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PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

23 December 1981

New John,

ECONOMIC GUIDANCE FOR MINISTERS OVER THE NEW YEAR

... The Lord President has agreed that the attached note, which has been approved by the Chancellor of the Exchequer, should be circulated to Cabinet colleagues for their use as necessary over the New Year.

I am sending copies of this letter and attachment to the Private Secretaries to all members of the Cabinet with the request that they should draw it to the attention of other Ministers in their Departments.

Yours ever,

*D.C.R.*

D C R HEYHOE  
Private Secretary

John Halliday Esq  
Home Secretary's Office

## THE RECOVERY HAS BEGUN

As we enter the New Year, I know that many colleagues will find themselves asked about recent economic developments and the prospects for the year ahead. I hope you will find these notes helpful to have by you, to draw on as necessary.

### Points to make

1. Economic recovery has begun. The latest figures suggest that there has been an increase in manufacturing output of about 1½ per cent in the three months ending October over the previous quarter, the largest increase for 2½ years.
2. How strong the recovery is, and how long it lasts, is up to all us. If we expect to cash in immediately, and take out all we can in extra pay, we shall lose everything we have gained so far.
3. But if we're patient, and accept that a sustained effort is needed over several years in order to get our economy fully competitive again, the prospects are good.
4. Look at the evidence of the underlying improvements in the way we do things:
  - We're getting more productive. Productivity in manufacturing industry (output per man) rose by about 5 per cent between the last quarter of 1980 and the second quarter of this year. The CBI estimates a 10 per cent increase during the year as a whole.
  - We're keeping our labour costs down. The rate of pay settlements this year has been halved compared with last year; and for the first time for several years our unit labour costs have risen more slowly than the average of our competitors: only 3.9 per cent in manufacturing in the year to September.

- We're getting more competitive. In the last year our improved productivity, our more realistic pay settlements and the fall in the value of the pound has meant that competitiveness improved by at least 10 per cent - a considerable achievement in the depths of a recession.
- We're winning orders. The evidence is growing of the business we're winning back from our competitors. For instance, engineering export orders are over 20 per cent higher this year than in the second half of 1980, and the CBI reports the highest level of optimism over exports since 1977. Home orders for engineering and construction work are also substantially higher.
- Investment prospects are improving. The latest Department of Industry intentions survey points to prospect of rising investment over next two years in manufacturing, distribution and services. Private sector housing starts were up 40 per cent this year compared with second half of 1980.
- We're having fewer industrial disputes. The number of strikes has been fewer in the last two years than in any comparable period since the war.

5. The tide of unemployment though still too high is now slackening. It's rising only half as fast as a year ago, and in recent months there's been less short-time working, more overtime and more notified vacancies.

6. So the Government's policies are right. We're going to get inflation down further, and we're going to create the best possible conditions for industry to take advantage of the recovery. If others also play their part - particularly by moderate pay settlements - that is the way to more jobs and lasting prosperity.

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