

(2)

Prime Minister

CHANCELLOR

It is worth remembering  
that the CBI's Survey covers  
only 1/3 of the private sector.

Sir J Borcham was telling  
me informally today that the CSO  
heavily discount these opinion polls  
which ought to have a "seasonal adjustment  
made to them!

He also said that they are beginning  
to be clear that October was a turning-point  
and that an ~~was~~ annualised 2% growth

in the economy has begun again. I remember Alan Walker's comment  
CBI QUARTERLY TRENDS SURVEY - OCTOBER that last ~~time~~ year when the CBI was at

its worst the economy was at its turning-point! MJS 29/10  
The October Quarterly Survey will be released tomorrow, 29 October,  
at 11.30 am. The survey was carried out between 24 September and  
13 October. Some of the replies will have been received before  
the reduction in bank base rates to 10 per cent on 6 October;  
virtually all before the further reduction to 9½ per cent on  
13 October. The special six-monthly questions on corporate liquidi-  
ty are included. The results of the special enquiry into retail  
business are published elsewhere (in the CBI's Economic Situation  
Report) and have not yet been seen. A copy of the main results  
of the survey is attached in Annex A.

2. The results of the survey, in general, are very disappointing.  
At the time, we thought that the results of the July Survey -  
particularly on the "subjective" questions such as business confi-  
dence - might have been biased downwards (an over-reaction to the  
ASLEF dispute, etc). Results of CBI regional surveys, ABCC reports,  
and so on which have trickled out over the past 3 months suggested

- FROM: R I G ALLEN
- DATE: 28 October 1982
- cc Chief Secretary
- Financial Secretary
- Economic Secretary
- Minister of State (C)
- Minister of State (R)
- Sir D Wass
- Sir K Couzens
- Mr Burns
- Mr Quinlan
- Mr Middleton
- Mr H P Evans
- Mr Kemp
- Mr Shields
- Mr Traynor
- Mr P Gordon
- Mr Hall
- Mr Peretz
- Mr Norgrove
- Mr Hibberd
- Mr Williams
- Mr Page
- Miss Deyes
- Mr Ridley
- Mr French
- Mr Harris

*The markets swallowed it  
without a ripple.*

otherwise, and the unfavourable October survey is unlikely to come as much of a surprise to industry or the markets. One helpful feature, of course, will be the better understanding you have reached with Sir Terence Beckett and the likelihood that he will take a rather softer than usual approach in presenting the results of the survey. Nevertheless, as Sir Terence remarked to you during your recent private discussion (19 October) it will not be possible for him, or other CBI officials, to overlook the serious decline in optimism, orders, exports and investment prospects. Against this, it seems likely that the CBI will draw particular attention to the deterioration in the outlook for world trade, over which the Government has no control, and will stress positively the slower growth of costs and prices and the improvement in the consumer goods industry.

3. The more worrying features of the survey are as follows\_

- i. Participants are now considerably less optimistic about the general business outlook than they were four months ago - the net balance for this indicator fell from -22 in July to -28 in October.
- ii. Both total new orders and output are reported to have fallen over the past four months. Expectations are for a further, slight reduction in the next four months. 94 per cent of participants expect a shortage of orders or sales to be a factor limiting their output over the next four months; the second highest proportion ever recorded in answer to this question.
- iii. The results suggest that reductions in stocks are continuing, and that most participants believe stock levels to be too high, particularly for finished goods and work in progress.
- iv. Investment intentions have weakened again.

v. Optimism about export prospects for the next 12 months has declined; the volume of new export orders and export deliveries is reported to have worsened over the last four months with no recovery suggested for the next four.

vi. A marginal decrease in capacity utilisation.

4. There are very few positive features of the report except\_

i. Both average unit costs and average domestic selling prices are increasing more slowly, and a further slowing down is expected to occur in the next four months.

ii. There has been no change in firms' liquidity over the past year, but there is the prospect of a slight improvement in the next six months.

