

10 DOWNING STREET

THE PRIME MINISTER

11 August 1982

Copies to Mr. Renth
Mr. Balls
Mr. Rayplaxen
Mr. Utson
J. 12.8.

Dear Mr. Fandy,

Thank you for your letter of 22 July about the problems facing the construction industry.

I do very much appreciate the difficulties which your industry has been facing during the present recession. However, I cannot accept that the picture is quite as gloomy as you suggest. Although, as you say, there are differences between regions and sectors, recent statistics do contain encouraging signs. On a seasonally adjusted basis, public sector housing starts in the first half of 1982 were 60% up on a year ago; private sector housing starts were 20% up on the same basis. The total number of dwellings renovated with the aid of grant or subsidy in the first quarter of 1982 (the latest for which figures are available) were about one quarter up on the corresponding period last year. Total output in the construction industry was 1% higher in the first quarter of this year than in the previous quarter, while in the last three months, total construction orders were 11% higher in real terms than a year ago. Commercial orders were 10% higher and so far this year have been at their highest level in real terms for any year since 1973.

More generally, the construction industry will benefit from our success in bringing down the rate of inflation and interest rates. The recent announcement by the Building Societies Association of a recommended reduction of 1½% in the mortgage interest rate also suggests that the outlook for the construction

/industry

industry is now better than it has been for some time.

Nevertheless, as I indicated above, I am conscious that the construction industry has faced more acute problems during the present recession than most other parts of British industry. This was one of the reasons why the Chancellor singled out the construction industry for special treatment in two successive Budgets. Taken together the measures in the 1981 and 1982 Budgets have gone some way towards helping the industry to meet the effects of the current recession although it is too early to judge their full impact. As you know, in his 1981 Budget the Chancellor increased the initial capital allowance for industrial buildings from 50% to 75% and made a number of concessions in the field of Development Land Tax. In his 1982 Budget, to encourage the take up of spare capacity in the industry in 1982-83, he announced that the value of grants for major repairs and for the provision of basic amenities would be raised from 75% to 90% of eligible cost for a limited period and that a total of some £100 million would be added to local authorities capital expenditure allocations for this purpose. In all, the cost of these and other measures announced in the 1982 Budget will be worth some £240 million to the construction industry in 1982-83.

No Government can insulate the construction or any other industry fully from the effects of a recession. Public expenditure on capital works, if financed by borrowing which the economy cannot sustain, only leads to higher inflation. If financed by taxation, it inhibits initiative and enterprise. Whatever it is, it is not a painless way of stimulating the economy.

I was pleased to see you reiterate your support for our goal of creating a climate which will secure a permanent reduction in inflation and lead to sustained increase in output and employment. We remain convinced that it is the one sure way

/of

of improving the prospects for British industry - and that includes the construction industry.

Yours sincerely
Raymond Stelter

G.M. Fordy, Esq.



da

10 DOWNING STREET

From the Private Secretary

11 August 1982

When the Prime Minister answered your Question on 30 July, she undertook to send you a copy of her reply to the letter she had received from the President of the National Federation of Building Trades Employers, and I enclose a copy of the reply.

The Prime Minister did not propose to make her reply public, though of course there is no reason why you should not do so should you so wish, and the National Federation agree.

Timothy Flesher

Michael Latham, Esq., M.P.

LW
1978

UNCLASSIFIED

FROM: D B ANDREN
DATE: 10 August 1982

- 1. MR GORDON
- 2. MCU

✓
 ✓
 ✓
 10/8

- cc Mr Robson
- Mr R I Allen
- Mr Hartley
- Mr Betenson
- Mr Godhar

Mr Fisher - No. 10

We spoke. I hope the attached meets your requirements.

