<u>Weekly</u>								
Feb	10	82.0	79.7	120.6		83.3	92.9	67.6
	17	82.0	79.8	121.0		81.9	92.2	69.7
	24	81.9	79.5	120.0		82.1	91.1	69.9
Mar	3	82.7	80.3	119.6		82.4	91.5	71.3
	10	83.6	80.9	118.7		83.1	92.7	72.3
	17	82.3	80.3	116.7		81.8	92.1	70.7
	24	83.0	81.8	117.9		82.3	92.4	72.0
	31	82.7	81.7	118.3		80.7	93.4	72.8
April	7	82.8	81.7	117.3		81.2	93.3	72.2
	14	84.1	83.8	119.2		83.7	94.5	72.0
	21 (prov)	84.6	84.1	119.7		83.8	94.3	73.3

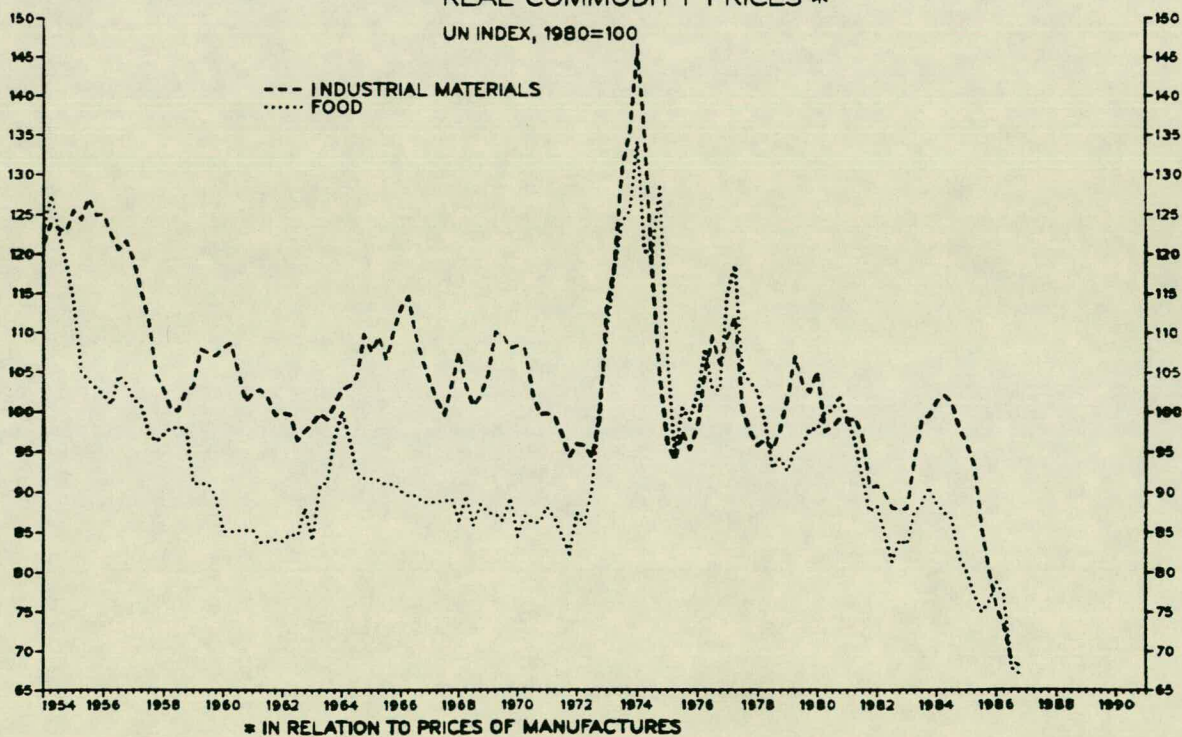
* In relation to prices of manufactured exports. Recent figures are estimated.
 ** Non-food agriculturals

ECONOMIST SDR COMMODITY PRICE INDICES 1980 = 100



- ALL ITEMS
- x FOOD
- * INDUSTRIAL MATERIALS

REAL COMMODITY PRICES * UN INDEX, 1980=100



PERSONAL AND CONFIDENTIAL



✓
②

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6460

Switchboard 01-213 3000

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON SW1

13 May 1987

RETAIL PRICE INDEX : APRIL 1987

.. I enclose a numbered copy of the DE note and draft press release on the Index of Retail Prices due to be released at 11.30 on Friday 15 May.

Numbered copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Timothy Walker (Trade and Industry), Rachel Passmore (CSO), John Footman (Bank of England), Chris Cloke (CO) and Andrew Lansley (Chancellor of the Duchy of Lancaster's Office) and Sir Brian Hayes (Trade and Industry).

Yours sincerely

Beverley Evans

BEVERLEY EVANS
Private Secretary

PERSONAL AND CONFIDENTIAL

PERSONAL AND CONFIDENTIAL

GENERAL INDEX OF RETAIL PRICES : APRIL 1987

The annual rate of inflation, as measured by the 12-month change in the retail prices index, rose to 4.2 per cent in April from the 4.0 per cent recorded for March.

2. The overall level of prices increased by 1.2 per cent between March and April. There were increases in local authority rates and rents and in mortgage interest payments, following the reduction in income tax rates - the effect of the recently announced reductions in mortgage interest rates will come through in the index for May. Higher prices were also recorded for some seasonal foods, motor vehicles and motor insurance. Excise duties were not increased in this year's Budget.

3. By comparison between March and April last year prices rose by 1.0 per cent - less than the increase for this year. There were annual rates and rents increases, the duty payable on cigarettes was increased in the 1986 Budget and electricity charges were higher. Against these there were reductions in mortgage interest rates and petrol prices.

4. In May the 12-month rate is expected to fall to between 3% - 4 per cent, largely reflecting lower mortgage interest rates.

Producer Prices

5. The annual change in the price index for home sales of manufactured products fell to 3.5 per cent in April from the 3.7 per cent recorded for March and around 4% per cent in the preceeding five months. This mainly reflects the fact that tobacco duties were not increased in this year's Budget but were increased in 1986. The price index for manufacturing industries other than food, drink and tobacco continued to increase at an annual rate of around 4% per cent.

6. The 12-month rate of increase in the prices for materials and fuels purchased by manufacturing industry was 1.4 per cent for April compared with a fall of 0.5 per cent in the year to March. Between March and April the index rose by 0.2 per cent, mainly as a result of a rise in prices of home-produced food manufacturing materials.

PERSONAL AND CONFIDENTIAL

Tax and Prices Index

7. The tax and prices index increased by 2.5 per cent in the year to April compared with 2.8 per cent recorded for March. The reduction in the basic rate of income tax and the increase in personal tax allowances announced in this year's Budget reduce the tax and prices index directly. However the change in the basic rate also has the effect of reducing mortgage interest tax relief and so increasing the retail prices index and hence the tax and prices index. The overall effect of the Budget measures on the TPI has been to reduce it to between 2.3 and 2.5 per cent below where it would otherwise have been. The TPI fell by 1.0 per cent between March and April.

International comparisons

8. The latest 12-month percentage changes in consumer prices in the main OECD countries and the averages for all EEC and OECD countries are as follows:-

	UK	FRANCE	FEDERAL GERMANY	ITALY	NETHER -LANDS	JAPAN	USA	CANADA	OECD Averages	EEC
1986										
Q1	4.9	3.6	0.7	7.6	1.2	1.6	3.1	4.2	3.8	4.4
Q2	2.8	2.4	-0.2	6.1	0.4	0.9	1.6	3.9	2.5	3.2
Q3	2.6	2.1	-0.4	5.4	-0.4	0.0	1.7	4.2	2.4	3.0
Q4	3.4	2.1	-1.1	4.4	-1.8	-0.3	1.3	4.3	2.1	2.9
1987										
Q1	3.9	3.2	-0.2	4.2	-1.2	-1.1	2.2	4.1	2.5	3.1
January	3.9	3.0	-0.8	3.8	-1.3	-1.5-	1.4	3.9	2.3	2.8
February	3.9	3.4	-0.5	4.2	-1.2	-1.4	2.1	4.0	2.4	2.9
March	4.0	3.3	-0.2	4.2	-1.1	-0.8	3.0	4.2	3.0	3.0
April	4.2									

Note that the Q1 1987 figures for all countries except the UK are provisional as are the OECD and EEC averages for February and March .

FROM: S BROOKS
DATE: 14 MAY 1987

- 1. MR DAVIES
- 2. CHANCELLOR OF THE EXCHEQUER

- cc :
- PS/Chief Secretary
 - PS/Financial Secretary
 - PS/Economic Secretary
 - PS/Minister of State
 - Sir Peter Middleton
 - Sir Terence Burns
 - Mr F E R Butler
 - Mr F Cassell
 - Mr Kemp
 - Mr N Monck
 - Mr Odling-Smee
 - Mr Scholar
 - Mr Sedgwick
 - Mr Bottrill
 - Mr Culpin
 - Mr Gilhooly
 - Mr Mowl
 - Miss O'Mara
 - Mr Pickford
 - Mr Halligan
 - Mr Patterson
 - Mr Ross Goobey
 - Mr Cropper
 - Mr Tyrie

Handwritten notes in red ink:
 800
 We must be sure (+ discuss to VPI for)
 of X
 Cropper
 in response to
 response to
 response to

THE APRIL RPI (to be published at 11.30 a.m. on Friday 15 May)

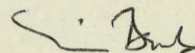
1. The level of the RPI rose by 1.2 per cent between March and April. The twelve month rate of inflation rose to 4.2 per cent in April from 4.0 per cent in March. Excluding mortgage interest payments, the twelve month rate of inflation fell to 3.6 per cent in April from 3.8 per cent in March. The difference between the movements of the all items index and the index excluding mortgage interest payments is attributable to the effect of changes in the standard rate of tax on the mortgage interest component and to the elimination from the 12 month comparison of the fall in mortgage rates between March and April last year.

2. The April figure is higher than forecast in my minute of 16 April. As well as the effect of the cut in the standard rate of income tax in the Budget which increased the RPI by 0.1 per cent, the increase in the index between March and April was affected by rises in Local Authority rates and rents and by higher water charges. These

RPI
may

have been anticipated for some time and come as no surprise. A 4.3 per cent increase in the prices of seasonal foods was rather higher than is usual in April and is part of the explanation for the figure being above last month's forecast. However most of the error is due to a rather large increase in the prices of private sector goods and services (excluding food, housing and petrol) of 0.6 per cent on average - the highest one month increase since April 1986 (which was higher only because of duty increases in the 1986 Budget). We had been surprised at the very slow rate of increase of prices in this category in recent months which had not reflected an earlier pick up in producer price inflation. The high figure for April may represent in part a correction.

3. The RPI figures are rather worse than City expectations which were more optimistic than ours. Goldman Sachs and James Capel expect an increase of 0.8 per cent between March and April; Phillips and Drew and Wood Mackenzie expect 0.9 per cent; Lloyds Merchant Bank expect 1 per cent but Alexander Laing and Cruickshank are a long way out expecting only 0.4 per cent. The correct figure is 1.2 per cent.



SIMON BROOKS
EAL DIVISION
X 5401

Handwritten initials in a circle

FROM: S BROOKS
DATE: 14 MAY 1987

- Handwritten initials*
1. MR DAVIES
 2. CHANCELLOR OF THE EXCHEQUER

- cc : PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr F E R Butler
Mr F Cassell
Mr Kemp
Mr N Monck
Mr Odling-Smee
Mr Scholar
Mr Sedgwick
Mr Bottrill
Mr Culpin
Mr Gilhooly
Mr Mowl
Miss O'Mara
Mr Pickford
Mr Halligan
Mr Patterson
Mr Ross Goobey
Mr Cropper
Mr Tyrie

THE APRIL RPI (to be published at 11.30 a.m. on Friday 15 May) ADDENDUM

In my earlier minute I omitted to mention that the increase in RPI in the year to April, though above last month's forecast, was slightly below the forecast made at the time of the Budget.

Handwritten signature

S BROOKS
EAL DIVISION

PERSONAL AND CONFIDENTIAL



FROM: CATHY RYDING

DATE: 15 May 1987

MR BROOKS

cc: PS/CST
PS/FST
PS/EST
PS/MST
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr F Cassell
Mr Kemp
Mr N Monck
Mr Odling-Smee
Mr Scholar
Mr Sedgwick
Mr Bottrill
Mr Culpin
Mr S Davies
Mr Gilhooly
Mr Mowl
Miss O'Mara
Mr Pickford
Mr Halligan
Mr Patterson
Mr Ross Goobey
Mr Cropper
Mr Tyrie

THE APRIL RPI (to be published at 11.30 am on Friday 15 May)

The Chancellor was grateful for your minute of 14 May.

2. The Chancellor has noted the comment in your first paragraph that excluding mortgage interest payments, the 12 month rate of inflation fell to 3.6 per cent in April from 3.8 per cent in March. He has commented that we must make the most of this (and of course the TPI figure). He would be grateful if IDT would take this on board in response to inquiries.

A handwritten signature in cursive script, appearing to be 'CR'.

CATHY RYDING

91/87

May 15, 1987

GENERAL INDEX OF RETAIL PRICESMay 1987

The general index of retail prices for all items for April 14, 1987 was 101.8 (January 13, 1987 = 100). This represents an increase of 1.2 per cent on March 1987 (100.6) and an increase of 4.2 per cent on April 1986 (385.3, January 1974 = 100).

The rise in the index between March and April was mainly the result of increases in local authority rates and rents and in mortgage interest payments (following the reduction in income tax rates announced in the Budget). Higher prices were also recorded for some seasonal foods, motor vehicles and motor insurance.

The movements for the main groups in the index are shown in Table 2.
Table 1.

	All items			All items except seasonal food			
	Index Jan 15 1974 = 100	Percentage change over			Index Jan 15 1974 = 100	Percentage change over	
		1 month	6 months	12 months		1 month	6 months
1986							
November	391.7	+0.8	+1.5	+3.5	394.3	+0.9	+1.8
December	393.0	+0.3	+1.9	+3.7	395.3	+0.3	+2.1
1987							
January	<u>394.5</u>	+0.4	+2.5	+3.9	<u>396.4</u>	+0.3	+2.5
	Index Jan 13 1987=100				Index Jan 13 1987=100		
February	100.4	+0.4	+2.6	+3.9	100.3	+0.3	+2.5
March	100.6	+0.2	+2.3	+4.0	100.6	+0.3	+2.3
April	101.8	+1.2	+3.4	+4.2	101.6	+1.0	+3.0

TABLE 2

	Indices (13 January 1987 = 100)		
	March 10, 1987	April 14, 1987	Percentage change over the month
All items	100.6	101.8	+1.2
All items excluding food	100.6	101.8	+1.2
All items excluding housing	100.6	101.2	+0.6
Food	100.7	101.6	+0.9
Seasonal food	103.0	107.4	+4.3
Non seasonal food	100.3	100.5	+0.2
Catering	100.8	101.4	+0.6
Alcoholic drink	100.6	100.8	+0.2
Tobacco	99.9	99.8	-0.1
Housing	100.7	105.0	+4.3
Fuel and light	99.8	99.9	+0.1
Household goods	101.0	101.5	+0.5
Household Services	100.3	100.9	+0.6
Clothing and footwear	100.8	101.0	+0.2
Personal Goods and Services	100.7	101.3	+0.6
Motoring Expenditure	101.3	102.1	+0.8
Fares and Other Travel Costs	99.9	100.2	+0.3
Leisure Goods	100.3	100.9	+0.6
Leisure Services	100.1	101.5	+1.4

NOTES TO EDITORS

1 The General Index of Retail Prices (RP1) measures the average change from month to month in the prices of goods and services purchased by most households in the United Kingdom. The expenditure pattern on which the index is based is revised each year using information from the Family Expenditure Survey. The expenditure of certain higher income households and pensioner households, mainly dependent on state pensions and benefits, is excluded.

2 The index is compiled using a large and representative selection of more than 600 separate goods and services for which price movements are regularly measured in about 180 towns throughout the country. Approximately 130,000 separate price quotations are used each month in compiling the index.

3 The prices of some items of food show significant seasonal variation. A separate price index is compiled for these "seasonal foods", the expenditure on which accounts for around 2½ per cent of household expenditure. The variation caused by these items is removed from the series of indices for 'all items except seasonal food'.

4 Rates of change of indices can be calculated over periods of any length. Rates calculated over long periods are slow to detect changes in trend while calculations over very short periods give rather volatile results. To help in assessing what is happening to prices, rates of changes in the all items index and the index for all items except seasonal food are shown in Table 1 over successive periods of one month, six months and twelve months.

5 Following the recommendations which the Retail Prices Index Advisory Committee made in its report submitted to the Secretary of State for Employment in July 1986, the index has been re-referenced to make January 1987 = 100. Calculations of movements in the index over periods of time which span January 1987 are made as follows:-

The index for the later month (January 1987 = 100) is multiplied by the index for January 1987 (January 1974 = 100) and divided by the index for the earlier month (January 1974 = 100). 100 is subtracted to give the percentage change between the two months.

Using the all items index for example: take the index for April 1987 (101.8) and multiply it by the January index (394.5) then divide by the April 1986 index (385.3). Subtract 100 from the result which gives 4.2 as the percentage change in the index over the twelve months to April.

6 The index for April 1987, if translated to the old reference date (January 1974 = 100) would be 401.6.

7 Other changes made to the index in 1987 are given in an article in the April edition of Employment Gazette.

8 The Retail Prices Index Advisory Committee was first established in 1946 and advises on the methodology used for compiling the RPI. Committee members include representatives of consumers, employees, employers, retailing organisations, academic experts, government departments and other official bodies. The Committee's latest report - 'Methodological Issues Affecting The Retail Prices Index' Cmnd 9848 HMSO £6.50 - was published on 15 July 1986. The Government announced at the same time that all its recommendations were to be accepted.

9 The housing costs of owner-occupiers are reflected in the index using an indicator which represents mortgage interest payments. A weighted average of building societies base mortgage interest rates is used in the calculation.

10 The index is given in full in the Employment Gazette.



From the Minister

CONFIDENTIAL

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON
SW1

CH/EXCHEQUER	
REC.	1-JUN 1987
ACTION	Mr Bonney
COPIES TO	CS ^T Mr P Mallett MS ^X Sir T Bump Sir G Kitcher PER Butler Mr Lawelle

Mr Burgess
Mr Edwards 29 May 1987
Mr Schalar
Mr Sedgewick
Mess G Mara
Mr Culpin
Mr Tyrrie

Handwritten signature: Mrs Prime Minister

FORECASTS OF RETAIL FOOD PRICES

I am writing to report on retail food price movements and to let you have our latest forecasts. These indicate an annual rate of increase in the Food Price Index of 2 per cent in June falling to around 1½ per cent in September, 1987. I should add however that, if the industrial dispute at Channel ports continues to disrupt supplies of fruit and vegetables, this could offset a major part of the fall in the Food Price Index forecast for June.

Prices of many foods such as beef, pork, butter, and cheese are no higher than a year ago and margarine, cooking fats, fruit and tea are lower. However, adverse weather conditions towards the end of March resulted in higher prices for some fresh vegetables and prices of fish, eggs and potatoes were markedly higher than a year ago. The outcome was that the Food Price Index in April was 3.6 per cent higher than a year ago.

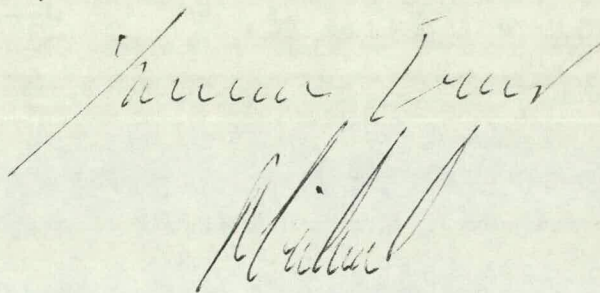
Subject to the reservation above, food prices are forecast to be ½ per cent higher in June than in March resulting in a year on year increase of 2 per cent for June. Small increases are expected in the prices of many manufactured foods although coffee prices are falling. Fresh vegetables and lamb should be cheaper but prices of fish and fruit are forecast to be higher.

/Looking ahead to...

Looking ahead to the third quarter, food prices are forecast to fall by 1 per cent between June and September resulting in an annual rate of increase in September down to around $1\frac{1}{2}$ per cent. Prices of many foods are expected to remain stable reflecting ample supplies of domestic and imported produce. With good growing conditions, there is every prospect of prices of seasonal fruit and vegetables falling substantially.

As regards to the CAP price fixing round, changes which may be agreed are unlikely to have any significant effect until later in the year.

I am copying this letter to the Chancellor of the Exchequer, the Secretary of State for Employment and the PUSS (CCA), Department of Trade and Industry.

A handwritten signature in cursive script, appearing to read "Michael Jopling". The signature is written in dark ink and is positioned above the printed name.