5. I have asked the CSO to compute the likely effects of the survey results on their cyclical indicators - the change in business optimism is one of the five components of the longer leading index; the expected change in new orders and in stocks of materials are two of the five components of the shorter leading index; and the capacity utilisation index and the past change in stocks and materials are two of the seven components of the coincident index. While the CSO have not had time to analyse the results fully, they do not believe that the upturn in the longer leading index in August and September will be affected. The downward effects of the CBI confidence question are offset by further rises in share prices and falls in interest rates. Consequently, the longer leading index will maintain its upward path to October. The shorter leader will fall slightly in October but this will be based only on the CBI question and may be revised when more complete information becomes available. The rise in the index up to September is likely to be maintained.

6. The survey does not include a forecast of the economy. The CBI's last forecast was published in early September and showed a

modest (1-1½ per cent) recovery in GDP next year, with a broadly similar improvement in manufacturing output. We gather that the CBI have now slightly revised down the forecast and are emphasising the lower end of this range.

#### Handling

7. There has been some debate in the press over the past few days concerning the reasons for publication of the survey being delayed by three days. Articles in the FT and elsewhere, and a letter released to the Press by Jack Straw, linked the delay to today's by-elections; the FT argued that it was intended to be seen as a conciliatory gesture following the public fracas two months ago over the state of the economy. Sir Terence Beckett, however, has strongly denied this in a letter to Mr Straw dated 27 October, pointing out that the delay dimply reflects the work being done to process the results of the special retail business survey. A copy of Mr Williams note on this is attached at Annex B.

8. On Sunday, of course, you will be taking part in a Question Time session at the beginning of the forthcoming CBI Conference - other participants are Messrs. Shore, Rodgers and Wainweight. You are likely to be questioned about your reactions to the Survey. As you know the CBI itself has tended to take a firm line against massive reflation, though favouring the more modest variety (especially via a lower NIS); it is strongly sympathetic to the Government's line on pay; and it tends to press strongly for economies and more efficiency in public spending, and for current/capital expenditure switching.

9. It is intended that in your speech at the Manchester Chamber of Commerce on Saturday you will make some reference to the CBI Survey as well as to the other major indicators published recently - notably, the trade and unemployment figures. The latter, though not particularly encouraging, were little better than in recent months, and act as something of a counterweight to the disappointing CBI results. It is also worth pointing out that the CBI survey provided a very short-term picture of business expectations.

And it also tends to be rather backward looking; encouraging gloom to breed upon gloom. The recently published first survey of the Times Business Forum, though having a strong political flavour, showed a remarkably high level of optimism about the longer-term (2-3 year) prospect for company growth and profits; and it provided a fairly strong endorsement of current Government policies.

10. The Press Conference this afternoon proved to be a difficult session. There could be some dramatic headlines in tomorrow's press describing "catastrophic" results, By all accounts Sir James Cleminson broke ranks and gave a particularly gloomy personal view. A more detailed account of statements from CBI spokesmen and of press reactions prepared by IDT is given at Annex C. No doubt there will be bids from radio and television for Ministerial appearances tomorrow in response to the survey. Any interviews could prove difficult and there are obvious dangers since the press could easily be seeking a repeat of events following the July CBI Survey. However, there are advantages in making an on the record statement before the CBI Question Time on Sunday when Peter Shore will also be present. Your Manchester Chamber of Commerce speech provides an obvious opportunity for a considered Treasury statement.

#### Line To Take

11. The results of the survey are disappointing, particularly the further decline in business confidence, and the weakening in export prospects. The change in optimism was not entirely unexpected probably reflects in large part the very depressed level of activity both at home and overseas this year - much more depressed than expected in the Spring.

12. The survey is not entirely gloomy. There has been a further substantial reduction of the net balance of firms expecting a rise in unit cost over the next four months; this is historically low and a further reduction is likely over the next four months. And there has been a marked reduction in the balance of firms expecting to raise prices. Firms' liquidity remains generally satisfactory, and is forecast to improve.

13. Lower interest rates, and the NIS reduction announced in the Budget, move in the direction wanted by the CBI, within a general fiscal/monetary framework designed to secure further reductions in inflation. These are providing considerable net benefits to industry's cash flow - the interest rate reductions alone worth some £1½ billion in a full year. We fully agree with the CBI that these benefits must not be eaten away by excessive wage increases; the latter also undermine competitiveness.

