

PRIME MINISTER

19 July 1989

C B I SURVEY

On Tuesday (11.30) 25 July, the CBI will release figures showing that the monetary squeeze is working. In manufacturing they will show:-

- the greatest decline in "optimism" since October 1982;
- investment intentions levelling off but not yet declining;
- orders down more than expected;
- continued modest growth expected, however;
- the expected reduction in stocks, over a 9-month period, turned out to be an increase;
- increased pressure on factory gate prices;
- increases in unit cost, especially labour costs?

With the exception of the cost pressure, this news is all consistent with the predicted effects of the monetary policy change in the second half of 1988.

On retail sales, all the preliminary indicators for July suggest that they have stopped growing and may even show a decline. Smaller increases in prices are expected as competition bites.

CBI have tried to translate these survey results into a future inflation figure and they have found them consistent with a 2.5 to 3.0 figure. I think we should treat this as their "guess" and put little or no credibility to it - yet.

Tomorrow (Thursday) the Chancellor and Terry Burns will get a CBI briefing before publication.

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