MICHAEL JOPLING

ECONOMIST COMMODITY PRICE INDICES

1980=100

PPS
12/2

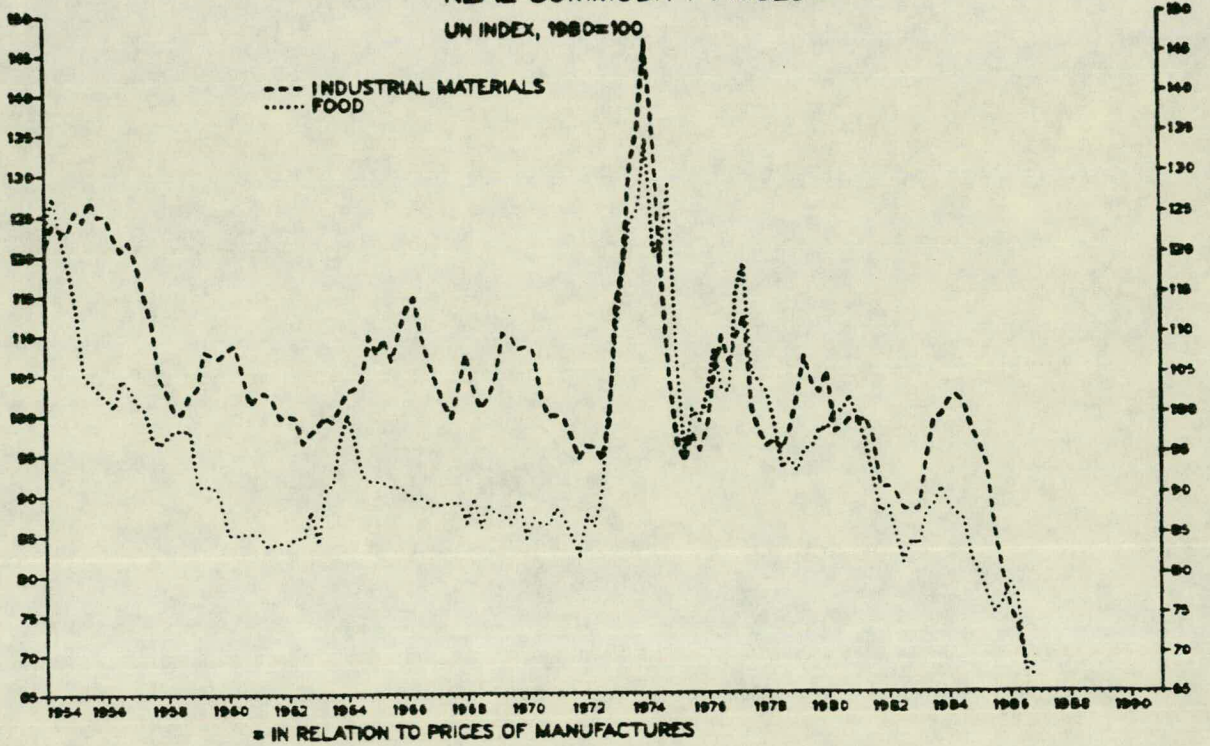
		<u>All items indices</u>				<u>SDR indices</u>		
		SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
<u>Annual</u>								
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982		87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983		102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984		105.7	83.4	144.9	98.1	116.1	105.1	89.5
1985		95.8	74.8	135.2	87.6	103.4	94.2	84.3
1986		86.9	77.7	124.0	76.7	97.3	85.0	70.5
<u>Quarterly</u>								
1985	Q2	99.4	75.8	140.5	90.2	103.9	99.0	90.9
	Q3	92.1	72.7	122.9	82.6	96.9	93.2	82.7
	Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986	Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
	Q2	91.0	81.1	125.0	80.3	104.9	86.9	71.8
	Q3	81.4	75.2	117.4	71.8	88.8	80.1	68.3
	Q4	82.4	76.4	123.9	72.1	87.4	86.5	68.4
1987	Q1	81.6	79.2	119.2	71.1	82.4	91.0	69.0
<u>Monthly</u>								
	June	87.9	78.6	121.1		98.1	83.9	72.9
	July	82.1	75.1	115.5		91.2	78.8	68.3
	August	79.9	74.1	115.6		87.2	78.8	66.7
	September	82.0	76.3	120.7		87.6	82.5	69.5
	October	81.8	76.2	123.9		87.1	84.6	68.3
	November	83.6	76.9	125.4		90.0	87.0	68.4
	December	81.9	76.1	122.7		85.4	87.5	68.4
	January	80.3	77.0	118.8		82.5	88.8	66.7
	February	81.7	79.6	120.5		82.6	91.7	68.5
	March	82.9	81.0	118.2		82.1	92.4	71.8
	April	84.2	83.8	119.0		83.2	94.8	72.6
	May (prov)	87.3	87.6	122.0		87.1	97.0	74.8
<u>Weekly</u>								
Mar	17	82.3	80.3	116.7		81.8	92.1	70.7
	24	83.0	81.8	117.9		82.3	92.4	72.0
	31	82.7	81.7	118.3		80.7	93.4	72.8
April	7	82.8	81.7	117.3		81.2	93.3	72.2
	14	84.1	83.8	119.2		83.7	94.5	72.0
	21	84.9	84.5	120.1		83.8	96.0	73.3
	28	84.8	85.0	119.5		84.3	95.2	72.8
May	5	85.8	86.8	119.5		85.8	95.5	73.4
	12	88.7	88.9	123.8		88.5	97.2	76.7
	19	87.5	87.9	121.4		87.0	97.4	75.6
	26 (prov)	87.1	86.8	123.2		87.2	98.1	73.7

* In relation to prices of manufactured exports. Recent figures are estimated.

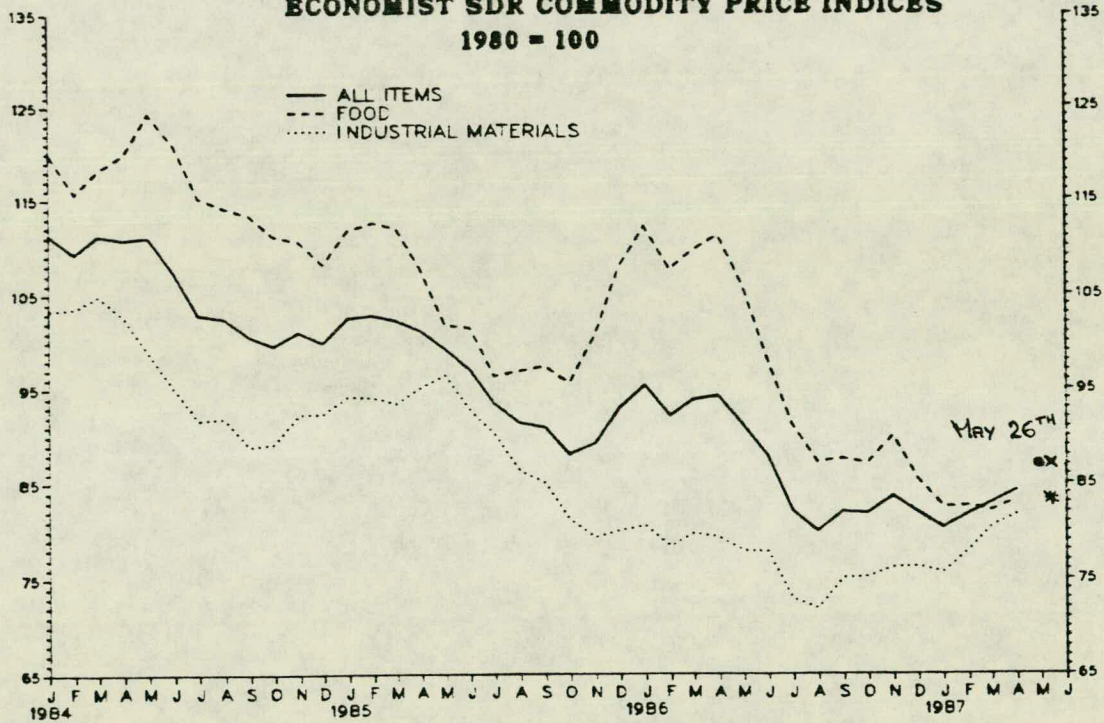
** Non-food agriculturals

REAL COMMODITY PRICES *

UN INDEX, 1980=100



ECONOMIST SDR COMMODITY PRICE INDICES 1980 = 100



- ALL ITEMS
- x FOOD
- * INDUSTRIAL MATERIALS

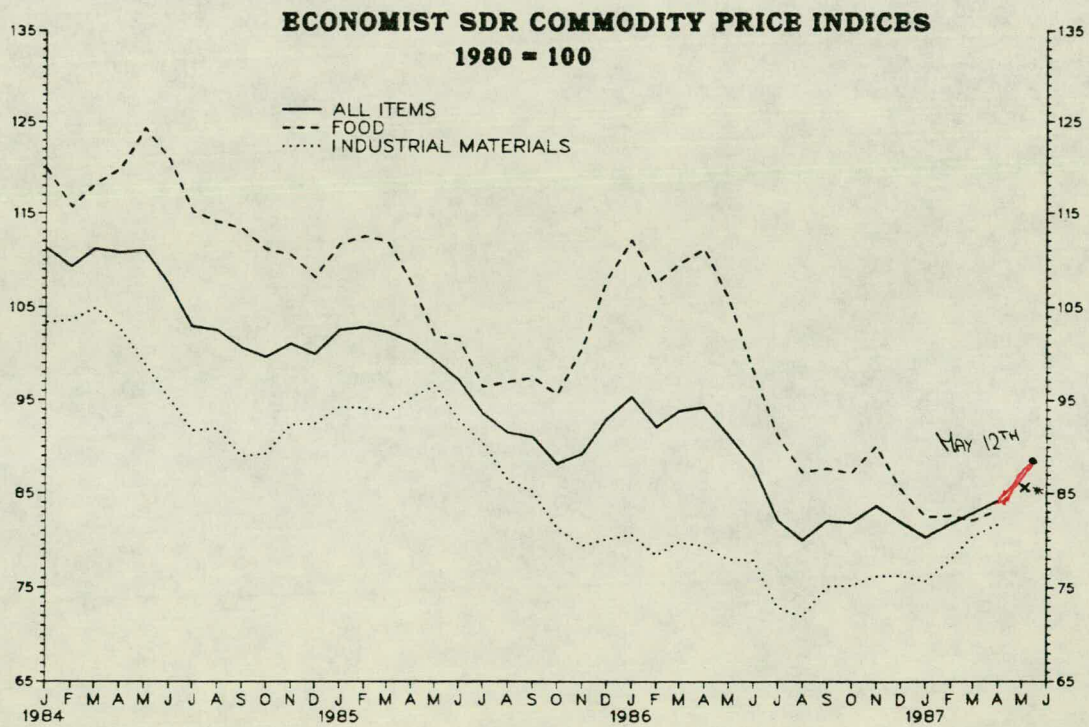
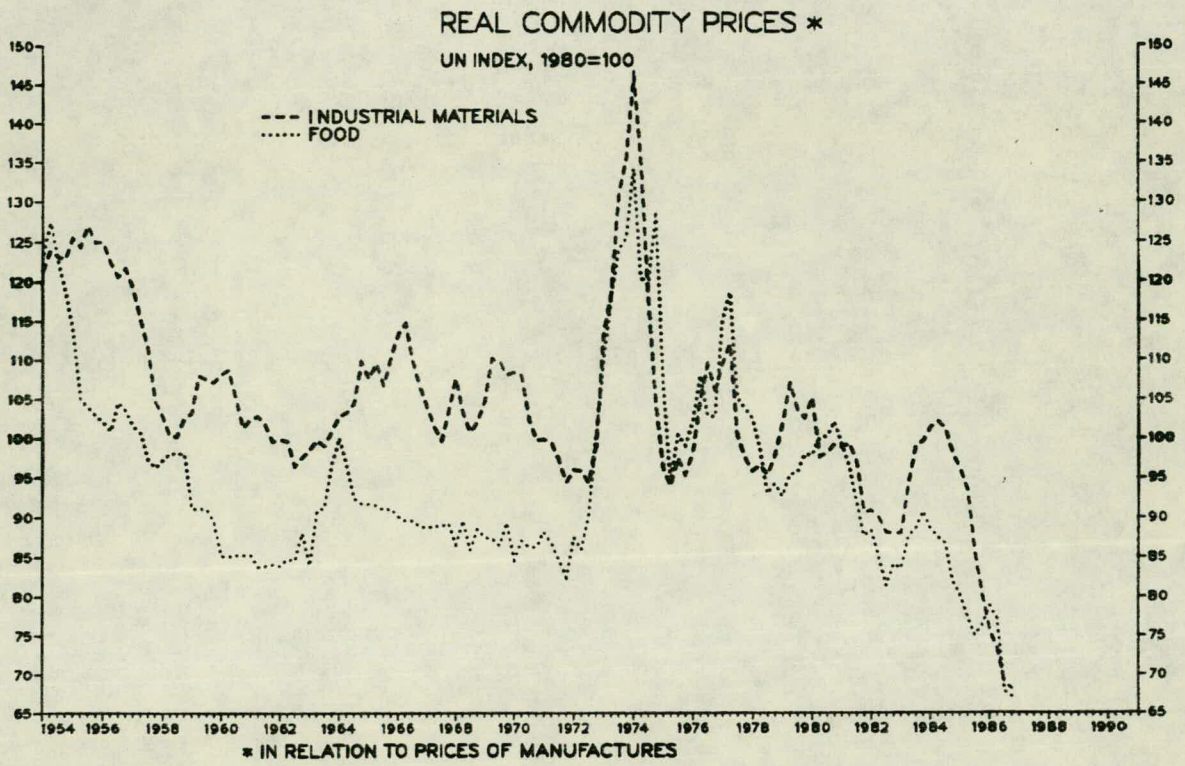
ECONOMIST COMMODITY PRICE INDICES

PPS 12/2
1980=100

		<u>All items indices</u>				<u>SDR indices</u>		
		SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
<u>Annual</u>								
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982		87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983		102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984		105.7	83.4	144.9	98.1	116.1	105.1	89.5
1985		95.8	74.8	135.2	87.6	103.4	94.2	84.3
1986		86.9	77.7	124.0	76.7	97.3	85.0	70.5
<u>Quarterly</u>								
1985	Q2	99.4	75.8	140.5	90.2	103.9	99.0	90.9
	Q3	92.1	72.7	122.9	82.6	96.9	93.2	82.7
	Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986	Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
	Q2	91.0	81.1	125.0	80.3	104.9	86.9	71.8
	Q3	81.4	75.2	117.4	71.8	88.8	80.1	68.3
	Q4	82.4	76.4	123.9	72.1	87.4	86.5	68.4
1987	Q1	81.6	79.2	119.2	71.1	82.4	91.0	69.0
<u>Monthly</u>								
May		90.8	81.6	124.5		105.1	87.3	70.8
June		87.9	78.6	121.1		98.1	83.9	72.9
July		82.1	75.1	115.5		91.2	78.8	68.3
August		79.9	74.1	115.6		87.2	78.8	66.7
September		82.0	76.3	120.7		87.6	82.5	69.5
October		81.8	76.2	123.9		87.1	84.6	68.3
November		83.6	76.9	125.4		90.0	87.0	68.4
December		81.9	76.1	122.7		85.4	87.5	68.4
January		80.3	77.0	118.8		82.5	88.8	66.7
February		81.7	79.6	120.5		82.6	91.7	68.5
March		82.9	81.0	118.2		82.1	92.4	71.8
April		84.2	83.8	119.0		83.2	94.8	72.6
<u>Weekly</u>								
Mar	3	82.7	80.3	119.6		82.4	91.5	71.3
	10	83.6	80.9	118.7		83.1	92.7	72.3
	17	82.3	80.3	116.7		81.8	92.1	70.7
	24	83.0	81.8	117.9		82.3	92.4	72.0
	31	82.7	81.7	118.3		80.7	93.4	72.8
April	7	82.8	81.7	117.3		81.2	93.3	72.2
	14	84.1	83.8	119.2		83.7	94.5	72.0
	21	84.9	84.5	120.1		83.8	96.0	73.3
	28	84.8	85.0	119.5		84.3	95.2	72.8
May	5	85.8	86.8	119.5		85.8	95.5	73.4
	12 (prov)	88.6	88.9	123.7		85.5	97.0	76.7

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals



- ALL ITEMS
- x FOOD
- * INDUSTRIAL MATERIALS

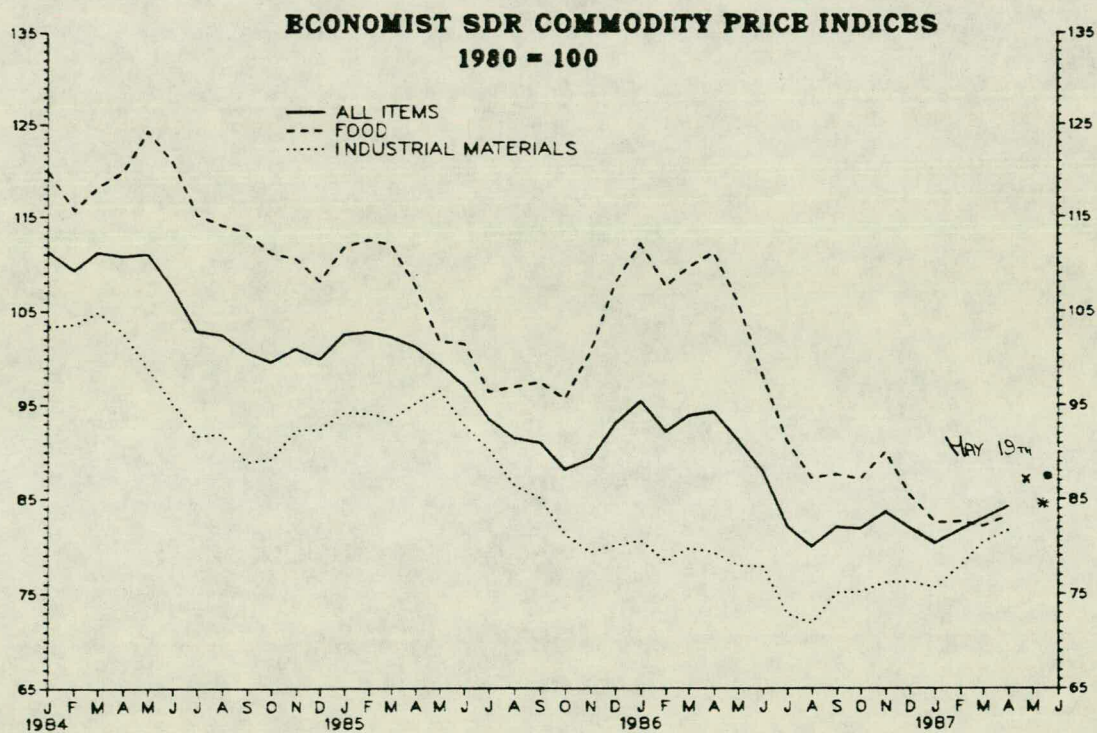
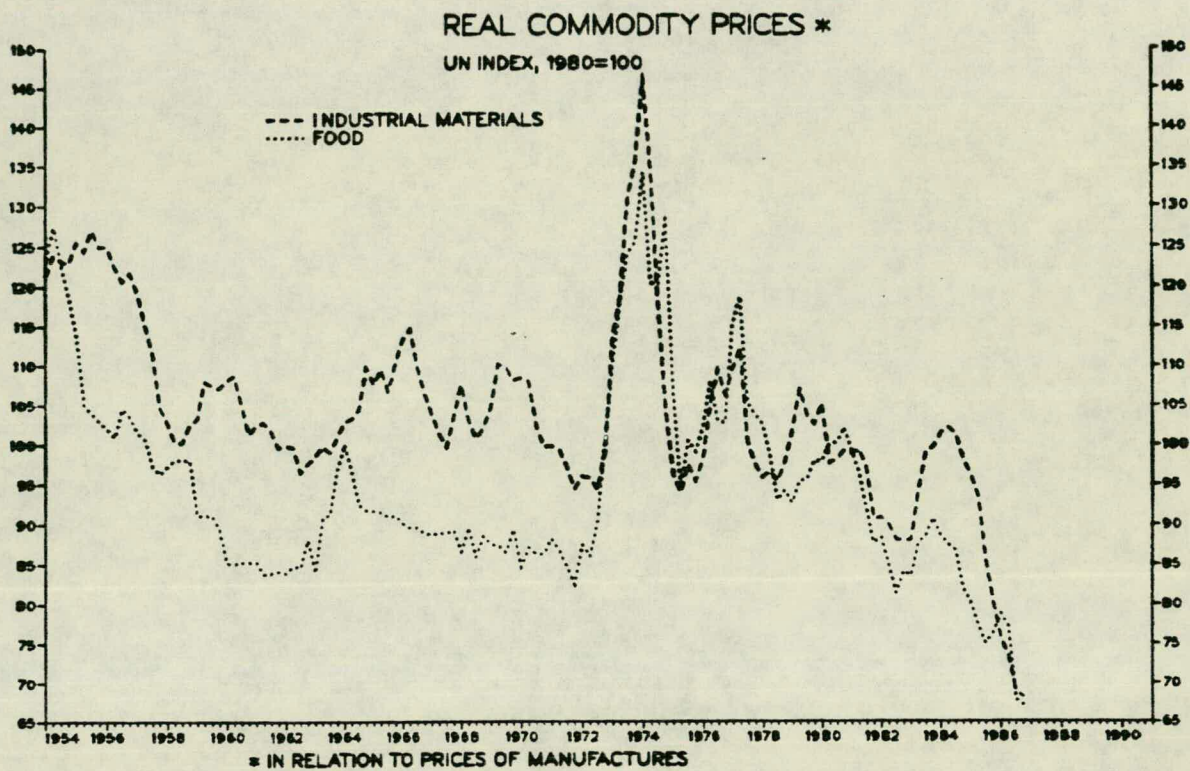
ECONOMIST COMMODITY PRICE INDICES

1980=100

	<u>All items indices</u>				<u>SDR indices</u>		
	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
<u>Annual</u>							
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982	87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983	102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984	105.7	83.4	144.9	98.1	116.1	105.1	89.5
1985	95.8	74.8	135.2	87.6	103.4	94.2	84.3
1986	86.9	77.7	124.0	76.7	97.3	85.0	70.5
<u>Quarterly</u>							
1985 Q2	99.4	75.8	140.5	90.2	103.9	99.0	90.9
Q3	92.1	72.7	122.9	82.6	96.9	93.2	82.7
Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986 Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
Q2	91.0	81.1	125.0	80.3	104.9	86.9	71.8
Q3	81.4	75.2	117.4	71.8	88.8	80.1	68.3
Q4	82.4	76.4	123.9	72.1	87.4	86.5	68.4
1987 Q1	81.6	79.2	119.2	71.1	82.4	91.0	69.0
<u>Monthly</u>							
May	90.8	81.6	124.5		105.1	87.3	70.8
June	87.9	78.6	121.1		98.1	83.9	72.9
July	82.1	75.1	115.5		91.2	78.8	68.3
August	79.9	74.1	115.6		87.2	78.8	66.7
September	82.0	76.3	120.7		87.6	82.5	69.5
October	81.8	76.2	123.9		87.1	84.6	68.3
November	83.6	76.9	125.4		90.0	87.0	68.4
December	81.9	76.1	122.7		85.4	87.5	68.4
January	80.3	77.0	118.8		82.5	88.8	66.7
February	81.7	79.6	120.5		82.6	91.7	68.5
March	82.9	81.0	118.2		82.1	92.4	71.8
April	84.2	83.8	119.0		83.2	94.8	72.6
<u>Weekly</u>							
Mar	10	83.6	80.9	118.7	83.1	92.7	72.3
	17	82.3	80.3	116.7	81.8	92.1	70.7
	24	83.0	81.8	117.9	82.3	92.4	72.0
	31	82.7	81.7	118.3	80.7	93.4	72.8
April	7	82.8	81.7	117.3	81.2	93.3	72.2
	14	84.1	83.8	119.2	83.7	94.5	72.0
	21	84.9	84.5	120.1	83.8	96.0	73.3
	28	84.8	85.0	119.5	84.3	95.2	72.8
May	5	85.8	86.8	119.5	85.8	95.5	73.4
	12	88.7	88.9	123.8	88.5	97.2	76.7
	19 (prov)	87.4	87.8	121.3	87.0	97.0	75.6

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals



- ALL ITEMS
- x FOOD
- * INDUSTRIAL MATERIALS

PRIVATE AND CONFIDENTIAL



*papers
please*

Caxton House Tothill Street London SW1H 9NF

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Switchboard 01-213 3000 GTN Code 213
Facsimile 01-213 5465 Telex 915564

ppp

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON SW1

3 June 1987

Dear David,

OUTLOOK FOR RPI

... I enclose a numbered copy of the latest DE note.

Copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Timothy Walker (Trade and Industry), Ms R Passmore (CSO), John Footman (Bank of England), Chris Cloke (CO) and Sir Brian Hayes (Trade and Industry).

*Yours sincerely,
Beverley Evans*

BEVERLEY EVANS
Private Secretary

PRIVATE AND CONFIDENTIAL

PERSONAL AND CONFIDENTIAL

MS EVANS

- cc. PS/Secretary of State
- PS/Paymaster General
- PS/Secretary
- Mr I Manley
- Mr Tucker
- Mr Dworkin
- Mr Whybrew
- Mr Reid
- Mr Sutlieff
- Mrs Hornstein
- Mr Sellwood
- Mr N Baxter

OUTLOOK FOR RETAIL PRICES

I attach a note on the outlook for May and June 1987. Copies for you to circulate to No 10 and Departments (as at Doc 1) are attached.

STATISTICS D

Alex Craker

D A CRAKER

3 June 1987

PERSONAL AND CONFIDENTIAL

OUTLOOK FOR RETAIL PRICES: MAY AND JUNE

1. The annual rate of inflation for May, as measured by the 12-month change in the retail prices index, is expected to fall to around 4 per cent, compared with the 4.2 per cent recorded for April.

2. Little change in the overall level of prices is expected between April and May, in comparison to the increase of 0.2% recorded over the same period last year. Many Building Societies reduced their mortgage interest rates from the beginning of May (some have delayed the implementation of their reduction until June). Higher prices are expected for some seasonal foods and motor vehicles.

3. In June the annual rate is expected to rise as a small increase in the overall level of prices between May and June replaces, in the 12-month comparison, a fall of 0.1% recorded between the same months last year.

Percentage change in the RPI

	12 months all items	all items	over 1 month all excluding seasonal food
February	3.9	0.4	0.3
March	4.0	0.2	0.3
April	4.2	1.2	1.0

FORECASTS

May	4	0-¼	-¼-0
June	4-4¼	0-¼	0-¼

To:
PS/SECRETARY OF STATE

(Circulation
list attached)

From:

ROGER NORTON
Head/Branch 3
Room 1.212
Business Statistics Office
NEWPORT Gwent
GTN 2411 - 2069

Handwritten initials 'RN' and a red checkmark.

4 June 1987

RETAIL SALES: FINAL ESTIMATE FOR APRIL

A Press Notice giving the final estimate for retail sales for April is attached for information.

2. The final index of 130.0 is 0.3 below the provisional index but still well above all previous figures. There may be some erratic element in it, in part due to the difficulties of adjusting for the effects of Easter, and the March/April average at 127.5 is a sounder measure of current levels. This could still imply some weakening in last year's strong rate of growth but perhaps less marked than suggested by figures for the first quarter.

3. This Notice will be published at 11.30 am on Monday 8 June. As usual the contents should be treated as confidential until then.

Handwritten signature of R M Norton
R M Norton

DTI Press Notice

CONFIDENTIAL
UNTIL 11.30 HOURS
ON DAY OF RELEASE

Department of Trade and Industry

1 Victoria Street SW1H 0ET

Press Office: 01-215-4471/4475

Ref: 313

Out of hours: 01-215 7877

June 8 1987

RETAIL SALES IN APRIL 1987

VOLUME

The final seasonally adjusted index of the volume of retail sales in April was 130.0 (1980=100), well above previous levels.

In the three months February to April, the level of sales was 1 per cent above that in the previous three months (which included January when sales were depressed by the severe weather). Sales in the latest three months were 6 per cent higher than in the corresponding period a year earlier. In the last three months, compared with the previous three months, sales by food retailers rose by $\frac{1}{2}$ per cent; sales by mixed businesses and non-food retailers rose by $1\frac{1}{2}$ per cent.

VALUE

The non-seasonally adjusted index of the value of retail sales in April was 10 per cent higher than in April 1986.

So far this year, the value of sales has been 8 per cent higher than in the first four months of 1986.

VOLUME OF RETAIL SALES SEASONALLY ADJUSTED

Table 1 Index numbers of sales per week (average 1980 prices) 1980=100

(Sales in 1980 - £ million)	All retailers (58,377)	Food retailers (22,859)	Mixed retail busin- esses (10,945)	Non-food retailers			
				Total (24,573)	Clothing and footwear (5,413)	Household goods (9,234)	Other non- food (9,926)
1981	100.2	100.7	100.4	99.7	98	102	99
1982	102.1	101.5	103.9	101.9	101	106	99
1983	107.4	105.0	108.3	109.2	110	118	100
1984	111.3	106.9	111.2	115.5	119	126	103
1985	116.4	110.8	116.7	121.4	128	135	105
1986	122.6	114.4	123.6	129.9	137	150	107
1986 1st quarter	119.3	113.5	120.2	124.3	132	141	105
2nd quarter	121.3	113.7	120.9	128.5	136	148	106
3rd quarter	123.7	114.4	125.4	131.7	138	154	108
4th quarter	126.5	116.3	128.2	135.3	141	159	110
1987 1st quarter	125.4	116.8	127.6	132.4	140	154	109
1986 January*	118.2	112.8	120.4	122.2	129	139	103
February	118.6	113.9	117.9	123.4	129	141	104
March*	120.9	113.9	121.8	127.1	137	144	106
April	120.7	114.0	119.5	127.4	134	149	104
May	119.6	112.0	119.6	126.6	135	146	105
June*	123.2	114.8	123.1	131.0	140	150	109
July	122.6	113.7	123.7	130.3	134	152	108
August	123.9	114.3	125.9	132.0	140	154	107
September*	124.5	115.0	126.4	132.6	140	154	108
October	125.0	116.1	126.7	132.5	139	154	109
November	127.8	116.7	132.1	136.1	142	160	111
December*	126.7	116.0	126.4	136.9	142	162	111
1987 January	123.6	118.1	125.6	128.0	139	145	107
February	127.0	116.6	128.7	135.9	142	159	111
March*	125.5	115.9	128.3	133.2	138	157	108
April	130.0	119.6	132.0	138.6	151	158	114
1986 Nov-Jan 1987	126.1	116.9	127.9	133.9	141	156	110
1987 Feb-Apr	127.3	117.3	129.6	135.7	144	158	111
Percentage Changes:							
Latest 3 months on previous 3 months	+1.0	+0.4	+1.3	+1.3	+2	+1	+1
Latest 6 months on previous 6 months	+2.9	+2.4	+3.6	+3.0	+3	+3	+2

The monthly periods consist of 4 weeks except those marked * which are of 5 weeks.
 The April 1987 sales period was the 4 weeks from 5 April to 2 May.
 The quarterly indices are the weighted averages of the monthly indices for the months within
 the quarter, the weights being the number of weeks in each monthly period.

VALUE OF RETAIL SALES (NOT SEASONALLY ADJUSTED)

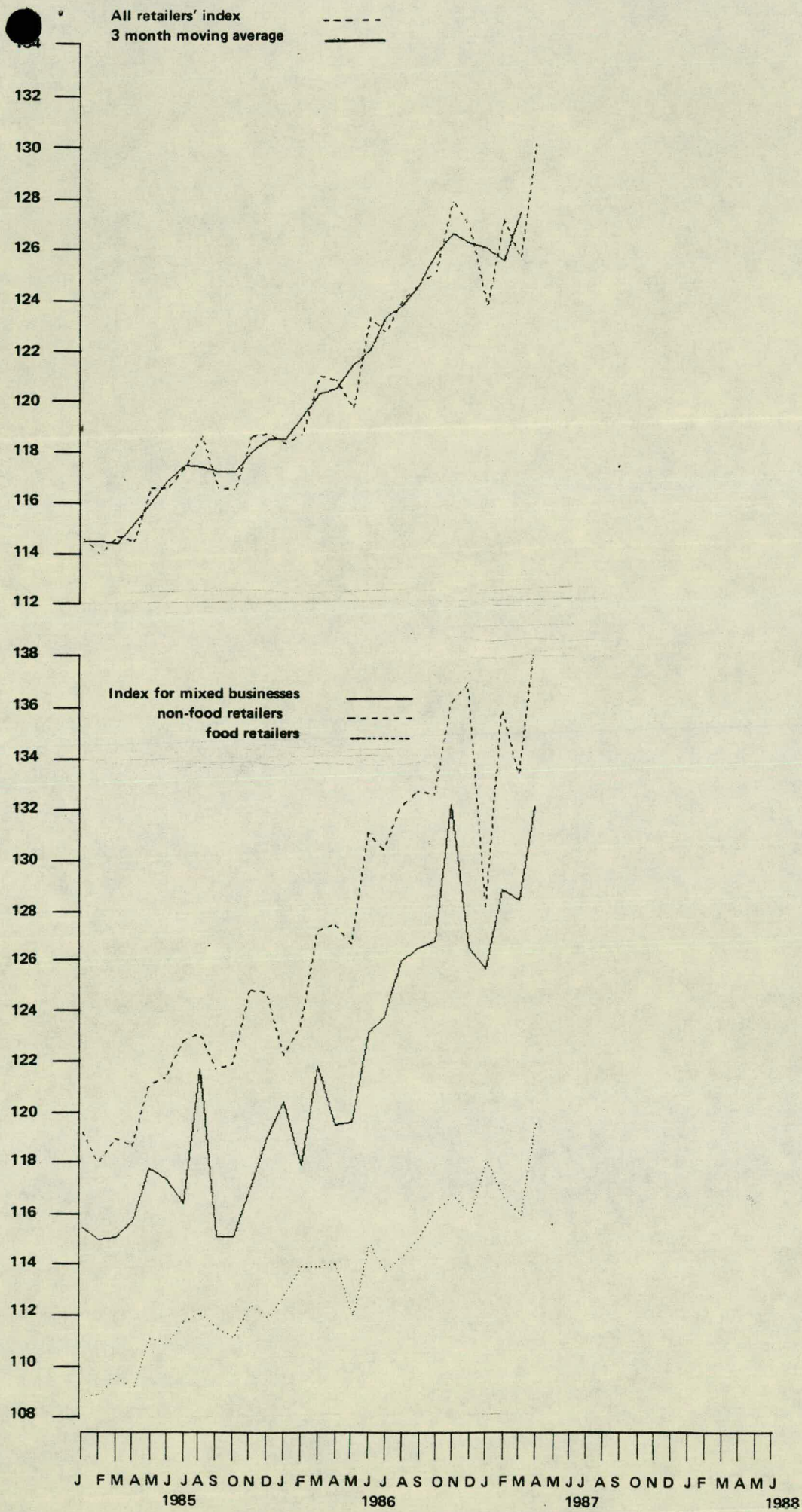
Table 2 Index numbers of value of sales per week (current prices) 1980=100

(Sales in 1980 - £ million)	All retailers (58,377)	Food retailers (22,859)	Mixed retail busin- esses (10,945)	Non-food retailers			
				Total (24,573)	Clothing and footwear (5,413)	Household goods (9,234)	Other non- food (9,926)
1981	108.2	109.7	106.1	107.8	102	107	112
1982	117.1	118.9	115.0	116.4	109	115	122
1983	127.9	127.6	124.5	129.6	124	131	132
1984	138.2	137.1	132.9	141.7	138	143	143
1985	150.4	147.0	146.0	155.4	155	157	154
1986	162.9	157.0	159.3	170.1	170	175	165
1986 1st quarter	146.0	148.8	134.2	148.8	136	160	146
2nd quarter	154.0	155.7	140.8	158.3	160	160	156
3rd quarter	158.7	154.1	148.2	167.6	170	171	163
4th quarter	194.3	170.1	215.8	207.2	216	211	199
1987 1st quarter	157.0	158.3	144.5	161.2	146	174	158
1986 January*	146.4	144.5	140.9	150.5	148	166	137
February	141.7	149.2	122.3	143.5	120	155	145
March*	149.2	152.6	137.0	151.4	137	156	155
April	153.6	156.0	141.3	156.8	154	163	152
May	150.8	153.3	136.7	154.9	155	157	153
June*	156.9	157.5	143.7	162.3	168	160	161
July	159.8	156.0	147.7	168.7	171	171	166
August	156.5	153.5	142.4	165.6	169	168	161
September*	159.5	153.1	153.2	168.3	171	174	162
October	166.5	157.3	164.1	176.1	177	186	167
November	183.9	164.8	204.7	192.4	189	209	179
December*	224.9	184.6	266.1	244.0	269	234	240
1987 January	158.4	156.9	150.1	163.4	163	179	149
February	154.5	157.7	136.0	159.7	134	174	160
March*	157.8	160.0	146.9	160.6	141	170	163
April	169.0	168.5	159.3	173.9	178	175	170
Percentage Changes:							
Apr '87/Apr '86	+10.1	+8.0	+12.8	+10.9	+16	+7	+12
Year '87/Year '86	+8.2	+6.9	+9.0	+9.0	+9	+9	+9

See footnotes to Table 1.

An index of the seasonally adjusted value of retail sales can be provided on request.

Volume of Retail Sales: seasonally adjusted (1980 = 100)



LETTERS TO EDITORS

1. The seasonally adjusted volume series includes, where possible, adjustments for the timing of holidays, although there are inevitably problems in adjusting for the effects of Christmas and New Year sales spending.
2. The indices for all retailers, food retailers, mixed retail businesses and total non-food retailers are shown to the first decimal place to help interpretation but should not be regarded as necessarily accurate to the final digit. The best indication of the recent trend is normally obtained by comparing the average seasonally adjusted index for the latest three months with the average for the immediately preceding three months. However, sometimes it is more appropriate to make a two or four month comparison.
3. Within the total, sales are analysed by 'kinds of business' ie the statistics are of sales by particular kinds of retailer rather than of sales of particular commodities. For example, while sales by retailers classified as food retailers are mainly of food, many sell other goods. Similarly some food is sold by retailers classified to other kinds of business.
4. The final index is based on returns from a voluntary panel of over 3,200 retailers. The panel includes a sample of the smaller independent retailers (who account for one-third of all retail sales) and nearly all of the very large retailers.
5. Index numbers for more detailed kinds of business than those shown here are published, at current prices only, in Business Monitor SDM28 available from HM Stationery Office, price £17.50 per annum.
6. The Press Notice giving the provisional estimate of the seasonally adjusted index of the volume of retail sales for May will be published on June 15.
7. Press calls to 01-215-4471/4475. Other calls to 0633-22-2609/2987 or 2630.

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ECONOMIST COMMODITY PRICE INDICES

1980=100

PPS 12/2
RD

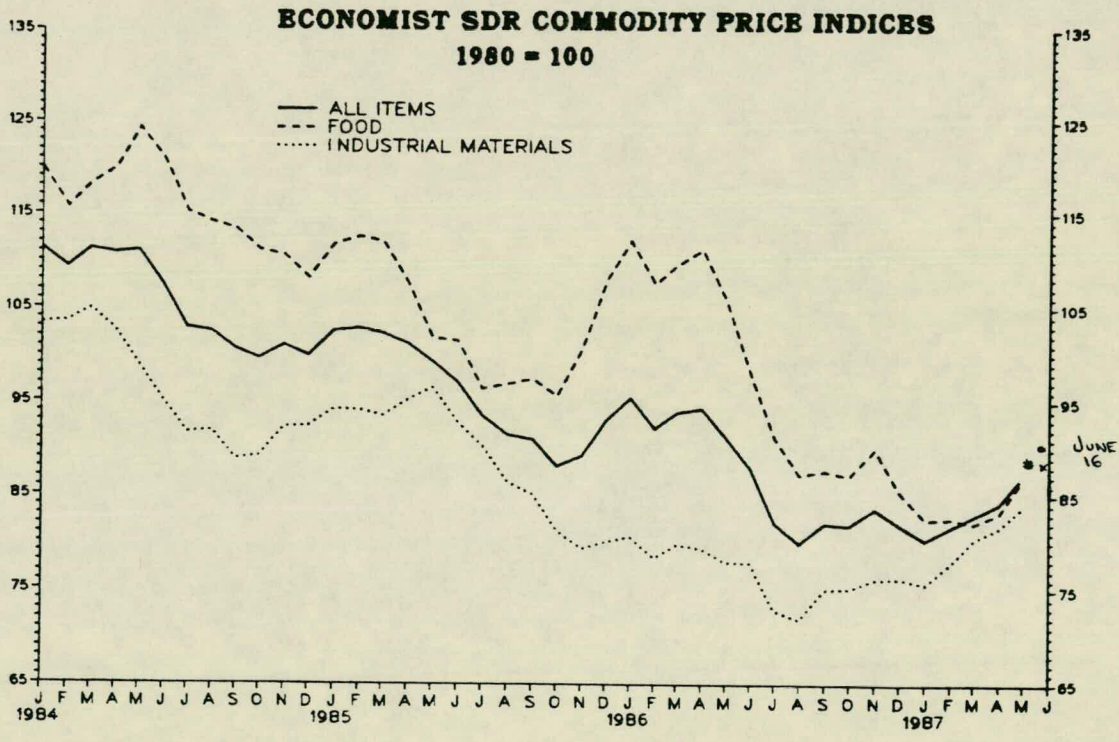
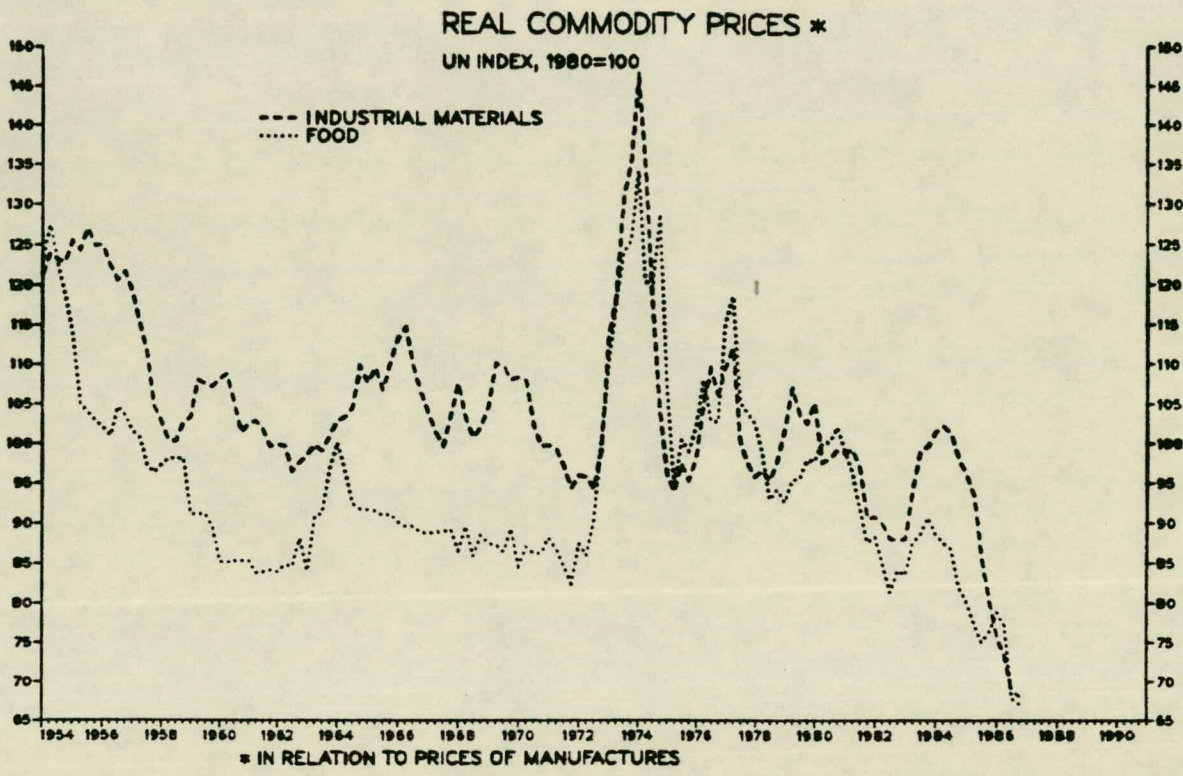
All items indices

SDR indices

	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
Annual							
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982	87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983	102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984	105.7	83.4	144.9	98.1	116.1	105.1	89.5
1985	95.8	74.8	135.2	87.6	103.4	94.2	84.3
1986	86.9	77.7	124.0	76.7	97.3	85.0	70.5
Quarterly							
1985 Q2	99.4	75.8	140.5	90.2	103.9	99.0	90.9
Q3	92.1	72.7	122.9	82.6	96.9	93.2	82.7
Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986 Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
Q2	91.0	81.1	125.0	80.3	104.9	86.9	71.8
Q3	81.4	75.2	117.4	71.8	88.8	80.1	68.3
Q4	82.4	76.4	123.9	72.1	87.4	86.5	68.4
1987 Q1	81.6	79.2	119.2	71.1	82.4	91.0	69.0
Monthly							
June	87.9	78.6	121.1		98.1	83.9	72.9
July	82.1	75.1	115.5		91.2	78.8	68.3
August	79.9	74.1	115.6		87.2	78.8	66.7
September	82.0	76.3	120.7		87.6	82.5	69.5
October	81.8	76.2	123.9		87.1	84.6	68.3
November	83.6	76.9	125.4		90.0	87.0	68.4
December	81.9	76.1	122.7		85.4	87.5	68.4
January	80.3	77.0	118.8		82.5	88.8	66.7
February	81.7	79.6	120.5		82.6	91.7	68.5
March	82.9	81.0	118.2		82.1	92.4	71.8
April	84.2	83.8	119.0		83.2	94.8	72.6
May	87.3	87.6	122.0		87.1	97.2	74.8
Weekly							
April 7	82.8	81.7	117.3		81.2	93.3	72.2
14	84.1	83.8	119.2		83.7	94.5	72.0
21	84.9	84.5	120.1		83.8	96.0	73.3
28	84.8	85.0	119.5		84.3	95.2	72.8
May 5	85.8	86.8	119.5		85.8	95.5	73.4
12	88.7	88.9	123.8		88.5	97.2	76.7
19	87.5	87.9	121.4		87.0	97.4	75.6
26	87.2	86.9	123.4		87.2	98.7	73.7
June 2	88.2	87.3	123.5		86.3	99.9	76.9
9	88.4	88.1	123.2		85.8	100.0	78.4
16 (prov)	90.5	89.6	127.3		88.3	102.9	79.2

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals



- ALL ITEMS
- x FOOD
- * INDUSTRIAL MATERIALS



Caxton House Tothill Street London SW1H 9NF

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Facsimile 01-213 5465 Telex 915564

PERSONAL AND CONFIDENTIAL

David Norgrove Esq
Private Secretary
10 Downing Street
London SW1

10 June 1987

Dear David,

RETAIL PRICE INDEX

I enclose a copy of our note and draft press release on the Index of Retail Prices due to be released at 11.30 pm Friday 12 June.