14. Of course, we recognise the extreme difficulties facing many companies at present. But the great majority of businessmen believe that the Government must continue along its present broad course - to further reduce inflation and interest rates - and the prospect remains for some modest recovery in output, and profits, next year. The next Industry Act Forecast will be published shortly, with the Autumn Statement.

12A

R I G ALLEN

EB

## CBI INDUSTRIAL TRENDS SURVEY: SUMMARY OF RESULTS FROM JULY 1981 TO OCTOBER 1982

(All figures are percentage balances \* except where otherwise stated)

TOTAL TRADE		Jul 81	Oct 81	Jan 82	Apr 82	Jul 82	Oct 82
1	Optimism re business situation	+ 2	- 9	+ 8	+10	-22	-28
3	12 month forecast of capital expenditure authorisations compared with previous 12 months on:						
a	buildings	-35	-33	-25	-25	-26	-33
b	plant and machinery	-23	-13	- 5	- 2	-11	-20
4	Firms working below capacity	78	77	77	77	75	76
6	Numbers employed						
	- past 4 months	-62	-55	-50	-49	-49	-44
	- next 4 months	-46	-48	-36	-39	-42	-43
7	Volume of new orders						
	- past 4 months	-14	-10	- 4	- 4	-21	-30
	- next 4 months	+ 4	+ 2	+ 4	+ 8	- 3	- 4
8	Volume of output						
	- past 4 months	-13	- 9	- 1	0	-16	-19
	- next 4 months	+ 1	0	+ 1	+ 4	- 3	- 4
10a	Stocks of raw materials						
	- past 4 months	-30	-23	-15	-13	-16	-17
	- next 4 months	-15	-16	- 8	- 8	-15	-19
b	Stocks of work in progress						
	- past 4 months	-23	-15	-16	-10	-11	-11
	- next 4 months	-14	-10	-11	- 7	-16	-21
c	Stocks of finished goods						
	- past 4 months	-22	-20	-13	- 6	- 5	- 9
	- next 4 months	-13	-14	-13	- 8	-18	-17
11	Average unit costs						
	- past 4 months	+43	+39	+41	+38	+36	+30
	- next 4 months	+44	+56	+53	+39	+34	+27
12a	Average domestic prices						
	- past 4 months	+12	+18	+29	+28	+18	+ 8
	- next 4 months	+28	+42	+47	+32	+27	+19
14	Four month forecast of factors likely to limit output						
	Orders or sales	92	91	93	91	91	94
	Skilled labour	3	3	3	2	4	3
	Other labour	1	1	0	1	1	0
	Plant capacity	6	7	4	5	4	5
	Credit or finance	2	2	3	3	5	3
	Materials/components	2	3	3	2	3	2
	Other	1	2	2	2	2	3

EXPORT TRADE	Jul 81	Oct 81	Jan 82	Apr 82	Jul 82	Oct 82
2 Optimism re export prospects	+12	+12	+ 6	- 2	-20	-27
7b Volume of new export orders						
- past 4 months	- 9	+ 1	- 4	- 7	-15	-29
- next 4 months	+ 9	+11	+ 5	+ 4	- 3	- 7
9b Volume of export deliveries						
- past 4 months	-10	- 3	+ 2	- 3	-14	-20
- next 4 months	+ 8	+ 9	+ 6	+ 7	- 4	- 8
12b Average export prices						
- past 4 months	+13	+18	+19	+22	+14	- 2
- next 4 months	+32	+31	+36	+20	+16	+ 7
15 Four month forecast of factors likely to limit export orders <sup>1</sup>						
Prices	77	71	73	68	69	68
Delivery dates	7	7	6	8	6	5
Credit or finance	7	8	9	8	13	9
Quota and licence	8	10	9	13	11	15
Political/economic conditions abroad	38	46	43	45	49	47
Other	6	4	4	3	5	4

1 Percentage Figures

CBI Monthly Trends Enquiry: Time Series of results from Nov 1981 to October 1982

In the intervening months between the main quarterly Industrial Trends Surveys the CBI carries out a much abbreviated monthly Trends Enquiry. In the latter participants are only asked to answer five questions. These five questions are also included in the main quarterly Survey and the table below sets out the time series of results for the past year.

