



Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

19 October 1990

Barry Potter Esq
Private Secretary to
Prime Minister
10 Downing Street
LONDON
SW1

Dear Barry

THE OCTOBER FORECAST

... Following his discussion with the Prime Minister on Wednesday, the Chancellor has asked me to send you two copies of the October forecast.

... The Chancellor has discussed with officials what figures should be published in the Autumn Statement. I attach the current draft of the main summary table from the forecast chapter. The main differences from the forecast report are:

- GDP growth in 1991 of $\frac{1}{2}$ per cent rather than zero and consequent minor increases in the figures for domestic demand, net exports and manufacturing output;
- as a result the current account deficit is somewhat lower than in the forecast;
- the GDP deflator figures have been rounded down to 8 per cent in 1990-91 and 6 per cent in 1991-92.

The forecasters here are still working on the numbers and there may be some further marginal changes before publication.

One feature of the forecast that the Chancellor mentioned on Wednesday was the high figure for the community charge next year (an average of £418 for Great Britain and, perhaps, £430 for England). The Treasury forecasters have, of course, made their best judgement of what is likely to happen on their own assumptions, and their projections for the charge will not be

6



published. The forecast is substantially higher than the Department of Environment's latest projection (£396 for England) for two main reasons:

- the forecasters based their projections on a somewhat less rigorous capping regime than the Secretary of State has now proposed; and
- they have assumed that authorities will increase their charges next year both to make good part of the shortfall in revenue they have experienced this year and to offset an assumed 8 per cent under-collection rate next year (as opposed to the 5 per cent assumption adopted by the DOE).

While the forecasters may be taking too pessimistic a view, the Chancellor feels their projections add force to the case for adopting the most rigorous capping regime next year and for encouraging authorities to improve their collection rates.

Voss

Js.

JOHN GIEVE
Principal Private Secretary

Table 1 Economic prospects: summary

| | Percentage changes on previous year unless otherwise stated | | | Average errors from past forecasts ¹ |
|--|---|------------------|------------|---|
| | 1989 | Forecast 1990 | 1991 | |
| GDP and domestic demand at constant prices | | | | |
| Domestic demand | 3 | 3/4 | 1/2 | 1 1/4 |
| of which: | | | | |
| Consumers' expenditure | 3 3/4 | 2 1/2 | 1 3/4 | 1 1/4 |
| General government consumption | 3/4 | 1 3/4 | 1/2 | 1/2 |
| Fixed investment | 4 3/4 | -1 1/4 | -1 3/4 | 3 1/4 |
| Change in stockbuilding (as per cent of GDP) | -1/2 | -1 | -1/2 | 3/4 |
| Exports of goods and services | 4 1/4 | 4 3/4 | 2 | 1 3/4 |
| Imports of goods and services | 7 | 2 | 1 1/4 | 3 1/4 |
| Gross domestic product (average measure) | 2 | 1 1/4 | 1/2 | 1 |
| Manufacturing output | 4 1/4 | 1/2 | 0 | 2 |
| Balance of payments current account (£ billion) | -19 | -16 | -10 to -12 | 5 3/4 |
| Inflation | | | | |
| Retail price index (Q4 on Q4) | 7 1/2 | 10 1/2 | 5 1/2 | 2 |
| GDP deflator at market prices (financial year) ² | 6 1/2 | 8 | 6 | 2 |
| Money GDP at market prices (financial year)² | | | | |
| £ billion | 8 1/2 | 9 | 7 3/4 | 2 1/4 |
| | 524 | 571 | 615 | |
| PSDR (financial year) | | | | |
| £ billion | 8 | 3 3/4 | | 3 1/4 |
| per cent of GDP | 1 1/2 | 3/4 | | 1/2 |

¹ The errors relate to the average differences (on either side of the central figure) between Autumn Industry Act forecasts and outturn over the 1980s, and apply to the forecasts for 1991, except for the PSDR where it applies to the forecast for 1990-91.

² The introduction of the community charge has reduced the levels of both the GDP deflator and money GDP by about 1/4 per cent in 1989-90, and by about 1 3/4 per cent from 1990-91 onwards. The figures in the above table for the GDP deflator and money GDP are adjusted to remove this distortion.