Numbered copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Timothy Walker (Trade and Industry), Rachel Passmore (CSO), John Footman (Bank of England), Chris Cloke (CO), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office) and Sir Brian Hayes (Trade and Industry).

Yours sincerely,

Caroline

Caroline Slocock
Private Secretary

psj

FROM: S BROOKS
DATE: 11 JUNE 1987

- 1. MR DAVIES *SD*
- 2. CHANCELLOR OF THE EXCHEQUER

- cc :
- PS/Chief Secretary
 - PS/Financial Secretary
 - PS/Economic Secretary
 - PS/Minister of State
 - Sir Peter Middleton
 - Sir Terence Burns
 - Mr F E R Butler
 - Mr F Cassell
 - Mr Kemp
 - Mr N Monck
 - Mr Odling-Smee
 - Mr Scholar
 - Mr Sedgwick
 - Mr Bottrill
 - Mr Culpin
 - Mr Gilhooly
 - Mr Mowl
 - Miss O'Mara
 - Mr Pickford
 - Mr Halligan
 - Mr Patterson

cl
(mt v good)
AA
✓

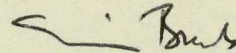
THE MAY RPI (to be published at 11.30 a.m. on Friday 12 June)

1. The level of the RPI rose by 0.1 per cent between April and May. The twelve month rate of inflation fell to 4.1 per cent in May from 4.2 per cent in March. Excluding mortgage interest payments, the twelve month rate of inflation rose from 3.6 per cent in April to 3.9 per cent in May. (This figure is subject to confirmation - we will notify you tomorrow if it is different).

2. The May figures were affected by the cut in mortgage rates of 1 per cent which was effective from 1 May for most societies. However, a number of the smaller societies have deferred their cut until June so that there is still some effect to come in June. Seasonal food prices increased by 3 per cent between April and May and in May were 7.7 per cent higher than in May 1986. The prices of private sector goods and services (excluding food, housing and petrol), which increased sharply in April, rose by 0.4 per cent between April and May - lower than the increase between March and April, but still fairly high by the standards of recent months.

RPI
june

3. There is a wide spread of expectations in the City: Hoare Govett expect the change between April and May to be +0.3 per cent, Alexander Laing and Cruickshank and Wood Mackenzie expect +0.1 per cent; Phillips and Drew expect no change in the index; Lloyds Merchant Bank expect -0.1 per cent and James Capel are most optimistic at -0.2 per cent. The correct figure is +0.1 per cent.



SIMON BROOKS
EAL DIVISION
X 5401

Paper
P2c

FROM: S BROOKS
DATE: 11 JUNE 1987

1. MR DAVIES *Sgo*
2. CHANCELLOR OF THE EXCHEQUER

cc : PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr F E R Butler
Mr F Cassell
Mr Kemp
Mr N Monck
Mr Odling-Smee
Mr Scholar
Mr Sedgwick
Mr Bottrill
Mr Culpin
Mr Gilhooly
Mr Mowl
Miss O'Mara
Mr Pickford
Mr Halligan
Mr Patterson

THE MAY RPI (to be published at 11.30 a.m. on Friday 12 June)

In my earlier minute I noted that the figure given for the twelve month percentage increase in the RPI excluding mortgage interest payments in May was subject to confirmation. The correct figure is in fact 3.8 per cent, 0.1 per cent lower than the figure given earlier.

S. Brooks

SIMON BROOKS
EAL DIVISION
X 5401

125/87

June 12, 1987

GENERAL INDEX OF RETAIL PRICESMay 1987

The general index of retail prices for all items for May 12, 1987 was 101.9 (January 13, 1987 = 100). This represents an increase of 0.1 per cent on April 1987 (101.8) and an increase of 4.1 per cent on May 1986 (386.0, January 1974 = 100).

The rise in the index between April and May was mainly the result of increases in the prices of some seasonal foods, notably fresh vegetables and home-killed lamb, and motor vehicles. Owner occupiers' housing costs were lower as the first effects of the recent reductions in mortgage interest rates were taken into the index.

The movements for the main groups in the index are shown in Table 2.

Table 1.

	All items			All items except seasonal food			
	Index Jan 15 1974 = 100	Percentage change over			Index Jan 15 1974 = 100	Percentage change over	
		1 month	6 months	12 months		1 month	6 months
1986							
December	393.0	+0.3	+1.9	+3.7	395.3	+0.3	+2.1
1987							
January	<u>394.5</u>	+0.4	+2.5	+3.9	<u>396.4</u>	+0.3	+2.5
	Index Jan 13 <u>1987=100</u>				Index Jan 13 <u>1987=100</u>		
February	100.4	+0.4	+2.6	+3.9	100.3	+0.3	+2.5
March	100.6	+0.2	+2.3	+4.0	100.6	+0.3	+2.3
April	101.8	+1.2	+3.4	+4.2	101.6	+1.0	+3.0
May	101.9	+0.1	+2.6	+4.1	101.7	+0.1	+2.2

TABLE 2

	Indices (13 January 1987 = 100)		
	April 14, 1987	May 12, 1987	Percentage change over the month
All items	101.8	101.9	+0.1
All items excluding food	101.8	101.8	0.0
All items excluding housing	101.2	101.6	+0.4
Food	101.6	102.2	+0.6
Seasonal food	107.4	110.6	+3.0
Non seasonal food	100.5	100.7	+0.2
Catering	101.4	101.8	+0.4
Alcoholic drink	100.8	101.2	+0.4
Tobacco	99.8	99.8	0.0
Housing	105.0	103.6	-1.3
Fuel and light	99.9	99.4	-0.5
Household goods	101.5	102.0	+0.5
Household Services	100.9	101.4	+0.5
Clothing and footwear	101.0	101.0	0.0
Personal Goods and Services	101.3	101.4	+0.1
Motoring Expenditure	102.1	102.8	+0.7
Fares and Other Travel Costs	100.2	101.3	+1.1
Leisure Goods	100.9	101.6	+0.7
Leisure Services	101.5	101.1	-0.4

NOTES TO EDITORS

1 The General Index of Retail Prices (RP1) measures the average change from month to month in the prices of goods and services purchased by most households in the United Kingdom. The expenditure pattern on which the index is based is revised each year using information from the Family Expenditure Survey. The expenditure of certain higher income households and pensioner households, mainly dependent on state pensions and benefits, is excluded.

2 The index is compiled using a large and representative selection of more than 600 separate goods and services for which price movements are regularly measured in about 180 towns throughout the country. Approximately 130,000 separate price quotations are used each month in compiling the index.

3 The prices of some items of food show significant seasonal variation. A separate price index is compiled for these "seasonal foods", the expenditure on which accounts for around 2½ per cent of household expenditure. The variation caused by these items is removed from the series of indices for 'all items except seasonal food'.

4 Rates of change of indices can be calculated over periods of any length. Rates calculated over long periods are slow to detect changes in trend while calculations over very short periods give rather volatile results. To help in assessing what is happening to prices, rates of changes in the all items index and the index for all items except seasonal food are shown in Table 1 over successive periods of one month, six months and twelve months.

5 Following the recommendations which the Retail Prices Index Advisory Committee made in its report submitted to the Secretary of State for Employment in July 1986, the index has been re-referenced to make January 1987 = 100. Calculations of movements in the index over periods of time which span January 1987 are made as follows:-

The index for the later month (January 1987 = 100) is multiplied by the index for January 1987 (January 1974 = 100) and divided by the index for the earlier month (January 1974 = 100). 100 is subtracted to give the percentage change between the two months.

Using the all items index for example: take the index for May 1987 (101.9) and multiply it by the January index (394.5) then divide by the May 1986 index (386.0). Subtract 100 from the result which gives 4.1 as the percentage change in the index over the twelve months to May.

6 The index for May 1987, if translated to the old reference date (January 1974 = 100) would be 402.0.

7 Other changes made to the index in 1987 are given in an article in the April edition of Employment Gazette.

8 The Retail Prices Index Advisory Committee was first established in 1946 and advises on the methodology used for compiling the RPI. Committee members include representatives of consumers, employees, employers, retailing organisations, academic experts, government departments and other official bodies. The Committee's latest report - 'Methodological Issues Affecting The Retail Prices Index' Cmnd 9848 HMSO £6.50 - was published on 15 July 1986. The Government announced at the same time that all its recommendations were to be accepted.

9 The housing costs of owner-occupiers are reflected in the index using an indicator which represents mortgage interest payments. A weighted average of building societies base mortgage interest rates is used in the calculation.

10 The index is given in full in the Employment Gazette. -----

PERSONAL AND CONFIDENTIAL

GENERAL INDEX OF RETAIL PRICES : MAY 1987

The annual rate of inflation, as measured by the 12-month change in the retail prices index, rose to 4.1 per cent in May compared with the 4.2 per cent recorded for April.

2. The overall level of prices increased by 0.1 per cent between April and May compared with the increase of 0.2 per cent recorded for the same period last year. There were increases in the prices of some seasonal foods, notably fresh vegetables and home-killed lamb, and motor vehicles. Owner occupiers' housing costs were lower as the first effects of the recent reductions in mortgage interest rates were taken into the index.

3. In June the 12-month rate is expected to rise to around 4½ per cent as a small increase in the overall level of prices between May and June replaces, in the 12-month comparison, a fall of 0.1 per cent recorded between the same months last year.

Producer Prices

4. The annual change in the price index for home sales of manufactured products was 3.5 per cent in May the same as in April. There has been a gradual decline in this rate over the past few months. It was around 5 per cent at the beginning of 1986 and around 4½ per cent at the end of the year. However, there has been an increase in the price index for manufacturing industries other than food, drink and tobacco of 4.5 per cent over the 12 months to May. Prices for food, drink and tobacco industries rose by 2.0 per cent over the same period, influenced by the fact that tobacco duties were increased in last year's Budget but not in this.

5. The 12-month rate of increase in the prices for materials and fuels purchased by manufacturing industry was 1.7 per cent for May. April and May were the first months since June 1985 in which this rate has been positive. Between April and May the index fell by 0.2 per cent, mainly as a result of a fall in scheduled prices of petroleum products but after seasonal adjustment the change in these prices over the month was +0.2 per cent.

Tax and Prices Index

6. The tax and prices index increased by 2.4 per cent in the year to May compared with 2.5 per cent recorded for April.

PERSONAL AND CONFIDENTIAL

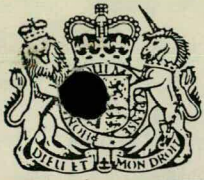
International comparisons

7. The latest 12-month percentage changes in consumer prices in the main OECD countries and the averages for all EEC and OECD countries are as follows:-

	UK	FRANCE	FEDERAL GERMANY	ITALY	NETHER -LANDS	JAPAN	USA	CANADA	OECD Averages	EEC
1986										
Q1	4.9	3.6	0.7	7.6	1.2	1.6	3.1	4.2	3.8	4.4
Q2	2.8	2.4	-0.2	6.1	0.4	0.8	1.6	3.9	2.5	3.2
Q3	2.6	2.1	-0.4	5.4	-0.4	0.2	1.7	4.2	2.5	3.0
Q4	3.4	2.1	-1.1	4.4	-1.8	-0.5	1.3	4.3	2.1	2.9
1987										
Q1	3.9	3.2	-0.2	4.1	-1.2	-1.3	2.2	4.1	2.3	2.1
1987										
January	3.9	3.0	-0.8	3.8	-1.3	-1.6	1.4	3.9	2.3	2.8
February	3.9	3.4	-0.5	4.4	-1.2	-1.4	2.4	3.9	2.4	2.9
March	4.0	3.3	-0.2	4.2	-1.1	-0.8	3.0	4.2	3.0	3.0
April	4.2	3.4	0.1	4.2	-1.1
May	4.1									

Note that except for the UK, the figures for April are provisional.

.. not yet available



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PERSONAL AND CONFIDENTIAL until release of

Press Notice at 11.30 a.m. on 12 June 87.....

12 June 1987

and thereafter unclassified.

TAX AND PRICE INDEX, MAY 1987

The Tax and Price Index (TPI) for May was 99.8 based on January 1987 = 100. Over the twelve months to May the increase in the TPI was 2.4 per cent, compared with an increase of 4.1 per cent in the Retail Prices Index (RPI).

TAX AND PRICE INDEX

	<u>TPI</u> <u>(Jan 1978=100)</u>	<u>TPI</u> <u>(Jan 1987</u> <u>= 100)</u>	<u>Percentage change in</u> <u>TPI over 12 months</u>	<u>Corresponding</u> <u>change in RPI</u>
<u>1986</u>				
January	192.9		4.4	5.5
February	193.7		3.9	5.1
March	194.0		3.0	4.2
April	192.5		1.2	3.0
May	192.9		0.9	2.8
June	192.8		0.6	2.5
July	192.1		0.4	2.4
August	192.9		0.6	2.4
September	194.0		1.2	3.0
October	194.3		1.5	3.0
November	196.3		2.2	3.5
December	197.1		2.4	3.7
<u>1987</u>				
January	198.0	100.0	2.6	3.9
February		100.5	2.7	3.9
March		100.7	2.8	4.0
April		99.7	2.5	4.2
May		99.8	2.4	4.1



Notes to editors

1. The purpose and methodology of the TPI were described in an article in the August 1979 issue of Economic Trends, and the series from January 1979 is published regularly in the Monthly Digest of Statistics. Figures from January 1976 are available from the CSO.

What the TPI measures

2. The TPI measures the increase in gross taxable income needed to compensate taxpayers for any increase in retail prices. The RPI measures changes in retail prices; the TPI also takes account of the changes to direct taxes (and employees' National Insurance contributions) facing a representative cross-section of taxpayers. It is thus an additional, more comprehensive, index.

3. The TPI increased by 2.4 per cent over the twelve months up to May 1987 while the RPI increased by 4.1 per cent. The increase in the TPI was smaller because of the increase in personal income tax allowances and the reduction in the basic rate of income tax in the 1987 Budget. The effect on the TPI of the changes in National Insurance contributions, which took effect in April 1987, was negligible.

4. When direct taxation or employees' National Insurance contributions change (usually at Budget time) the TPI will rise by less than or more than the RPI according to the type of changes made. Between Budgets the monthly change in the TPI is normally slightly larger than that in the RPI (a more than proportionate increase in gross income is needed to offset any rise in prices, since all the extra income is fully taxed). In fact, because of rounding, both the RPI and the TPI rose by 0.1 per cent between April and May 1987. However, the focus of attention should be the changes over twelve months.

Coverage and calculation of the TPI

5. Non-taxpayers and those with incomes over £22,415 a year at January 1987 are excluded from the TPI. Non-taxpayers are excluded because the RPI already provides a measure of the change needed to maintain the purchasing power of their incomes. Those with high incomes are excluded because the changes in their tax liabilities are not necessarily representative of the majority of tax-payers, and because broadly the same percentage (the top 4 per cent) is already excluded from the households on whose expenditure patterns the RPI is based. Otherwise everybody is included, whether working, unemployed or retired, so long as they pay tax.

6. The TPI reflects changes in people's tax and National Insurance contribution liabilities. If the index were instead to reflect actual payments it would be subject to highly erratic movements, which would be difficult to interpret and could be misleading.

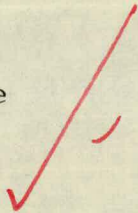
7. The current composition and distribution of gross taxable incomes are estimated from Inland Revenue's Survey of Personal Incomes in 1984/85, updated by later aggregate data on incomes. With the exception of housing benefit, non-taxable income, (and in particular child benefit), is not covered. From February 1987 onwards, housing benefit is included in the income base for calculating the TPI because of changes made to the RPI as a result of the RPI Advisory Committee's recommendations. The RPI now reflects changes in gross housing costs which, for a substantial minority of tax-payers, are partially offset by receipts of housing benefit. After excluding those with high incomes, the sample comprises 32,037 tax units (single people or married couples). The change in tax and National Insurance contribution liability resulting from any uniform increase in gross incomes can be estimated from this. So the change in gross income needed to offset a particular RPI increase can be found.

To:
PS/SECRETARY OF STATE

(Circulation
list attached)

From:

ROGER NORTON
Head/Branch 3
Room 1.212
Business Statistics Office
NEWPORT Gwent
GTN 2411 - 2069



1 July 1987

RETAIL SALES: FINAL ESTIMATE FOR MAY

A Press Notice giving the final estimate for retail sales for May is attached for information.

2. The final index for May of 125.4 (0.3 below the provisional index) was well below the April figure and unchanged from the first quarter average. Recent levels have been rather erratic, probably in part due to the effects of Easter and with the early May bank holiday possibly reducing the May figure slightly. However, the March to May average at 126.8 should be a sound estimate of recent levels. This suggests some weakening in last year's strong rate of growth.

3. This Notice will be published at 11.30 am on Monday 6 July. As usual the contents should be treated as confidential until then.

A handwritten signature in black ink, appearing to read 'R M Norton', is written over the typed name.

R M Norton

CONFIDENTIAL
UNTIL 11.30 HOURS
ON DAY OF RELEASE

DTI Press Notice

Department of Trade and Industry

1 Victoria Street SW1H 0ET

Press Office: 01-215-4471/4475

Ref: 366

Out of hours: 01-215 7877

July 6 1987

RETAIL SALES IN MAY 1987

VOLUME

The final seasonally adjusted index of the volume of retail sales in May was 125.4 (1980=100). This is well below April's figure and unchanged from the average level for the first quarter (which included January when sales were depressed by the severe weather).

In the three months March to May, the level of sales was nearly 1 per cent above that in the previous three months, after seasonal adjustment, and nearly 5½ per cent above that in the corresponding period a year earlier. In the last three months, compared with the previous three months, sales by food retailers rose by ½ per cent; sales by mixed businesses and non-food retailers rose by 1 per cent.

VALUE

The non-seasonally adjusted index of the value of retail sales in May was 7 per cent higher than in May 1986.

So far this year, the value of sales has been 8 per cent higher than in the first five months of 1986.



NOTES TO EDITORS

1. The seasonally adjusted volume series includes, where possible, adjustments for the timing of holidays, although there are inevitably problems in adjusting for the effects of Christmas and New Year sales spending.
2. The indices for all retailers, food retailers, mixed retail businesses and total non-food retailers are shown to the first decimal place to help interpretation but should not be regarded as necessarily accurate to the final digit. The best indication of the recent trend is normally obtained by comparing the average seasonally adjusted index for the latest three months with the average for the immediately preceding three months. However, sometimes it is more appropriate to make a two or four month comparison.
3. Within the total, sales are analysed by 'kinds of business' ie the statistics are of sales by particular kinds of retailer rather than of sales of particular commodities. For example, while sales by retailers classified as food retailers are mainly of food, many sell other goods. Similarly some food is sold by retailers classified to other kinds of business.
4. The final index is based on returns from a voluntary panel of over 3,200 retailers. The panel includes a sample of the smaller independent retailers (who account for one-third of all retail sales) and nearly all of the very large retailers.
5. Index numbers for more detailed kinds of business than those shown here are published, at current prices only, in Business Monitor SDM28 available from HM Stationery Office, price £17.50 per annum.
6. The Press Notice giving the provisional estimate of the seasonally adjusted index of the volume of retail sales for June will be published on July 20.
7. Press calls to 01-215-4471/4475. Other calls to 0633-22-2609/2987 or 2630.