	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
1a Total Order Book (Q.5a)*	-55	-53	-60	-49	-42	-56	-48	-50	-58	-55	-52	-58
1b Export Order Book (Q.5b)	-40	-48	-42	-37	-36	-42	-43	-44	-50	-54	-51	-53
2 Stocks (Q.5c)	+17	+18	+18	+24	+18	+18	+19	+18	+18	+23	+23	+19
3 Volume of Output (Q.8)	+ 1	- 1	+ 1	+ 3	+ 4	+ 4	- 2	- 4	- 3	- 8	- 7	- 4
4 Average Prices (Q.12a)	+39	+47	+47	+40	+32	+32	+26	+22	+27	+19	+17	+19

\* question number in quarterly survey

\* The 'balance' is the difference between those replying 'more', 'up', 'above normal' or 'more than adequate' and those replying 'less', 'down', 'below normal' or 'less than adequate'.



Industrial Trends Survey:  
summary of results  
October 1982



The results of the Survey are available for nine broad industry groups and for forty-four individual industries engaged in manufacturing in the UK. Please see over for details.

Number of RESPONDENTS: Total Trade Questions	1700
Export Trade Questions	1227

Number of RESPONDENTS in each employment size group:

(a) 0-199	834	(b) 200-499	378	(c) 500-4,999	419	(d) 5,000 and over	69
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1 Are you more, or less, optimistic than you were four months ago about the general business situation in your industry

More	Same	Less
8	56	36

2 Are you more, or less, optimistic about your export prospects for the next twelve months than you were four months ago

More	Same	Less	N/A
7	57	34	1

3 Do you expect to authorise more or less capital expenditure in the next twelve months than you authorised in the past twelve months on:

a. buildings

b. plant and machinery

More	Same	Less	N/A
8	38	41	14
19	41	39	1

4 Is your present level of output below capacity (i.e. are you working below a satisfactory full rate of operation)

Yes	No	N/A
76	23	1

5 Excluding seasonal variations, do you consider that in volume terms:

a. Your present total order book is

b. Your present export order book is  
(firms with no order book are requested to estimate the level of demand)

c. Your present stocks of finished goods are

Above Normal	Normal	Below Normal	N/A
5	32	63	+
7	31	60	2

More than Adequate	Adequate	Less than Adequate	N/A
23	59	4	14

Excluding seasonal variations, what has been the trend over the PAST FOUR MONTHS, and what are the expected trends for the NEXT FOUR MONTHS, with regard to:

6 Numbers employed

7 Volume of total new orders

of which: a. domestic orders  
b. export orders

8 Volume of output

9 Volume of: a. domestic deliveries  
b. export deliveries

10 Volume of stocks of: a. raw materials and brought in supplies  
b. work in progress  
c. finished goods

Trend over PAST FOUR MONTHS				Expected trend over NEXT FOUR MONTHS			
Up	Same	Down	N/A	Up	Same	Down	N/A
9	39	53	+	5	47	48	+
12	44	42	2	18	57	22	2
12	44	43	1	13	66	20	1
13	42	42	3	15	60	22	3
13	55	32	+	16	64	20	+
13	50	36	1	15	62	21	1
15	49	35	1	15	62	23	1
11	54	28	6	8	60	27	6
14	52	25	9	7	57	28	9
16	48	25	11	9	52	26	12

Excluding seasonal variations, what has been the trend over the PAST FOUR MONTHS, and what are the expected trends for the NEXT FOUR MONTHS, with regard to:

- 11 Average costs per unit of output  
 12 Average prices at which: a. domestic orders are booked  
 b. export orders are booked

Trend over PAST FOUR MONTHS				Expected trend over NEXT FOUR MONTHS			
Up	Same	Down	N/A	Up	Same	Down	N/A
37	56	7	+	36	54	9	+
19	69	11	+	25	68	6	+
14	69	16	1	20	65	13	1

- 13 Approximately how many months' production is accounted for by your present order book or production schedule

Less than 1	1-3	4-6	7-9	10-12	13-18	More than 18	N/A
20	43	10	1	3	0	3	20

- 14 What factors are likely to limit your output over the next four months. Please tick the most important factor or factors.