Jim Ryker

LETTER FROM NFBTE TO PRIME MINISTER

*For PM signature:
JF 10/8*

I attach a draft reply from the Prime Minister to the President of the NFBTE's letter of 22 July. I apologise for not getting this forward earlier, but as explained already to MCU we have been waiting for the Minister for Housing and Construction Industries to comment on an earlier draft. ~~If any other copy recipients of this minute have any comments on the draft reply, perhaps they could let us know by close today.~~

D. B. Andren

D B ANDREN

cc N Sanders (DOE)

DRAFT LETTER FROM THE PRIME MINISTER

TO: G M Fordy Esq
President
National Federation of Building Trades Employers
82 New Cavendish Street
LONDON W1M 8AD

Thank you for your letter of 22 July about the problems facing the construction industry.

do very much
I ~~and my colleagues~~ fully appreciate the difficulties which your industry has been facing during the present recession. However, I cannot accept that the picture is quite as gloomy as you suggest. Although, as you say, there are differences between regions and sectors, recent statistics do contain encouraging signs. On a seasonally adjusted basis, public sector housing starts in the first half of 1982 were 60% up on a year ago; private sector housing starts were 20% up on the same basis. The total number of dwellings renovated with the aid of grant or subsidy in the first quarter of 1982 (the latest for which figures are available) were about one quarter up on the corresponding period last year. Total output in the construction industry was 1% higher in the first quarter of this year than in the previous quarter, while in the last three months, total construction orders were 11% higher in real terms than a year ago. Commercial orders were 10% higher and so far this year have been at their highest level in real terms for any year since 1973.

More generally, the construction industry will benefit from our success in bringing down the rate of inflation and interest rates. The recent announcement by the Building Societies Association of a recommended reduction of $1\frac{1}{2}$ per cent in the mortgage interest rate ~~provides a~~ ^{suggests} ~~clear indication~~ that the outlook for the construction industry is now ~~significantly~~ better than it has been for some time.

Nevertheless, as I indicated above, I am conscious that the construction industry has faced more acute problems during the present recession than

most other parts of British industry. This was one of the reasons why the Chancellor singled out the construction industry for special treatment in two successive Budgets. Taken together the measures in the 1981 and 1982 Budgets have gone some way towards helping the industry to meet the effects of the current recession although it is too early to judge their full impact. As you know, in his 1981 Budget the Chancellor increased the initial capital allowance for industrial buildings from 50 to 75 per cent and made a number of concessions in the field of Development Land Tax. In his 1982 Budget, to encourage the take up of spare capacity in the industry in 1982-83, he announced that the value of grants for major repairs and for the provision of basic amenities would be raised from 75 per cent to 90 per cent of eligible cost for a limited period and that a total of some £100 million would be added to local authorities capital expenditure allocations for this purpose. In all, the cost of these and other measures announced in the 1982 Budget will be worth some £240 million to the construction industry in 1982-83.

No Government can insulate the construction or any other industry fully from the effects of a recession. Public expenditure on capital works, if financed by borrowing which the economy cannot sustain, only leads to higher inflation. If financed by taxation, it inhibits initiative and enterprise. ~~It is not an easy~~ ^{It is not an easy} ~~I was pleased to see you~~ ^{I was pleased to see you} ~~reiterate~~ ^{reiterate} your support for our goal of creating a climate which will secure a permanent reduction in inflation and lead to sustained increased in output and employment. ~~This is the main objective of our policies~~ ^{We remain convinced that} ~~and we continue to believe that it is the one sure way of improving~~ the prospects for all parts of British industry ~~and that includes~~ the construction industry.

Whatever it is,
it is not a
painless way of
stimulating the
economy.



Department of the Environment

2 Marsham Street London SW1P 3EB

Direct line 01-212 8566

Switchboard 01-212 3434

David Andren Esq
Rm 111, Ground Floor
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

Your reference

Our reference

Date

9 August 1982

Dear Mr Andren

NFBTE LETTER TO THE PRIME MINISTER

I refer to Miss Stuart's letter of 29 July addressed to Robin Gray, from whom I have recently taken over, and to our subsequent telephone conversations.

Mr Stanley is generally content with your approach, but would like to see the encouraging statistics displayed. His points could be met by inserting, after the first sentence of your second paragraph:

" However, I cannot accept that the picture is quite as gloomy as you suggest. Although, as you say, there are differences between regions and sectors, recent statistics do contain encouraging signs. On a seasonally adjusted basis, public sector housing starts in the first half of 1982 were 60% up on a year ago; private sector housing starts were 20% up on the same basis. The total number of dwellings *renovated improved or converted* with the aid of grant or subsidy in the first quarter of 1982 (the latest for which figures are available) were about one *third* up on the corresponding *quarter* period last year. Total output in the construction industry was 1% higher in the first quarter of this year than in the previous quarter, while in the last three months, total construction orders were 11% higher in real terms than a year ago. Commercial orders were 10% higher and so far this year have been at their highest level in real terms for any year since 1973.