VOLUME OF RETAIL SALES SEASONALLY ADJUSTED

Table 1 Index numbers of sales per week (average 1980 prices) 1980=100

	All retailers (58,377)	Food retailers (22,859)	Mixed retail busin- esses (10,945)	Non-food retailers			
				Total (24,573)	Clothing and footwear (5,413)	Household goods (9,234)	Other non- food (9,926)
(Sales in 1980 - £ million)							
1981	100.2	100.7	100.4	99.7	98	102	99
1982	102.1	101.5	103.9	101.9	101	106	99
1983	107.4	105.0	108.3	109.2	110	118	100
1984	111.3	106.9	111.2	115.5	119	126	103
1985	116.4	110.8	116.7	121.4	128	135	105
1986	122.6	114.4	123.6	129.9	137	150	107
1986 1st quarter	119.3	113.5	120.2	124.3	132	141	105
2nd quarter	121.3	113.7	120.9	128.5	136	148	106
3rd quarter	123.7	114.4	125.4	131.7	138	154	108
4th quarter	126.5	116.3	128.2	135.3	141	159	110
1987 1st quarter	125.4	116.8	127.6	132.4	140	154	109
1986 January*	118.2	112.8	120.4	122.2	129	139	103
February	118.6	113.9	117.9	123.4	129	141	104
March*	120.9	113.9	121.8	127.1	137	144	106
April	120.7	114.0	119.5	127.4	134	149	104
May	119.6	112.0	119.6	126.6	135	146	105
June*	123.2	114.8	123.1	131.0	140	150	109
July	122.6	113.7	123.7	130.3	134	152	108
August	123.9	114.3	125.9	132.0	140	154	107
September*	124.5	115.0	126.4	132.6	140	154	108
October	125.0	116.1	126.7	132.5	139	154	109
November	127.8	116.7	132.1	136.1	142	160	111
December*	126.7	116.0	126.4	136.9	142	162	111
1987 January	123.6	118.1	125.6	128.0	139	145	107
February	127.0	116.6	128.7	135.9	142	159	111
March*	125.5	115.9	128.3	133.2	138	157	108
April	130.0	119.6	132.0	138.6	151	158	114
May	125.4	116.1	123.7	134.8	141	158	110
1986 Dec-Feb 1987	125.9	116.8	126.8	133.8	141	156	110
1987 Mar-May	126.8	117.1	128.0	135.3	143	157	111
Percentage Changes:							
Latest 3 months on previous 3 months	+0.8	+0.3	+1.0	+1.1	+2	+1	+1
Latest 6 months on previous 6 months	+1.5	+1.6	+1.0	+1.7	+2	+2	+1

The monthly periods consist of 4 weeks except those marked * which are of 5 weeks.
 The May 1987 sales period was the 4 weeks from 3 to 30 May.
 The quarterly indices are the weighted averages of the monthly indices for the months within
 the quarter, the weights being the number of weeks in each monthly period.

VALUE OF RETAIL SALES (NOT SEASONALLY ADJUSTED)

Table 2 Index numbers of value of sales per week (current prices) 1980=100

(Sales in 1980 - £ million)	All retailers (58,377)	Food retailers (22,859)	Mixed retail busin- esses (10,945)	Non-food retailers			
				Total (24,573)	Clothing and footwear (5,413)	Household goods (9,234)	Other non- food (9,926)
1981	108.2	109.7	106.1	107.8	102	107	112
1982	117.1	118.9	115.0	116.4	109	115	122
1983	127.9	127.6	124.5	129.6	124	131	132
1984	138.2	137.1	132.9	141.7	138	143	143
1985	150.4	147.0	146.0	155.4	155	157	154
1986	162.9	157.0	159.3	170.1	170	175	165
1986 1st quarter	146.0	148.8	134.2	148.8	136	160	146
2nd quarter	154.0	155.7	140.8	158.3	160	160	156
3rd quarter	158.7	154.1	148.2	167.6	170	171	163
4th quarter	194.3	170.1	215.8	207.2	216	211	199
1987 1st quarter	157.0	158.3	144.5	161.2	146	174	158
1986 January*	146.4	144.5	140.9	150.5	148	166	137
February	141.7	149.2	122.3	143.5	120	155	145
March*	149.2	152.6	137.0	151.4	137	156	155
April	153.6	156.0	141.3	156.8	154	163	152
May	150.8	153.3	136.7	154.9	155	157	153
June*	156.9	157.5	143.7	162.3	168	160	161
July	159.8	156.0	147.7	168.7	171	171	166
August	156.5	153.5	142.4	165.6	169	168	161
September*	159.5	153.1	153.2	168.3	171	174	162
October	166.5	157.3	164.1	176.1	177	186	167
November	183.9	164.8	204.7	192.4	189	209	179
December*	224.9	184.6	266.1	244.0	269	234	240
1987 January	158.4	156.9	150.1	163.4	163	179	149
February	154.5	157.7	136.0	159.7	134	174	160
March*	157.8	160.0	146.9	160.6	141	170	163
April	169.0	168.5	159.3	173.9	178	175	170
May	161.3	163.4	144.1	167.0	165	172	164
Percentage Changes:							
May '87/May '86	+6.9	+6.6	+5.5	+7.8	+7	+9	+7
Year '87/Year '86	+8.0	+6.8	+8.4	+9.0	+9	+9	+9

See footnotes to Table 1.

An index of the seasonally adjusted value of retail sales can be provided on request.

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All items indices

SDR indices

	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
Annual							
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982	87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983	102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984	105.7	83.4	144.9	98.1	116.1	105.1	89.5
1985	95.8	74.8	135.2	87.6	103.4	94.2	84.3
1986	86.9	77.7	124.0	76.7	97.3	85.0	70.5
Quarterly							
1985 Q3	92.1	72.7	122.9	82.6	96.9	93.2	82.7
Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986 Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
Q2	91.0	81.1	125.0	80.3	104.9	86.9	71.8
Q3	81.4	75.2	117.4	73.7	88.8	80.1	68.3
Q4	82.4	76.4	123.9	71.4	87.4	86.5	68.4
1987 Q1	81.6	79.2	119.2	70.3	82.4	91.0	69.0
Q2	86.8	86.4	122.2	74.7	85.5	98.0	75.2
Monthly							
July	82.1	75.1	115.5		91.2	78.8	68.3
August	79.9	74.1	115.6		87.2	78.8	66.7
September	82.0	76.3	120.7		87.6	82.5	69.5
October	81.8	76.2	123.9		87.1	84.6	68.3
November	83.6	76.9	125.4		90.0	87.0	68.4
December	81.9	76.1	122.7		85.4	87.5	68.4
January	80.3	77.0	118.8		82.5	88.8	66.7
February	81.7	79.6	120.5		82.6	91.7	68.5
March	82.9	81.0	118.2		82.1	92.4	71.8
April	84.2	83.8	119.0		83.2	94.8	72.6
May	87.3	87.6	122.0		87.1	97.2	74.8
June	88.9	87.8	125.2		86.2	101.7	78.3
Weekly							
April 21	84.9	84.5	120.1		83.8	96.0	73.3
28	84.8	85.0	119.5		84.3	95.2	72.8
May 5	85.8	86.8	119.5		85.8	95.5	73.4
12	88.7	88.9	123.8		88.5	97.2	76.7
19	87.5	87.9	121.4		87.0	97.4	75.6
26	87.2	86.9	123.4		87.2	98.7	73.7
June 2	88.2	87.3	123.5		86.3	99.9	76.9
9	88.4	88.1	123.2		85.8	100.0	78.4
16	90.5	89.6	127.4		88.3	103.1	79.2
23	88.7	86.8	126.1		85.5	102.5	78.2
30	88.8	87.2	125.6		84.9	103.1	78.9
July 7 (prev)	90.9	88.9	127.5		84.7	105.1	84.2

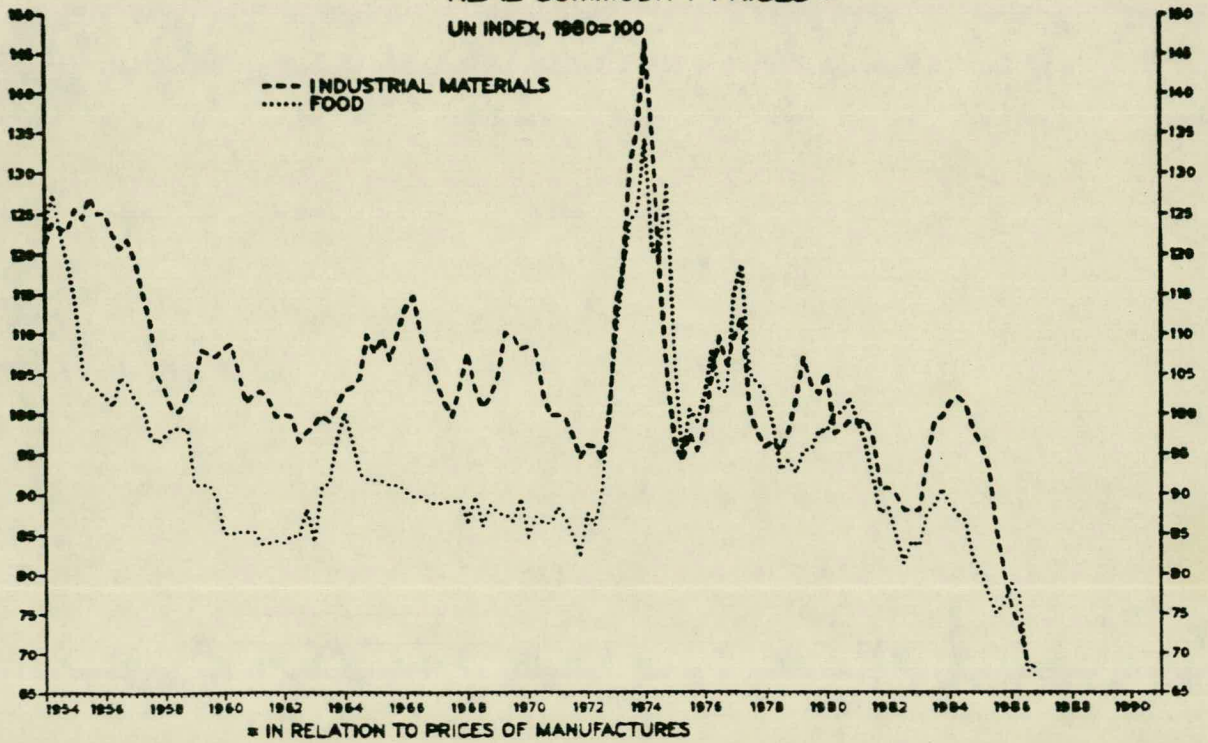
* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals

PPS 12/2
PS

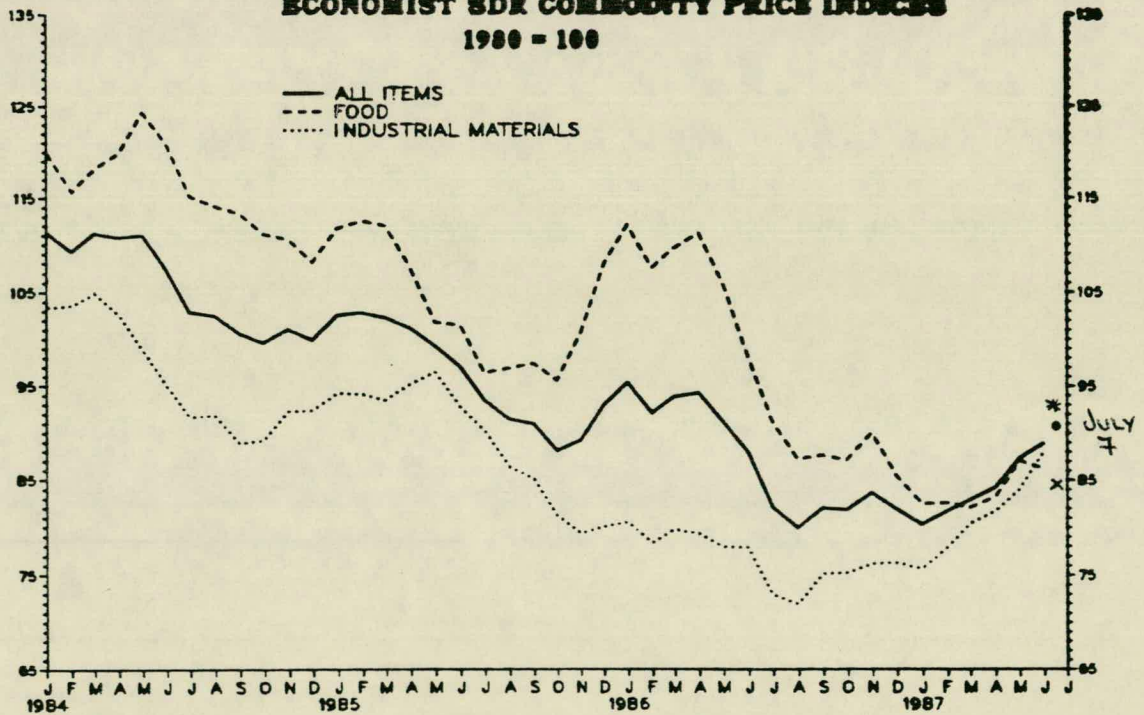
REAL COMMODITY PRICES *

UN INDEX, 1980=100



ECONOMIST SDR COMMODITY PRICE INDICES

1980 = 100



- ALL ITEMS
- x FOOD
- * INDUSTRIAL MATERIALS

ECONOMIST COMMODITY PRICE INDICES

1980=100

All items indices

SDR indices

		SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
Annual								
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982		87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983		102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984		105.7	83.4	144.9	98.1	116.1	105.1	89.5
1985		95.8	74.8	135.2	87.6	103.4	94.2	84.3
1986		86.9	77.7	124.0	76.7	97.3	85.0	70.5
Quarterly								
1985	Q3	92.1	72.7	122.9	82.6	96.9	93.2	82.7
	Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986	Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
	Q2	91.0	81.1	125.0	80.3	104.9	86.9	71.8
	Q3	81.4	75.2	117.4	73.7	88.8	80.1	68.3
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	September	82.0	76.3	120.7		87.6	82.5	69.5
	October	81.8	76.2	123.9		87.1	84.6	68.3
	November	83.6	76.9	125.4		90.0	87.0	68.4
	December	81.9	76.1	122.7		85.4	87.5	68.4
	January	80.3	77.0	118.8		82.5	88.8	66.7
	February	81.7	79.6	120.5		82.6	91.7	68.5
	March	82.9	81.0	118.2		82.1	92.4	71.8
	April	84.2	83.8	119.0		83.2	94.8	72.6
	May	87.3	87.6	122.0		87.1	97.2	74.8
	June	88.9	87.8	125.2		86.2	101.7	78.3
Weekly								
May	5	85.8	86.8	119.5		85.8	95.5	73.4
	12	88.7	88.9	123.8		88.5	97.2	76.7
	19	87.5	87.9	121.4		87.0	97.4	75.6
	26	87.2	86.9	123.4		87.2	98.7	73.7
June	2	88.2	87.3	123.5		86.3	99.9	76.9
	9	88.4	88.1	123.2		85.8	100.0	78.4
	16	90.5	89.6	127.4		88.3	103.1	79.2
	23	88.7	86.8	126.1		85.5	102.5	78.2
	30	88.8	87.2	125.6		84.9	103.1	78.9
July	7	90.9	88.9	127.5		84.7	105.1	84.2
	14 (prov)	90.9	88.8	128.1		84.6	105.5	84.4

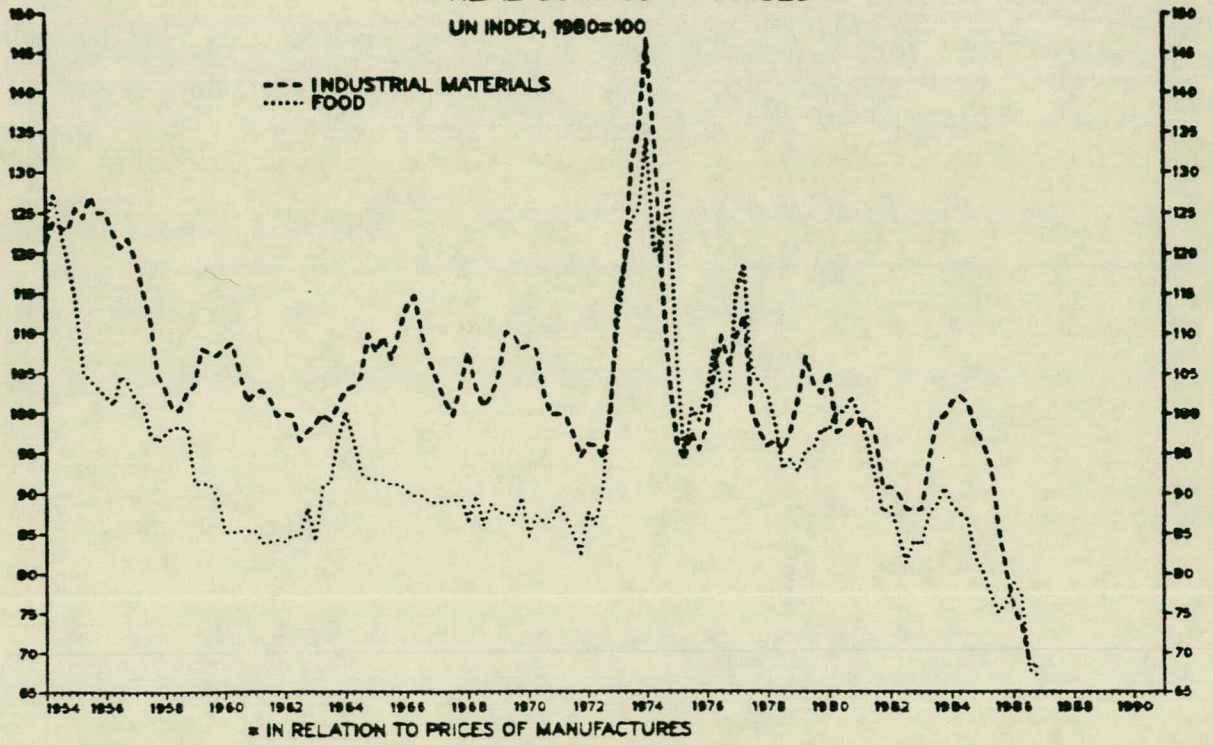
* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals

PPS 12/2

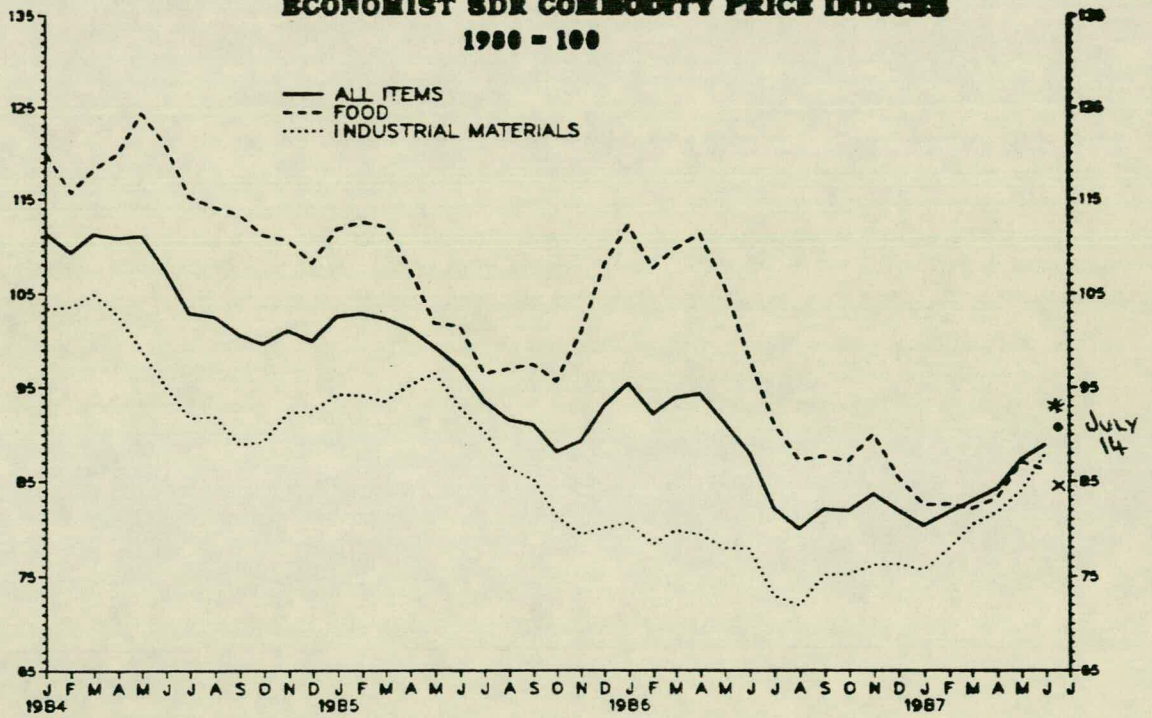
REAL COMMODITY PRICES *

UN INDEX, 1980=100



ECONOMIST SDR COMMODITY PRICE INDICES

1980 = 100



- ALL ITEMS
- x FOOD
- * INDUSTRIAL MATERIALS

PRIVATE AND CONFIDENTIAL



✓ 20

Caxton House Tothill Street London SW1H 9NF
6460

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Switchboard 01-213 3000 GTN Code 213
Facsimile 01-213 5465 Telex 915564

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON SW1

| July 1987

Dear David,

OUTLOOK FOR RPI

... I enclose a numbered copy of the latest DE note.

Copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Timothy Walker (Trade and Industry), Ms R Passmore (CSO), John Footman (Bank of England), Chris Cloke (CO) and Sir Brian Hayes (Trade and Industry).