Orders or Sales	Skilled Labour	Other Labour	Plant Capacity	Credit or Finance	Materials or Components	Other
94	3	0	5	3	2	3

- 15 What factors are likely to limit your ability to obtain export orders over the next four months. Please tick the most important factor or factors.

Prices (compared with overseas competition)	Delivery Dates	Credit or Finance	Quota & Import Licence Restrictions	Political or Economic Conditions Abroad	Other
68	5	9	15	47	4

- 16 a. In relation to expected demand over the next twelve months is your present fixed capacity:

More than adequate	adequate	Less than adequate
65	33	3

- b. What are the main reasons for any expected CAPITAL EXPENDITURE AUTHORISATIONS ON BUILDINGS, PLANT OR MACHINERY over the next twelve months

to expand capacity	11	other (please specify)	7
to increase efficiency	70	N/A	9
for replacement	55		

- c. What factors are likely to limit (wholly or partly) your capital expenditure authorisation over the next twelve months

Inadequate net return on proposed investment	36	Uncertainty about demand	52
Shortage of internal finance	26	Shortage of labour including Managerial and Technical Staff	1
Inability to raise external finance	2	Other (please specify)	1
Cost of finance	4	N/A	10

## INDIVIDUAL INDUSTRIES IN THE CBI INDUSTRIAL TRENDS SURVEY

### FOOD, DRINK AND TOBACCO

Food; drink and tobacco.

### CHEMICALS, COAL AND PETROLEUM PRODUCTS

Industrial and agricultural products; consumer chemicals; synthetic resins and plastics.

### METAL MANUFACTURE

Ferrous metals; non-ferrous metals.

### MECHANICAL AND INSTRUMENT ENGINEERING

Agricultural machinery; machine tools; industrial engines; textile machinery; contractors' plant; industrial and office machinery; heating, refrigerating and ventilating equipment; heavy industrial plant; construction steelwork; other mechanical engineering; instrument engineering.

### ELECTRICAL ENGINEERING

Power and industrial electric goods; electronic goods; electric consumer goods.

### SHIPBUILDING, MARINE ENGINEERING AND VEHICLES

Shipbuilding and marine engineering; motor vehicles; other vehicles.

### METAL GOODS NOT ELSEWHERE SPECIFIED

Engineers' small tools and gauges; hand tools and implements; fabricated metal goods.

### TEXTILES

Man-made fibres; spinning and weaving; wool textiles; hosiery and knitwear; other textiles; clothing and fur; leather and leather goods; footwear.

### OTHER MANUFACTURING

Building materials; timber and wooden products; furniture etc.; glass and ceramics; paper and paper products; printing and publishing; rubber; miscellaneous manufacturing

The full analysis of the results is available on a subscription basis. The annual subscription is £130 (CBI members £80) and can be arranged through CBI Industrial Trends and Economic Forecasting Dept.

FROM: I WILLIAMS  
DATE: 27 October 1982

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Sir D Wass  
Mr Burns  
Mr P V Dixon  
Mr Evans  
Mr Kemp  
Mr Allen  
Mr Gordon  
Mr Hall  
Mr Shields  
Mr Hibberd  
Mr Norgrove  
Mr Ridley  
Mr French  
Mr Harris  
Mr Salveson (for No 10)

CBI ECONOMIC SITUATION REPORT - END OCTOBER 1982

We had expected the October issue of the CBI Economic Situation Report to be published on Thursday 28 October, but I have just been informed by CBI officials that publication has been further delayed until 00.30 hours on Friday 29 October.

2. CBI officials tell me that the delay concerns their analysis of the newly introduced telephone survey of major UK retailers. It does not concern the analysis of the Monthly Trends Survey Enquiry. Some press reports are attached which discuss the publication and content of this month's report.

3. EB will circulate the usual brief on the evening of Thursday 28 October.



I WILLIAMS

EB

P.S. I have just received a copy of a public letter from Sir Terence Beckett to Jack Straw - dated 27 October - which provides a statement on the reasons for delayed publication (attached).

I.W.