Nevertheless, the construction industry"

Yours sincerely

N SANDERS
Construction Industries Division 1

UNCLASSIFIED

FROM: MISS C SMART

DATE: 29 July 1982

MR P RAYNER

The Prime Minister has received the attached letter from Mr G M Fordy, President of the National Federation of Building Trades Employers. IPl have been asked to provide a draft reply for the Prime Minister's signature.

2. I should be most grateful for any comments or alterations you wish to suggest to the attached first draft of a reply, to reach me, if possible, by close of play on Monday 2nd August.



MISS C SMART
IPl Division



Treasury Chambers
Parliament Street London SW1P 3AG

Telex 262405

Telephone Direct Line 01-233 } 7543
GTN 233 }
Switchboard 01-233 3000

Mr R Gray
Department of the Environment
Room 511/17
2 Marsham Street
LONDON
SW1

Your reference

Our reference

Date 29 July 1982

Dear Mr Gray,

We have been asked to provide a draft reply to a letter to the Prime Minister from Mr G M Fordy, President of the National Federation of Building Trades Employers, for the Prime Minister's signature (copy attached). I believe you already have a copy received by Mr Heseltine.

We would be grateful for any comments or alterations you wish to suggest to the attached first draft of a reply, to reach us, if possible, by close of play on Monday 2 August.

C. Smart

MISS C SMART

44817

N. Ashton
A.
27/7



Mr. [unclear]

64.

*Pl. prepare draft reply
in consultation with
DOS & GS.*

D. B. [unclear]

Treasury Chambers, Parliament Street, SW1P 3AG 27/7
01-233 3000

M. Gordon

Yours, I think

Mr. Chivers

26/7

Ministerial Correspondence Unit
Room 74C/2
H.M. Treasury

26.7.82

NO.10 CASE

... I attach a letter the Prime Minister's Office have received from *Mr C M Fordy*

I should be grateful if you could arrange for:

- a. A draft reply for the *Prime Minister's* signature to be sent to the Ministerial Correspondence Unit by *4 August 1982*
- b. A suitable reply to be sent on the Prime Minister's behalf, with a copy to the Ministerial Correspondence Unit, by

If you are not responsible for this matter, please inform the Ministerial Correspondence Unit as soon as possible.

R G Durrant

R G DURRANT
233 5697

30/7

G.M. FORDY

6/8

① 9/8

23 July 1982

I attach a copy of a letter the Prime Minister has received from Mr. G.M. Fordy, President of the National Federation of Building Trades Employers.

I should be grateful if you could provide a draft reply for the Prime Minister's signature, and if this could be with me by Friday 6 August.

TIM FLESHER

Miss Jill Rutter,
H.M. Treasury.

W

23 July 1982

I am writing on behalf of the Prime Minister to acknowledge your letter of 22 July. This is receiving attention and a reply will be sent to you as soon as possible.

TIMOTHE FLESHER

G.M. Fordy, Esq.



FOUNDED 23rd JANUARY 1878

The National Federation of Building Trades Employers

FROM THE PRESIDENT

GMF/JRS/038

Rt. Hon. Margaret Thatcher MP
10 Downing Street
London SW1

82 NEW CAVENDISH STREET
LONDON W1M 8AD

01-580 5588

We will give you a draft reply,

JF

23/7

22 July 1982

Dear Prime Minister,

As Parliament approaches the summer recess, I wish that our remarkable national successes in the South Atlantic were being matched by reviving confidence from the construction industry. But if I pretended this were so I would be disloyal to my fellow-builders - especially to those who, like myself, operate the small-to-medium-sized family firms which are the backbone of our industry throughout the less prosperous regions outside the metropolis, and have probably been hit hardest, longest and most damagingly in this recession.