*Yours sincerely,
Beverley Evans.*

BEVERLEY EVANS
Private Secretary

PRIVATE AND CONFIDENTIAL

PERSONAL AND CONFIDENTIAL

MS EVANS

cc. PS/Secretary of State
PS/Secretary
Mr I Manley
Mr Tucker
Mr Dworkin
Mr Whybrew
Mr Reid
Mr Sutlieff
Mrs Hornstein
Mr Sellwood
Mr N Baxter

OUTLOOK FOR RETAIL PRICES

I attach a note on the outlook for June and July 1987. Copies for you to circulate to No 10 and Departments (as at Doc 1) are attached.

STATISTICS D

Alex Craker

D A CRAKER

1 July 1987

PERSONAL AND CONFIDENTIAL

OUTLOOK FOR RETAIL PRICES: JUNE AND JULY

1. As anticipated in the Budget statement, inflation is likely to rise for the next two months. The rate for June, as measured by the 12-month change in the retail prices index, is expected to rise slightly to around 4 ¼ per cent, compared with the 4.1 per cent recorded for May.

2. Little change in the overall level of prices is expected between May and June, in comparison to the fall of 0.1 per cent recorded over the same period last year when mortgage interest rates fell by about one percentage point. This year some institutions delayed implementation of the cut in mortgage interest rates, announced after the Budget, until 1st June: these residual effects have now been taken into the index. It is expected that the prices of many seasonal foods will fall and those for motor vehicles will rise.

3. In July the annual rate is expected to rise again. Little change in the overall level of prices between June and July is likely to replace, in the 12-month comparison, a fall of 0.3 per cent recorded between the same months last year.

Percentage change in the RPI

	12 months all items	all items	over 1 month all excluding seasonal food
March	4.0	0.2	0.3
April	4.2	1.2	1.0
May	4.1	0.1	0.1

FORECASTS

June	4¼	0	0-¼
July	4½	0	0-¼

In June, the increase in the RPI excluding mortgage interest payments was 3.5 percent, as correctly quoted in the Mills' memo minutes JD.

FROM: C MILLS

DATE: 14 July 1987

1. MR DAVIES
2. CHANCELLOR OF THE EXCHEQUER

cc: PS/Chief Secretary
 PS/Financial Secretary
 PS/Economic Secretary
 PS/Minister of State
 Sir Peter Middleton
 Sir Terence Burns
 Mr F E R Butler
 Mr F Cassell
 Mr Kemp
 Mr Odling-Smee
 Mr Scholar
 Mr Sedgwick
 Mr Bottrill
 Mr Culpin
 Mr Gilhooley
 Mr Mowl
 Miss O'Mara
 Mr Brooks o/r
 Mr Pickford
 Mr Halligan
 Mr Patterson

THE JUNE RPI

My note on the June RPI of 9 July 1987 incorrectly quoted a figure of 3.9 per cent for the increase in the RPI excluding mortgage interest payments in the twelve months to May 1987. The correct figure is 3.8 per cent.

**CHRISTOPHER MILLS
 EAL DIVISION
 X 5388**

To: (Circulation list attached)

PS/SECRETARY OF STATE

From:

ROGER NORTON
Head/Branch 3
Room 1.212
Business Statistics Office
NEWPORT Gwent
GTN 2411 - 2069

17 July 1987

RETAIL SALES: PROVISIONAL ESTIMATE FOR JUNE

A Press Notice giving the provisional estimate for retail sales for June is attached for information.

2. The provisional index for June at 129.3 was above levels for all previous months except April. It suggests a continued increase in sales although the rise of nearly 2½ per cent between first and second quarter averages exaggerates the rate of growth (because of recent erratic figures).

3. This Notice will be published at 11.30 am on Monday 20 July. As usual the contents should be treated as confidential until then.

R M Norton

R M Norton

high. No evidence of a cyclical here: just a steady rise in the way members.

CONFIDENTIAL
UNTIL 11.30 HOURS
ON DAY OF RELEASE

DTI Press Notice

Department of Trade and Industry

1 Victoria Street SW1H 0ET

Press Office: 01-215-4471/4475

Ref: 417

Out of hours: 01-215 7877

July 20 1987

RETAIL SALES: PROVISIONAL ESTIMATE FOR JUNE 1987

VOLUME

The provisional estimate of the seasonally adjusted index of the volume of retail sales in June was 129.3 (1980=100). This is above the levels in all previous months except for April.

In the three months April to June, the level of sales was nearly 2½ per cent above that in the previous three months (which included January when sales were depressed by the severe weather) and nearly 6 per cent higher than in the corresponding period a year earlier.

VALUE

Based on non-seasonally adjusted data, the provisional estimate of the value of retail sales was 7 per cent higher than in June 1986.

So far this year, the average value of sales has been 8 per cent higher than in the first six months of last year.

		<u>RETAIL SALES</u>	
		Volume: seasonally adjusted index of sales per week (1980=100)	Value: percentage change compared with a year earlier
1986	4th Quarter	126.5	+ 9
1987	1st Quarter	125.4	+ 7
	2nd Quarter (provisional)	128.3	+ 8
1986	May	119.6	+ 6
	June*	123.2	+10
	July	122.6	+ 8
	August	123.9	+ 7
	September*	124.5	+11
	October	125.0	+10
	November	127.8	+11
	December*	126.7	+ 6
1987	January	123.6	+ 8
	February	127.0	+ 9
	March*	125.5	+ 6
	April	130.0	+10
	May	125.4	+ 7
	June* (provisional)	129.3	+ 7

Note: The monthly periods consist of 4 weeks except those marked * which are 5 weeks.

NOTES TO EDITORS

1 Estimates are based on early returns to the monthly inquiry. These returns cover over three-quarters, by turnover, of information available at the final stage. Over the last 12 months the average difference (ignoring sign) between provisional and final estimates has been under 0.3 per cent.

2 The seasonally adjusted volume series includes, where possible, adjustments for the timing of holidays, although there are inevitably problems in adjusting for the effects of Christmas and New Year sales spending.

3 The best indication of the recent trend is normally obtained by comparing the average seasonally adjusted index for the latest three months with the average for the immediately preceding three months. However, it is sometimes more appropriate to make a two or four month comparison.

4 The June trading period comprised the 5 weeks May 31 to July 4.

5 Final figures for June will be published on August 10 1987.

6 Press enquiries to: 01-215-4471/4475. Other calls to 0633-22-2609/2987/2630 or 2600.

Distribution:

PS/ Mr Kenneth Clarke
PS/ Mr Alan Clark
PS/ Mr John Butcher
PS/ Mr Robert Atkins
PS/ Mr Francis Maude

Sir Brian Hayes

Mr Treadgold	GP
Mr Conn	GP
Mr Liesner	EC
Mr Ward	BSO
Mr Whiting	EC2
Mr Miner	EC2
Miss Lea	EC2a
Mr Stibbard	S2
Mr Richardson	S2
Miss Marson	S2
Mr Moorey	INF

Prime Minister's Office

Chancellor's Office

Sir Terence Burns	Treasury
Mr P N Sedgwick	Treasury
Miss M O'Mara	Treasury
Mr P Allum	Treasury

Miss S P Carter	CSO
Mr R Clare	CSO
Mr E Lomas	CSO
Mr M Stock	CSO

Mr M Dicks	Bank
Mr J Exeter	Bank

UNCLASSIFIED



FROM: CATHY RYDING

DATE: 20 July 1987

re

MR SEDGWICK

cc: Sir T Burns
Miss O'Mara
Mr P Allum**RETAIL SALES: PROVISIONAL ESTIMATE FOR JUNE**

The Chancellor has seen Mr Norton's minute to PS/Secretary of State for Trade and Industry of 17 July.

2. The Chancellor has noted the comment in paragraph 2 of the minute that the provisional index for June suggests a continued increase in sales, although the rise of nearly 2½ per cent between the first and second quarter averages exaggerates the rate of growth. The Chancellor agrees and has commented that there is no evidence of acceleration here: just a steady rise in line with rising incomes.

A handwritten signature in dark ink, appearing to be 'CR'.

CATHY RYDING

FROM: P F L ALLUM

DATE: 21 July 1987

CHANCELLOR OF THE EXCHEQUER

cc: Sir P Middleton
Sir T Burns
Mr Cassell
Mr Odling-Smee
Mr Sedgwick
Mr Culpin
Mr S J Davies o/r
Miss O'Mara

*Inc X m
Case Aug
p22:-*

RETAIL SALES: PROVISIONAL ESTIMATE FOR JUNE

Ms Ryding's minute to Mr Sedgwick of 20 July noted your comment that the latest provisional figures for retail sales in June do not show any evidence of an acceleration in spending; just a steady rise in line with rising incomes.

2. There are no grounds for arguing that retail sales have accelerated, though they have not grown steadily in the recent past. The erratic profile of the index is evident in the table below.

	Retail sales index (volume, 1980=100)	(percentage change on month earlier)
1987 January	123.6	-2.4
February	127.0	2.8
March	125.5	-1.2
April	130.0	3.6
May	125.4	-3.5
June (1)	129.3	3.1

(1) Provisional estimate

3. The coverage of the retail sales index is broadly half that of total consumers' expenditure series. It excludes, for example, consumer spending on rent, rates, vehicles, energy products and most leisure services. The retail sales index also differs in composition from the total consumers' expenditure series in including foreign tourists' expenditure in UK retail outlets, and excluding UK tourists' expenditure overseas.

RETAIL SALES

4. Retail sales volumes were depressed in January by the bad weather, while problems with making an appropriate allowance for the timing of Easter depressed the published March figure and increased that for April. The net effect of these special factors was to reduce growth in sales in the first quarter, while boosting growth in the second quarter. Allowing for this, the underlying trend is for positive growth in retail sales, but at a more modest pace than during the second half of 1986. The table below and the attached chart show no evidence of any recent re-acceleration in retail spending.

	Retail sales (quarterly average)	Percentage change on: previous quarter	year earlier	Consumers' expenditure (£bn, 1980)	percentage change on year earlier)
1986 Q1	119.3	1.7	4.3	39.1	4.5
Q2	121.3	1.7	4.7	39.8	5.9
Q3	123.7	2.0	5.5	40.4	5.5
Q4	126.5	2.3	7.3	40.4	4.5
1987 Q1	125.4	-0.9	5.1	40.5	3.5
Q2	128.2	2.2	5.7	41.0*	3.0

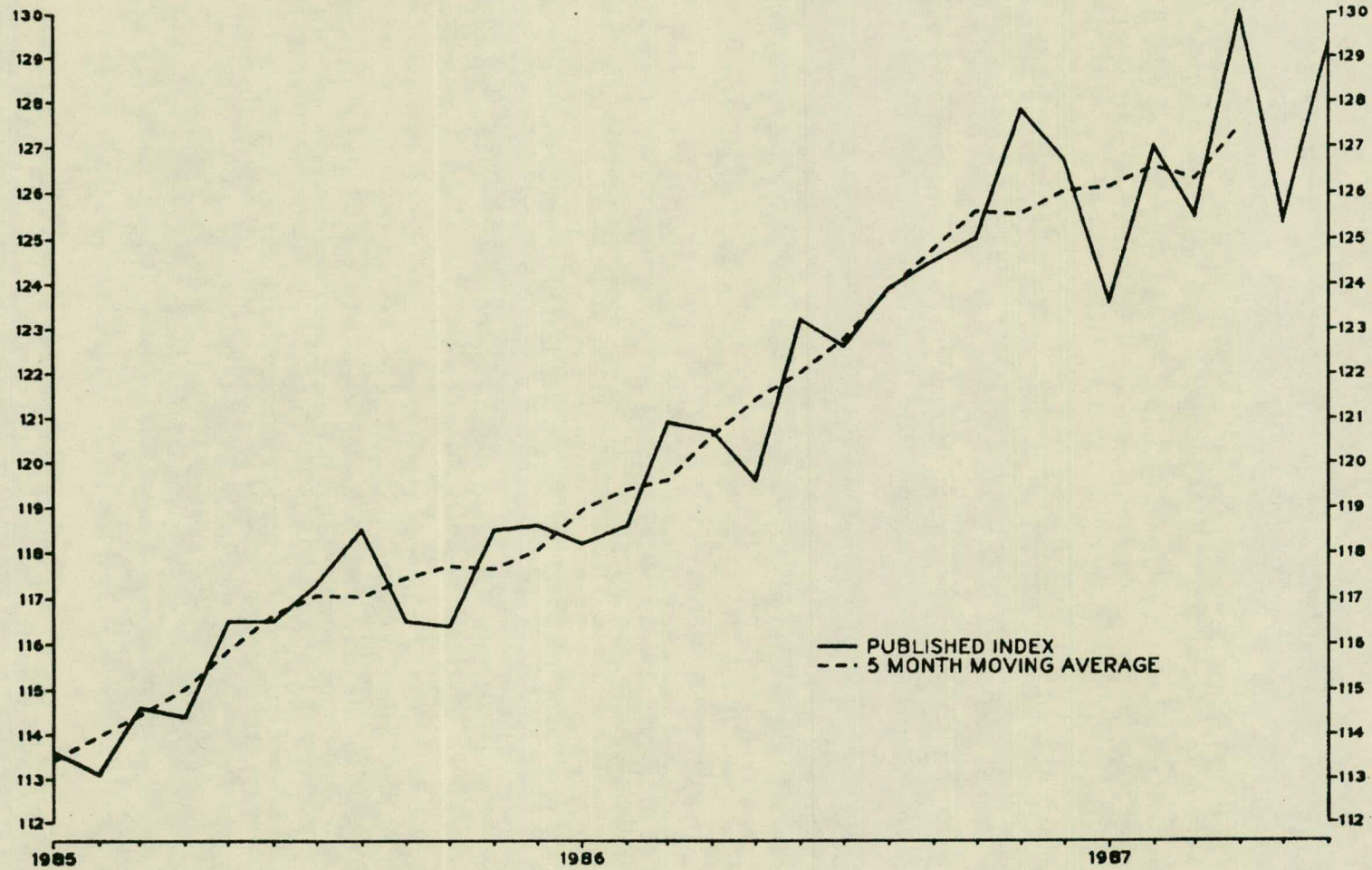
* CSO projection, partly based on retail sales in April and May.

5. The provisional estimate for retail sales in June is consistent with our June forecast for total consumer spending. This shows - in line with current CSO projections - a pick-up in spending in the second quarter following the weather-depressed first quarter outturn. Total expenditure is expected to show continued growth through the course of this year - reflecting rising incomes - with growth for 1987 as a whole expected to average around 3½ per cent, slightly lower than the published Budget forecast of 4 per cent.

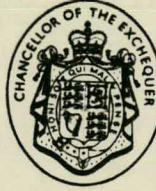
P F L Allum

P F L ALLUM

RETAIL SALES INDEX (VOLUMES, 1980=100)



UNCLASSIFIED



FROM: CATHY RYDING

DATE: 20 July 1987

MR SEDGWICK

cc: Sir T Burns
Miss O'Mara
Mr P Allum }
.**RETAIL SALES: PROVISIONAL ESTIMATE FOR JUNE**

The Chancellor has seen Mr Norton's minute to PS/Secretary of State for Trade and Industry of 17 July.

2. The Chancellor has noted the comment in paragraph 2 of the minute that the provisional index for June suggests a continued increase in sales, although the rise of nearly 2½ per cent between the first and second quarter averages exaggerates the rate of growth. The Chancellor agrees and has commented that there is no evidence of acceleration here: just a steady rise in line with rising incomes.

A handwritten signature in black ink, appearing to be 'CR'.

CATHY RYDING

ECONOMIST COMMODITY PRICE INDICES

1980=100

All items indicesSDR indices

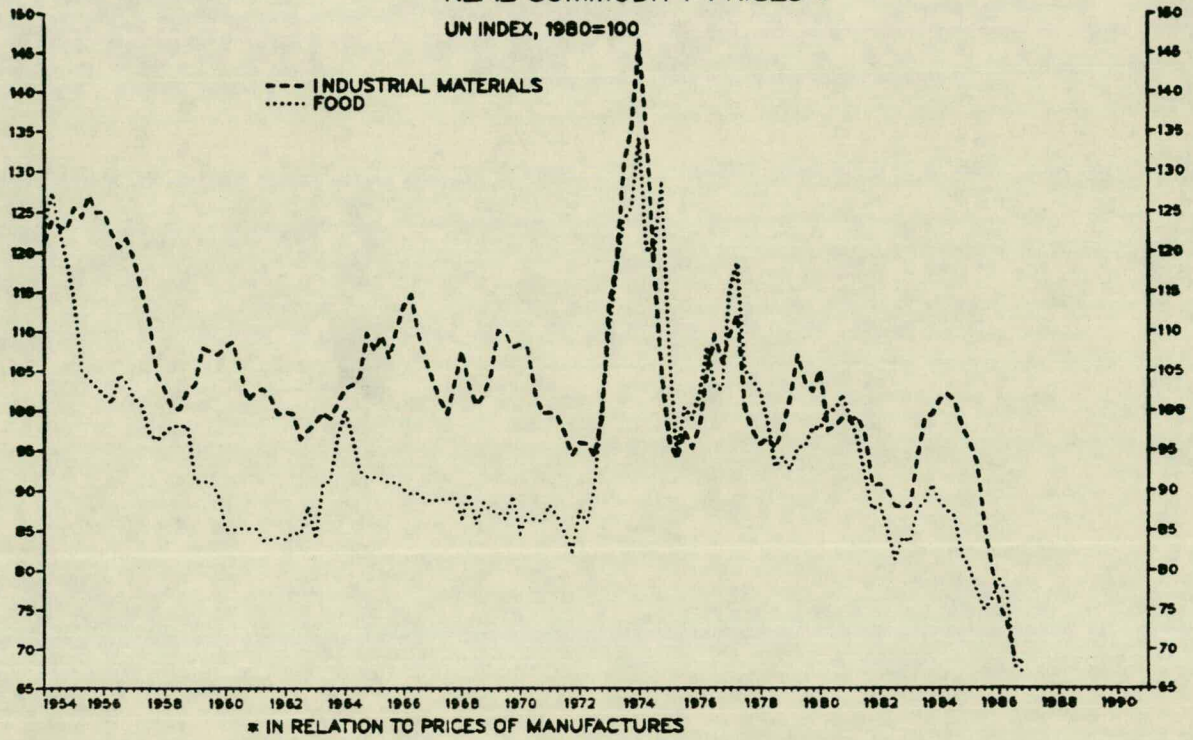
	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
<u>Annual</u>							
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982	87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983	102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984	105.7	83.4	144.9	98.1	116.1	105.1	89.5
1985	95.8	74.8	135.2	87.6	103.4	94.2	84.3
1986	86.9	77.7	124.0	76.7	97.3	85.0	70.5
<u>Quarterly</u>							
1985 Q3	92.1	72.7	122.9	82.6	96.9	93.2	82.7
Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986 Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
Q2	91.0	81.1	125.0	80.3	104.9	86.9	71.8
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Q2 (prov)	86.8	86.4	122.2	74.7	85.5	98.0	75.3
<u>Monthly</u>							
July	82.1	75.1	115.5		91.2	78.8	68.3
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May	87.3	87.6	122.0		87.1	97.2	74.8
June (prov)	88.9	87.8	125.2		86.2	101.7	78.2
<u>Weekly</u>							
April	21	84.9	84.5	120.1		96.0	73.3
	28	84.8	85.0	119.5	83.8	95.2	72.8
May	5	85.8	86.8	119.5	85.8	95.5	73.4
	12	88.7	88.9	123.8	88.5	97.2	76.7
	19	87.5	87.9	121.4	87.0	97.4	75.6
	26	87.2	86.9	123.4	87.2	98.7	73.7
June	2	88.2	87.3	123.5	86.3	99.9	76.9
	9	88.4	88.1	123.2	85.8	100.0	78.4
	16	90.5	89.6	127.4	88.3	103.1	79.2
	23	88.7	86.8	126.1	85.5	102.5	78.2
	30 (prov)	88.8	87.2	125.6	84.9	103.1	78.4

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals

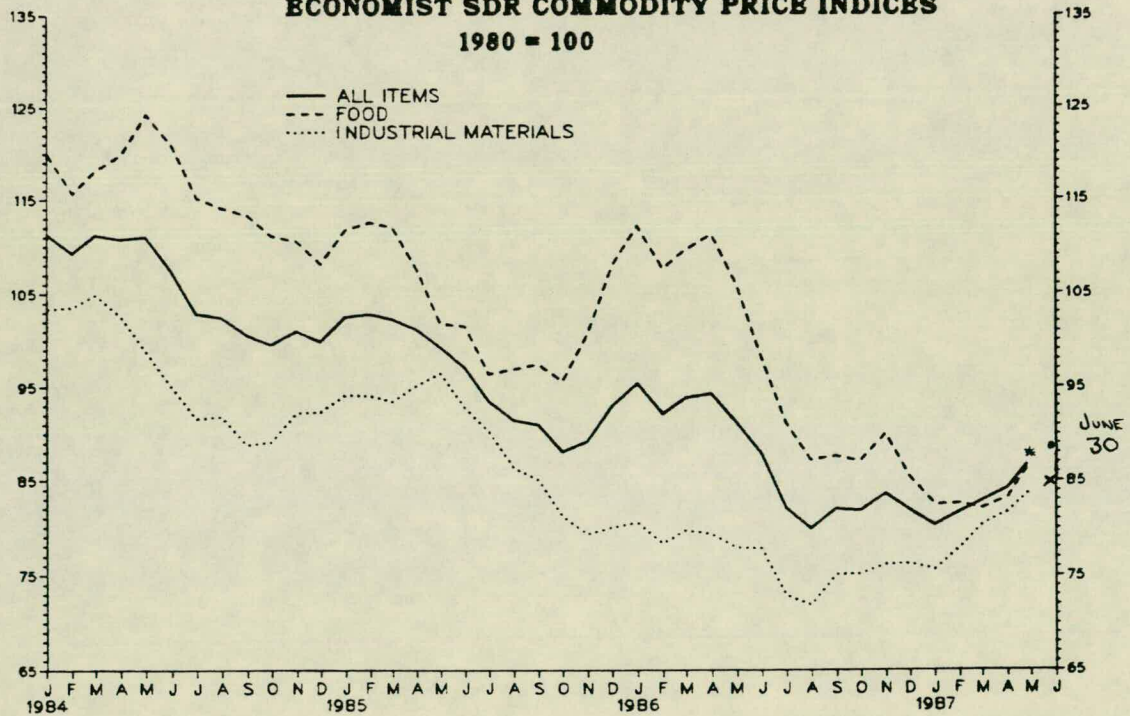
REAL COMMODITY PRICES *

UN INDEX, 1980=100



ECONOMIST SDR COMMODITY PRICE INDICES

1980 = 100



- ALL ITEMS
- x FOOD
- * INDUSTRIAL MATERIALS

PERSONAL AND CONFIDENTIAL



pusp

Caxton House Tothill Street London SW1H 9NF

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Facsimile 01-213 5465 Telex 915564

David Norgrove Esq
Private Secretary
10 Downing Street
London SW1

f

S August 1987

Dear David,

OUTLOOK FOR RPI

I enclose a copy of the usual monthly brief on the Retail Price Index outlook for June and July.

