

cc/po



FROM: A P HUDSON  
DATE: 14 September 1988

MR GIEVE

- cc Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Scholar  
Mr Odling-Smee  
Mr Sedgwick  
Mr Culpin  
Mr Hibberd  
Mr C M Kelly  
Miss Simpson  
Mr Patterson  
Mr O'Brien (EAL)  
Mr Cropper o/r  
Mr Tyrie o/r  
Mr Call  
Mr Gray (No 10)  
Mr Footman (Bank)

AK

CHANCELLOR'S PRESS RELEASE IN HORNCHURCH

I attach the final version of the Chancellor's press release today. I am grateful to everybody who helped out.

A P HUDSON



EXTRACT FROM THE CHANCELLOR OF THE EXCHEQUER'S SPEECH IN  
HORNCHURCH, 14 SEPTEMBER 1988

THE TRANSFORMATION OF THE SUPPLY SIDE

A fair amount of attention has understandably been paid in recent weeks to the demand side of the economy. But that should not obscure the dramatic - and continuing - improvement in the supply side, which is the key to the transformation of the British economy in the 1980s.

Today's figures show manufacturing output at an all-time high and growing fast - up 6½ per cent on a year ago. And the efficiency of manufacturing industry has improved out of all recognition.

- Output per head, where we fell woefully behind our competitors in the 1960s and 1970s, has risen faster than in any other major country in the 1980s. And this improvement goes on. Productivity is up 7% in the past year.
  
- Businesses are also making much better use of their plant and machinery. Company profitability has risen to the highest levels for nearly twenty years.



- Better methods of stock control have helped industry avoid the pronounced stock cycles which proved so destabilising in the past.
- And manufacturing exports are up 8½ per cent on a year ago.

Based on this success, firms have embarked on a massive increase in investment, to expand capacity, boost productivity further, and improve the quality of their products. The June Investment Intentions Survey from the DTI indicates that manufacturing investment may rise by as much as 16% this year, one of the biggest increases since the immediate post-War years. And equally important, the quality of investment is much higher.

Moreover - and this is a further indication of the transformation of the British economy - the rapid growth in demand and in output has been achieved while inflation has remained low. While the growth in earnings clearly needs to slow down, it has so far largely been matched by increased productivity, so that unit wage costs have scarcely risen at all over the last two years. Recorded inflation will inevitably show a significant increase both in the August RPI figure, which is published on Friday, and similarly in the October figure, as a result of the perverse way we - unlike almost all other industrial countries - include mortgage interest payments in our RPI. But this increase will be only a temporary blip, and indeed reflects the firm action we have taken to ensure that inflationary pressures remain under control.

One of the lessons of the 1980s is that the key to sustainable growth lies in the supply side of the economy. The current exceptional strength of consumer demand is temporary. But the improvement to the supply side is permanent, and will be of lasting benefit in the years to come.