Copies of this go to Alex Allen (Treasury), Sir Peter Middleton (Treasury), Timothy Walker (Trade and Industry), Ms A Large (CSO), John Footman (Bank of England), Chris Cloke (Cabinet Office) and Sir Brian Hayes (Trade and industry).

*Yours sincerely,
Caroline*

Caroline Slocock
Private Secretary

CH/EXCHEQUER	
REC.	- 5 AUG 1987
INITIAL	
APPROVED TO	

OUTLOOK FOR RETAIL PRICES: JULY AND AUGUST

1. As anticipated the annual rate of inflation seems set to show a further rise for July, following that recorded for June. The rate for July, as measured by the 12-month change in the retail prices index, is expected to rise to around 4½ per cent, compared with the 4.2 per cent for June.

2. The overall level of prices is expected to have fallen slightly between June and July, compared with a decrease of 0.3 per cent recorded for the corresponding period last year when petrol prices fell by about 3p a gallon on average. Seasonal falls in the prices of some fresh foods are likely, together with summer sale reductions in the prices of clothing and footwear. Increases are expected in the prices of motor vehicles and vehicle insurance.

3. In August the annual rate is expected to remain at around 4½ per cent. There is likely to be an increase of around ¼ per cent in the overall level of prices, comparable with the increase of 0.3 per cent recorded between the same months last year.

Percentage change in the RPI

	12 months	over 1 month	
	all items	all items	all excluding seasonal food
April	4.2	1.2	1.0
May	4.1	0.1	0.1
June	4.2	0.0	0.1

FORECASTS

July	4½	¼-0	0-¼
August	4½	¼	¼

All items indices

SDR indices

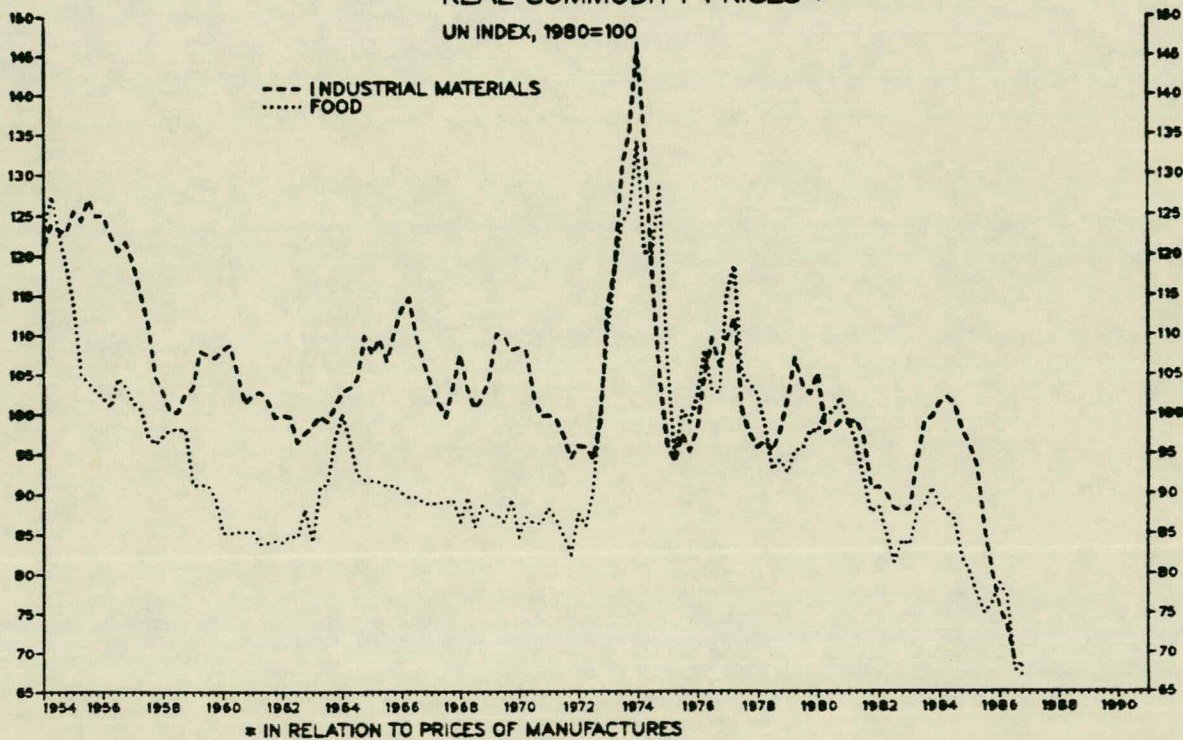
		SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
<u>Annual</u>								
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982		87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983		102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984		105.7	83.4	144.9	98.1	116.1	105.1	89.5
1985		95.8	74.8	135.2	87.6	103.4	94.2	84.3
1986		86.9	77.7	124.0	76.7	97.3	85.0	70.5
<u>Quarterly</u>								
1985	Q2	99.4	75.8	140.5	90.2	103.9	99.0	90.9
	Q3	92.1	72.7	122.9	82.6	96.9	93.2	82.7
	Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986	Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
	Q2	91.0	81.1	125.0	80.3	104.9	86.9	71.8
	Q3	81.4	75.2	117.4	71.8	88.8	80.1	68.3
	Q4	82.4	76.4	123.9	72.1	87.4	86.5	68.4
1987	Q1	81.6	79.2	119.2	71.1	82.4	91.0	69.0
<u>Monthly</u>								
	June	87.9	78.6	121.1		98.1	83.9	72.9
	July	82.1	75.1	115.5		91.2	78.8	68.3
	August	79.9	74.1	115.6		87.2	78.8	66.7
	September	82.0	76.3	120.7		87.6	82.5	69.5
	October	81.8	76.2	123.9		87.1	84.6	68.3
	November	83.6	76.9	125.4		90.0	87.0	68.4
	December	81.9	76.1	122.7		85.4	87.5	68.4
	January	80.3	77.0	118.8		82.5	88.8	66.7
	February	81.7	79.6	120.5		82.6	91.7	68.5
	March	82.9	81.0	118.2		82.1	92.4	71.8
	April	84.2	83.8	119.0		83.2	94.8	72.6
	May	87.3	87.6	122.0		87.1	97.2	74.8
<u>Weekly</u>								
April	14	84.1	83.8	119.2		83.7	94.5	72.0
	21	84.9	84.5	120.1		83.8	96.0	73.3
	28	84.8	85.0	119.5		84.3	95.2	72.8
May	5	85.8	86.8	119.5		85.8	95.5	73.4
	12	88.7	88.9	123.8		88.5	97.2	76.7
	19	87.5	87.9	121.4		87.0	97.4	75.6
	26	87.2	86.9	123.4		87.2	98.7	73.7
June	2	88.2	87.3	123.5		86.3	99.9	76.9
	9	88.4	88.1	123.2		85.8	100.0	78.4
	16	90.5	89.6	127.4		88.3	103.1	79.2
	23 (prov)	88.7	86.7	126.0		85.6	102.1	78.2

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals

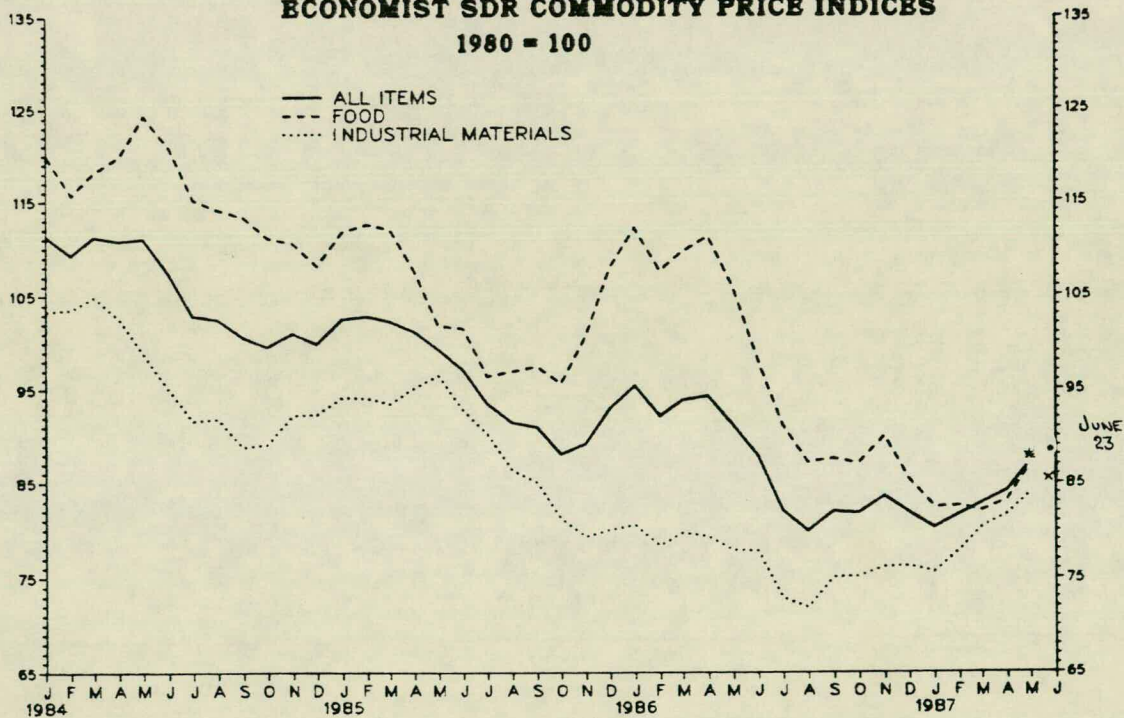
REAL COMMODITY PRICES *

UN INDEX, 1980=100



ECONOMIST SDR COMMODITY PRICE INDICES

1980 = 100



- ALL ITEMS
- x FOOD
- * INDUSTRIAL MATERIALS

Reference

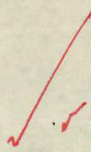
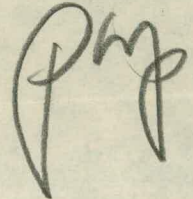
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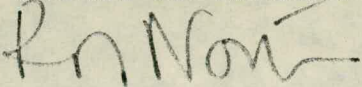
6 August 1987

RETAIL SALES: FINAL ESTIMATE FOR JUNE

A Press Notice giving the final estimate for retail sales for June is attached for information.

2. The final index for June of 129.4 (0.1 above the provisional index) was above levels for all previous months except April. It suggests a continued increase in sales although the rise of nearly 2½ per cent between first and second quarter averages exaggerates the rate of growth (because of recent erratic figures).

3. This Notice will be published at 11.30 am on Monday 10 August. As usual the contents should be treated as confidential until then.



R M Norton

CONFIDENTIAL
UNTIL 11.30 HOURS
ON DAY OF RELEASE

DTI Press Notice

Department of Trade and Industry

1 Victoria Street SW1H 0ET

Press Office: 01-215-4471/4475

Ref: 457

Out of hours: 01-215 7877

August 10 1987

RETAIL SALES IN JUNE 1987

VOLUME

The final seasonally adjusted index of the volume of retail sales in June was 129.4 (1980=100). This is above the levels in all previous months except for April.

In the three months April to June, the level of sales was nearly 2½ per cent above that in the previous three months (which included January when sales were depressed by the severe weather) and nearly 6 per cent above that in the corresponding period a year earlier. In the last three months, compared with the previous three months, sales by food retailers rose by 1 per cent; sales by mixed businesses rose by ½ per cent; sales by non-food retailers rose by 4½ per cent.

VALUE

The non-seasonally adjusted index of the value of retail sales in June was 7 per cent higher than in June 1986.

So far this year, the value of sales has been 8 per cent higher than in the first six months of 1986.

VOLUME OF RETAIL SALES SEASONALLY ADJUSTED

Table 1 Index numbers of sales per week (average 1980 prices) 1980=100

(Sales in 1980 - £ million)	All retailers (58,377)	Food retailers (22,859)	Mixed retail busin- esses (10,945)	Non-food retailers			
				Total (24,573)	Clothing and footwear (5,413)	Household goods (9,234)	Other non- food (9,926)
1981	100.2	100.7	100.4	99.7	98	102	99
1982	102.1	101.5	103.9	101.9	101	106	99
1983	107.4	105.0	108.3	109.2	110	118	100
1984	111.3	106.9	111.2	115.5	119	126	103
1985	116.4	110.8	116.7	121.4	128	135	105
1986	122.6	114.4	123.6	129.9	137	150	107
1986 1st quarter	119.3	113.5	120.2	124.3	132	141	105
2nd quarter	121.3	113.7	120.9	128.5	136	148	106
3rd quarter	123.7	114.4	125.4	131.7	138	154	108
4th quarter	126.5	116.3	128.2	135.3	141	159	110
1987 1st quarter	125.4	116.8	127.6	132.4	140	154	109
2nd quarter	128.3	117.8	128.1	138.2	146	161	113
1986 January*	118.2	112.8	120.4	122.2	129	139	103
February	118.6	113.9	117.9	123.4	129	141	104
March*	120.9	113.9	121.8	127.1	137	144	106
April	120.7	114.0	119.5	127.4	134	149	104
May	119.6	112.0	119.6	126.6	135	146	105
June*	123.2	114.8	123.1	131.0	140	150	109
July	122.6	113.7	123.7	130.3	134	152	108
August	123.9	114.3	125.9	132.0	140	154	107
September*	124.5	115.0	126.4	132.6	140	154	108
October	125.0	116.1	126.7	132.5	139	154	109
November	127.8	116.7	132.1	136.1	142	160	111
December*	126.7	116.0	126.4	136.9	142	162	111
1987 January	123.6	118.1	125.6	128.0	139	145	107
February	127.0	116.6	128.7	135.9	142	159	111
March*	125.5	115.9	128.3	133.2	138	157	108
April	130.0	119.6	132.0	138.6	151	158	114
May	125.4	116.1	123.7	134.8	141	158	110
June*	129.4	117.8	128.4	140.6	147	166	114
1987 Jan-Mar	125.4	116.8	127.6	132.4	140	154	109
1987 Apr-Jun	128.3	117.8	128.1	138.2	146	161	113
Percentage Changes:							
Latest 3 months on previous 3 months	+2.3	+0.9	+0.4	+4.4	+5	+5	+4
Latest 6 months on previous 6 months	+1.4	+1.7	+0.8	+1.3	+3	+1	+2

The monthly periods consist of 4 weeks except those marked * which are of 5 weeks.

The June 1987 sales period was the 5 weeks from 31 May to 4 July.

The quarterly indices are the weighted averages of the monthly indices for the months within the quarter, the weights being the number of weeks in each monthly period.

VALUE OF RETAIL SALES (NOT SEASONALLY ADJUSTED)

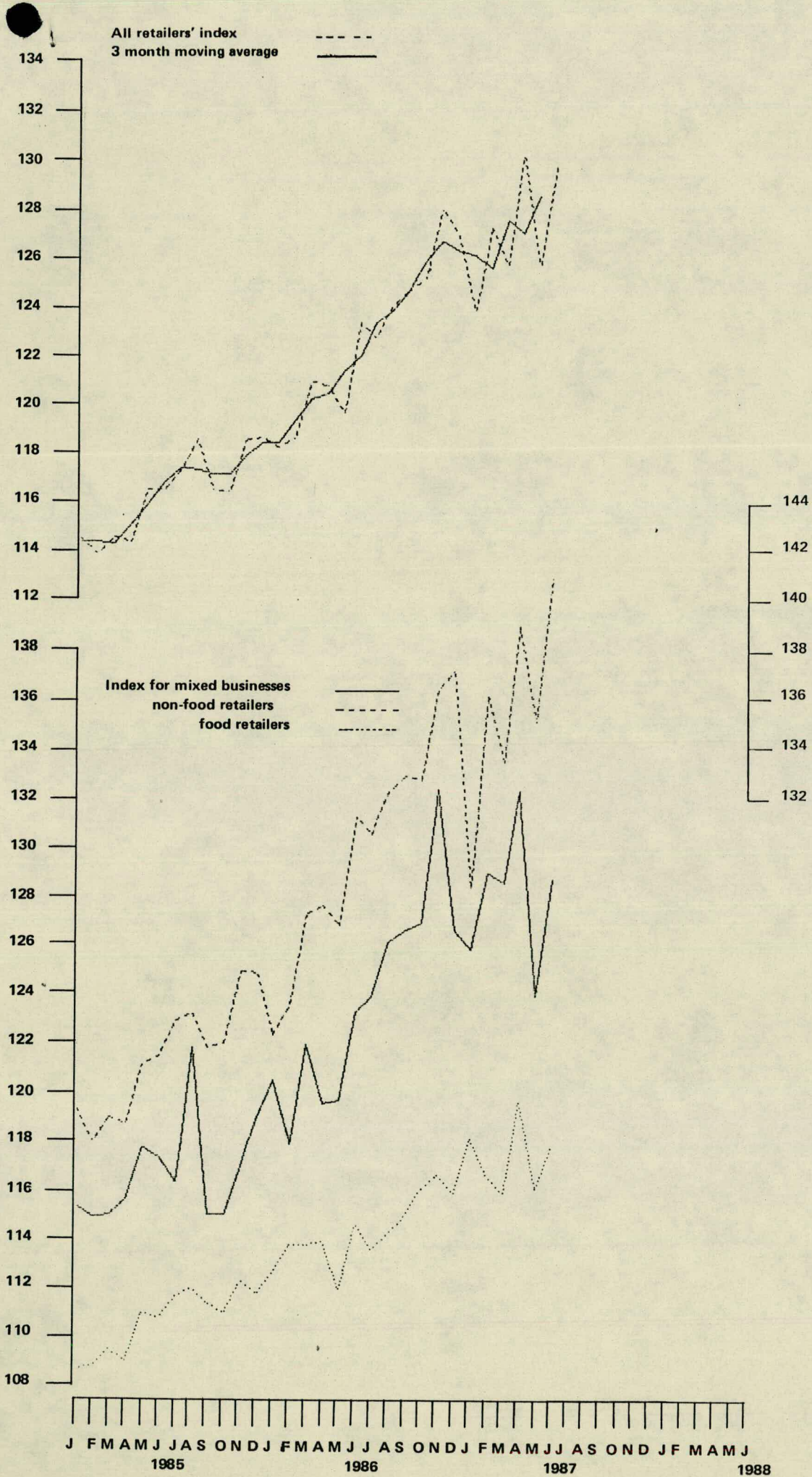
Table 2 Index numbers of value of sales per week (current prices) 1980=100

(Sales in 1980 - £ million)	All retailers (58,377)	Food retailers (22,859)	Mixed retail busin- esses (10,945)	Non-food retailers			
				Total (24,573)	Clothing and footwear (5,413)	Household goods (9,234)	Other non- food (9,926)
1981	108.2	109.7	106.1	107.8	102	107	112
1982	117.1	118.9	115.0	116.4	109	115	122
1983	127.9	127.6	124.5	129.6	124	131	132
1984	138.2	137.1	132.9	141.7	138	143	143
1985	150.4	147.0	146.0	155.4	155	157	154
1986	162.9	157.0	159.3	170.1	170	175	165
1986 1st quarter	146.0	148.8	134.2	148.8	136	160	146
2nd quarter	154.0	155.7	140.8	158.3	160	160	156
3rd quarter	158.7	154.1	148.2	167.6	170	171	163
4th quarter	194.3	170.1	215.8	207.2	216	211	199
1987 1st quarter	157.0	158.3	144.5	161.2	146	174	158
2nd quarter	166.0	165.6	152.1	172.6	175	175	169
1986 January*	146.4	144.5	140.9	150.5	148	166	137
February	141.7	149.2	122.3	143.5	120	155	145
March*	149.2	152.6	137.0	151.4	137	156	155
April	153.6	156.0	141.3	156.8	154	163	152
May	150.8	153.3	136.7	154.9	155	157	153
June*	156.9	157.5	143.7	162.3	168	160	161
July	159.8	156.0	147.7	168.7	171	171	166
August	156.5	153.5	142.4	165.6	169	168	161
September*	159.5	153.1	153.2	168.3	171	174	162
October	166.5	157.3	164.1	176.1	177	186	167
November	183.9	164.8	204.7	192.4	189	209	179
December*	224.9	184.6	266.1	244.0	269	234	240
1987 January	158.4	156.9	150.1	163.4	163	179	149
February	154.5	157.7	136.0	159.7	134	174	160
March*	157.8	160.0	146.9	160.6	141	170	163
April	169.0	168.5	159.3	173.9	178	175	170
May	161.3	163.4	144.1	167.0	165	172	164
June*	167.3	165.0	152.8	175.9	180	178	172
Percentage Changes:							
Jun '87/Jun '86	+6.6	+4.7	+6.4	+8.4	+7	+11	+7
Year '87/Year '86	+7.7	+6.5	+8.0	+8.8	+9	+9	+8

See footnotes to Table 1.

An index of the seasonally adjusted value of retail sales can be provided on request.

Volume of Retail Sales: seasonally adjusted (1980 = 100)



NOTES TO EDITORS

1. The seasonally adjusted volume series includes, where possible, adjustments for the timing of holidays, although there are inevitably problems in adjusting for the effects of Christmas and New Year sales spending.
2. The indices for all retailers, food retailers, mixed retail businesses and total non-food retailers are shown to the first decimal place to help interpretation but should not be regarded as necessarily accurate to the final digit. The best indication of the recent trend is normally obtained by comparing the average seasonally adjusted index for the latest three months with the average for the immediately preceding three months. However, sometimes it is more appropriate to make a two or four month comparison.
3. Within the total, sales are analysed by 'kinds of business' ie the statistics are of sales by particular kinds of retailer rather than of sales of particular commodities. For example, while sales by retailers classified as food retailers are mainly of food, many sell other goods. Similarly some food is sold by retailers classified to other kinds of business.
4. The final index is based on returns from a voluntary panel of over 3,200 retailers. The panel includes a sample of the smaller independent retailers (who account for one-third of all retail sales) and nearly all of the very large retailers.
5. Index numbers for more detailed kinds of business than those shown here are published, at current prices only, in Business Monitor SDM28 available from HM Stationery Office, price £17.50 per annum.
6. The Press Notice giving the provisional estimate of the seasonally adjusted index of the volume of retail sales for July will be published on August 17.
7. Press calls to 01-215-4471/4475. Other calls to 0633-22-2609/2987 or 2630.

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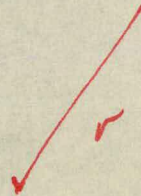
RD

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213

Switchboard 01-213 3000

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON
SW1A 2AA



2 September 1987

Dear David,

OUTLOOK FOR RPI

... I enclose a copy of the usual monthly brief on the Retail Price Index outlook for August and September.

Copies of this go to Alex Allen (Treasury), Sir Peter Middleton (Treasury), Timothy Walker (Trade and Industry), Ms A Large (CSO), John Footman (Bank of England), Chris Cloke (Cabinet Office) and Sir Brian Hayes (Trade and Industry).

*Sincerely,
Beverley Evans*

BEVERLEY EVANS
Private Secretary

PERSONAL AND CONFIDENTIAL
OUTLOOK FOR RETAIL PRICES: AUGUST AND SEPTEMBER

1. On the basis of data processed so far, the annual rate of inflation, as measured on the 12-month change in the retail prices index, is likely to remain unchanged for August at 4.4 per cent (the same as for July).
2. The overall level of prices is expected to have risen by about $\frac{1}{3}$ per cent between July and August, that is about the same as the increase of 0.3 per cent recorded for the corresponding period last year. Prices for clothing and footwear were higher, following the summer sales, and there were widespread but small increases among other items.
3. In September the annual rate is expected to fall to around $4\frac{1}{4}$ per cent. There is likely to be an increase in the overall level of prices of around $\frac{1}{3}$ per cent between August and September - less than the increase of 0.5 per cent recorded between the corresponding months last year.

Percentage change in the RPI

	12 months	over 1 month	
	all items	all items	all excluding seasonal food
May	4.1	0.1	0.1
June	4.2	0.0	0.1
July	4.4	-0.1	0.1

FORECASTS

August	$4\frac{1}{2}$	$\frac{1}{3}$	$\frac{1}{3}$
September	$4\frac{1}{4}$	$\frac{1}{3}$	$\frac{1}{3}$

SP

FROM: S PRICE
 DATE: 10 SEPTEMBER 1987

Approved in draft. SP

1. ~~MR S J DAVIES~~
2. CHANCELLOR OF THE EXCHEQUER

cc: PS/Chief Secretary
 PS/Financial Secretary
 PS/Paymaster General
 PS/Economic Secretary
 Sir Peter Middleton
 Sir Terence Burns
 Mr F E R Butler
 Mr F Cassell
 Mr Kemp
 Mr N Monck
 Mr Odling-Smee
 Mr Scholar
 Mr Sedgwick
 Mr Bottrill
 Mr Davies
 Mr Culpin
 Mr Gilhooly
 Mr Mowl
 Miss O'Mara o/r
 Mr Pickford
 Mr Halligan
 Mr Patterson
 Mr Cropper
 Mr Tyrie
 Mr Call

THE AUGUST RPI (to be published at 11.30 am on Friday 11 September)

The level of the RPI rose from 101.8 to 102.1 between July and August. The twelve month rate of inflation was 4.4 per cent in August, the same as in July. Excluding mortgage interest payments, the twelve months rate of inflation at 3.7 per cent in August was also the same as in July.

2. The rise in the index between July and August was due to rises in prices of clothing and footwear, following the end of summer sales, with widespread but small increases in the prices of a range of other items.

3. In the City there is a narrow range of expectations of the change in prices between July and August 1987, with James Capel, Phillips and Drew and Alexander Laing and Cruickshank expecting +0.2 per cent, and Wood Mackenzie expecting +0.3 per cent. The correct figure is +0.3 per cent.

Simon Price

S PRICE
 EAL DIVISION
 x 5388

ECONOMIST COMMODITY PRICE INDICES1980=100

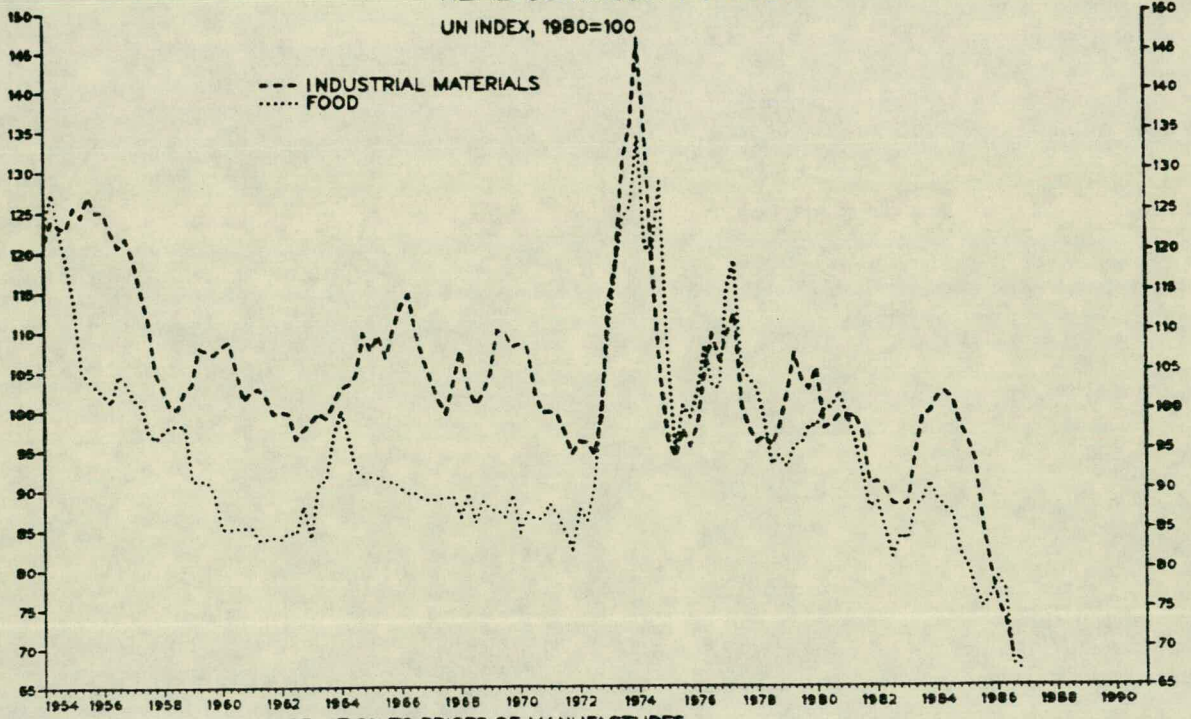
		<u>All items indices</u>				<u>SDR indices</u>		
		SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
<u>Annual</u>								
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982		87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983		102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984		105.7	83.4	144.9	98.1	116.1	105.1	89.5
1985		95.8	74.8	135.2	87.6	103.4	94.2	84.3
1986		86.9	77.7	124.0	76.7	97.3	85.0	70.5
<u>Quarterly</u>								
1985	Q3	92.1	72.7	122.9	82.6	96.9	93.2	82.7
	Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986	Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
	Q2	91.0	81.1	125.0	80.3	104.9	86.9	71.8
	Q3	81.4	75.2	117.4	73.7	88.8	80.1	68.3
	Q4	82.4	76.4	123.9	71.4	87.4	86.5	68.4
1987	Q1	81.6	79.2	119.2	70.3	82.4	91.0	69.0
	Q2	86.8	86.4	122.2	74.7	85.5	98.0	75.2
<u>Monthly</u>								
	September	82.0	76.3	120.7		87.6	82.5	69.5
	October	81.8	76.2	123.9		87.1	84.6	68.3
	November	83.6	76.9	125.4		90.0	87.0	68.4
	December	81.9	76.1	122.7		85.4	87.5	68.4
	January	80.3	77.0	118.8		82.5	88.8	66.7
	February	81.7	79.6	120.5		82.6	91.7	68.5
	March	82.9	81.0	118.2		82.1	92.4	71.8
	April	84.2	83.8	119.0		83.2	94.8	72.6
	May	87.3	87.6	122.0		87.1	97.2	74.8
	June	88.9	87.8	125.2		86.2	101.7	78.3
	July	90.7	88.4	127.8		84.0	105.1	84.7
	August	92.2	89.8	130.9		81.2	109.7	90.2
<u>Weekly</u>								
June	16	90.5	89.6	127.4		88.3	103.1	79.2
	23	88.7	86.8	126.1		85.5	102.5	78.2
	30	88.8	87.2	125.6		84.9	103.1	78.9
July	7	90.9	88.9	127.5		84.7	105.1	84.2
	14	90.9	88.8	128.1		84.6	105.5	84.4
	21	90.3	87.6	127.6		83.9	104.8	83.9
	28	90.7	88.2	128.2		82.9	105.1	86.3
August	4	91.4	88.3	130.7		81.1	107.4	89.4
	11	92.6	89.2	132.0		81.5	107.9	92.0
	18	93.4	91.2	131.1		81.6	112.7	91.6
	25	91.4	90.5	130.0		80.9	110.9	88.0
September	1 (prev)	90.3	89.8	127.3		81.4	111.5	83.8

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals

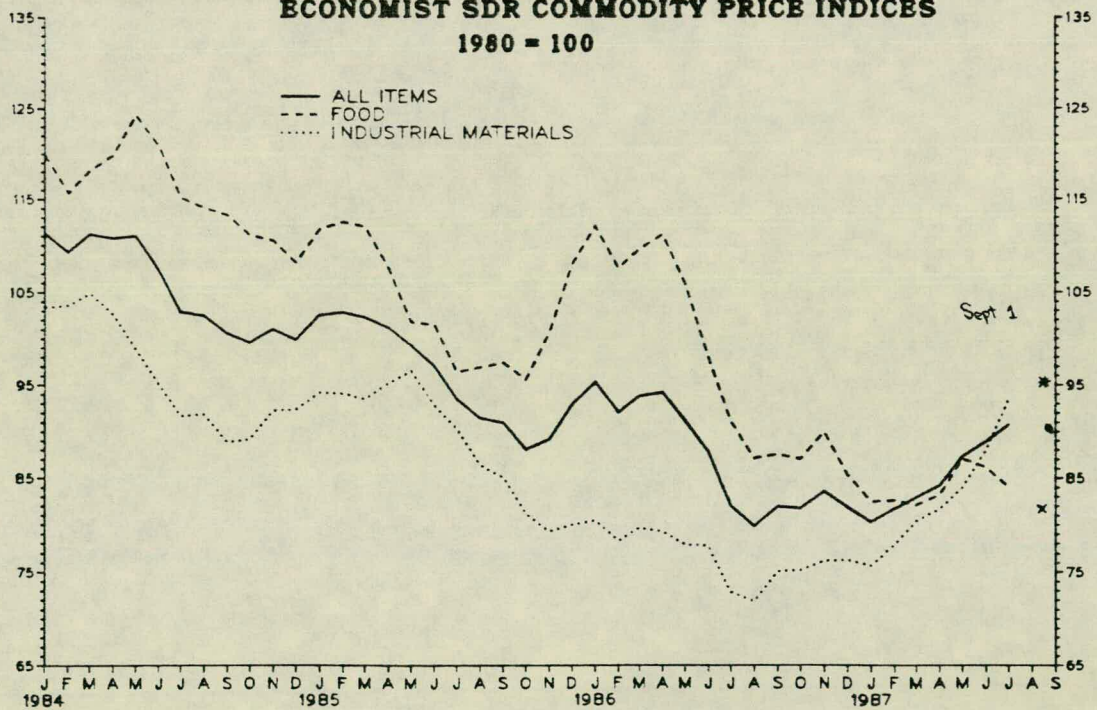
REAL COMMODITY PRICES *

UN INDEX, 1980=100



ECONOMIST SDR COMMODITY PRICE INDICES

1980 = 100



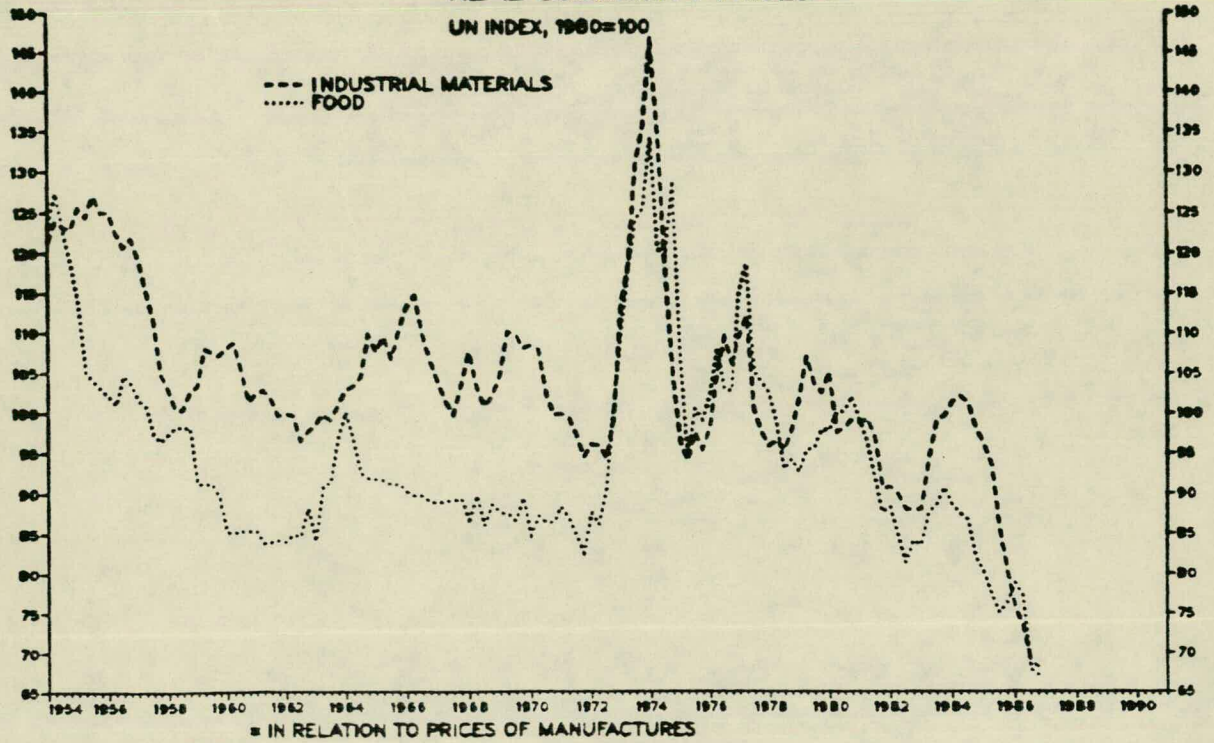
- ALL ITEMS
- x FOOD
- * INDUSTRIAL MATERIALS

		All items indices				SDR indices		
		SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
<u>Annual</u>								
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982		87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983		102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984		105.7	83.4	144.9	98.1	116.1	105.1	89.5
1985		95.8	74.8	135.2	87.6	103.4	94.2	84.3
1986		86.9	77.7	124.0	76.7	97.3	85.0	70.5
<u>Quarterly</u>								
1985	Q3	92.1	72.7	122.9	82.6	96.9	93.2	82.7
	Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986	Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
	Q2	91.0	81.1	125.0	80.3	104.9	86.9	71.8
	Q3	81.4	75.2	117.4	73.7	88.8	80.1	68.3
	Q4	82.4	76.4	123.9	71.4	87.4	86.5	68.4
1987	Q1	81.6	79.2	119.2	70.3	82.4	91.0	69.0
	Q2	86.8	86.4	122.2	74.7	85.5	98.0	75.2
<u>Monthly</u>								
	July	82.1	75.1	115.5		91.2	78.8	68.3
	August	79.9	74.1	115.6		87.2	78.8	66.7
	September	82.0	76.3	120.7		87.6	82.5	69.5
	October	81.8	76.2	123.9		87.1	84.6	68.3
	November	83.6	76.9	125.4		90.0	87.0	68.4
	December	81.9	76.1	122.7		85.4	87.5	68.4
	January	80.3	77.0	118.8		82.5	88.8	66.7
	February	81.7	79.6	120.5		82.6	91.7	68.5
	March	82.9	81.0	118.2		82.1	92.4	71.8
	April	84.2	83.8	119.0		83.2	94.8	72.6
	May	87.3	87.6	122.0		87.1	97.2	74.8
	June	88.9	87.8	125.2		86.2	101.7	78.3
<u>Weekly</u>								
May	12	88.7	88.9	123.8		88.5	97.2	76.7
	19	87.5	87.9	121.4		87.0	97.4	75.6
	26	87.2	86.9	123.4		87.2	98.7	73.7
June	2	88.2	87.3	123.5		86.3	99.9	76.9
	9	88.4	88.1	123.2		85.8	100.0	78.4
	16	90.5	89.6	127.4		88.3	103.1	79.2
	23	88.7	86.8	126.1		85.5	102.5	78.2
	30	88.8	87.2	125.6		84.9	103.1	78.9
July	7	90.9	88.9	127.5		84.7	105.1	84.2
	14	90.9	88.8	128.1		84.6	105.5	84.4
	21 (prov)	90.3	87.6	127.6		83.9	104.8	83.9

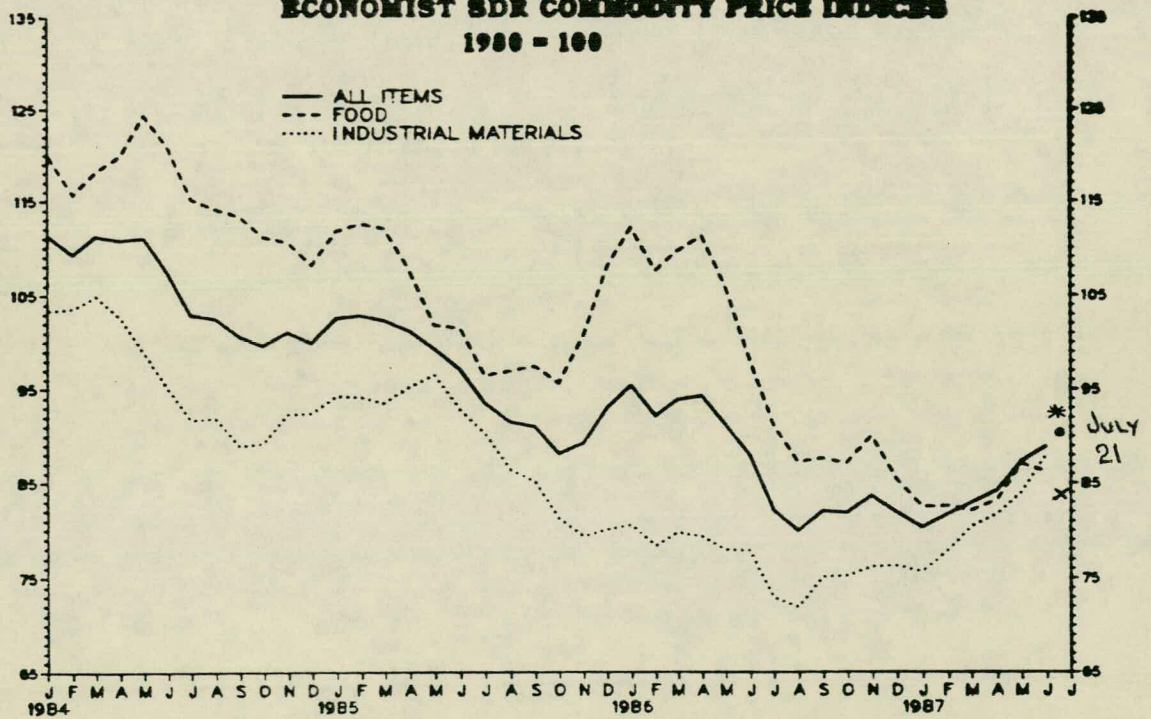
* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals

REAL COMMODITY PRICES *



ECONOMIST SDR COMMODITY PRICE INDICES 1980 = 100



- ALL ITEMS
- x FOOD
- * INDUSTRIAL MATERIALS

~~Alert~~
PJP

FROM: S PRICE
DATE: 16 September 1987

TO MR CULPIN

cc PS/Chancellor
Sir Terence Burns
Mr Sedgwick
Mr Davies
Mr Gilhooly 123/3
Miss O'Mara

RELEASE DATE OF RPI

I understand that DE are considering moving the release of the RPI from Friday to Thursday. This will mean that in some months the release will coincide with the Monthly package of Labour market statistics. I would welcome any comments you have on this proposal.

Simon Price

S PRICE

c - as before
- Mr. Hefford

Mr. Price

I am not enthusiastic about this: -

- (a) it will sharpen up the contrast between the rates of increase of average earnings and of prices;
- (b) the RPI figures could, I am told, come out on the morning of some Thursdays when Treasury Ministers have questions in the afternoon.

Do they have strong reasons for making this change - other than tidiness?

Price 7/9