My Federation has just completed its latest Quarterly State of Trade Enquiry and I am enclosing a copy of the results. It shows that recession continues - a recession of unrelieved length and depth. Forward indicators of construction prospects first turned downwards in the middle of 1979 and then declined at an unprecedented rate during 1980 and early 1981. This rate of decline steadied during last year but showed no signs of ceasing, let alone being turned round. We looked hard for confidence-boosting signals when three months ago, in the wake of the excellent Budget publicity, our members seemed to show rather less pessimism and for the first time in three years some of our State of Trade measures improved a little - but things have remained stagnant since then and, as the enclosed graphs show, there are still many more builders who say that new enquiries and output are declining than those who report a pick-up.

The longer that this low and declining level of activity continues, the harder it becomes for even the best companies to operate efficiently, to plan ahead and to maintain an adequate investment in new trainees, skilled craftsmen and well-motivated management. In many areas away from the South East of England the prospect is particularly bleak - and that goes for other industries as well.

Our analysis of the Department of the Environment's new orders statistics shows that such growth as has occurred in the past twelve months has been particularly concentrated on office developments and -

.../

Key: Handl requested a reply to this
cc Press office 4

to a lesser extent - large transport projects in the South of England. By contrast, new orders for the wider range of regular medium and smaller size projects throughout the out-lying regions of England has remained thoroughly depressed. Even the much-heralded spring surge in private housing starts has not been reflected in builders' completions; actual sales have not matched the temporary increase in starts. Discounting month by month fluctuations the overall trend of new orders figures to the industry during the past 18 months has been 20% below the average from 1974 - 78 during which the industry was last in recession.

Between now and October, you and your Cabinet colleagues will be making the critical decisions on public expenditure plans for the next financial year 1983/4. I believe that the economic and employment-generating case for increased public capital expenditure upon construction has been persuasively made to your Government and has been fully recognised, not least by the Chancellor of the Exchequer in his last Budget Statement.

Surely the strong fiscal control you have established enables you without serious risk to the important battle against inflation, to launch a modest, steady and effective programme of investment which would give just that necessary sign of confidence to keep good firms, skilled resources and productive capacity in our industry. Unless tangible signs of a workload recovery in both the private and public sectors become clear very soon many more firms, even amongst the very best, will enter a new round of labour shedding and faster reduction of apprentice intakes - if indeed they can continue in business at all. But with such an initiative, the many firms who have up to now loyally supported the main thrust of your firm financial policies, will begin to reap the rewards of improved working methods gained in the past two years. That will be good for output, good for jobs and good for the nation as a whole.

Finally, because of the deep concern felt by our members at our industry's trading prospects I should say that I am intending to release the contents of this letter to the media.

Yours sincerely,
G.M. Fordy

G.M. Fordy

NFBTE STATE OF TRADE ENQUIRY

JUNE 1982

ECONOMIC ANALYSIS

Analysis of the June NFBTE State of Trade Enquiry, based on replies from 500 contractors, suggests that the hints of a strengthening recovery seen at the March State of Trade Enquiry have not been fulfilled. The enquiries and output indicators both suggest that although the position is not deteriorating as rapidly as in 1980 and 1981, the number of respondents reporting worsening market conditions still outweighs those experiencing market growth. Perhaps the most depressing factor is that no single sector of the industry is experiencing even moderate growth and the Enquiry confirms recent industry (BMP) forecasts of virtual stagnation this year.

New Enquiries

There has been very little change in the New Enquiries indicator this quarter. The ratio of contractors reporting increased enquiries for "all works" against those reporting falling enquiries now stands at 1:1 $\frac{2}{3}$ (18% to 30%) as compared with 1:1 $\frac{1}{2}$ (20% to 35%) at the previous Enquiry. This is a disappointing result after the modest improvement seen at the March Enquiry and suggests that the ratio has now stabilised.

As with the "all works" indicator, individual sectors of the industry have seen virtually no change in the enquiries ratio this quarter. The only exceptions are public housebuilding and housing repair and maintenance, in both of which there has been a very slight improvement in the ratio, although it remains negative in both cases. (Public housing 15:43, housing repair and maintenance 20:23). The private housing ratio, which improved dramatically at the last Enquiry, has remained virtually unchanged; suggesting that recovery in this sector has also faltered. Regional analysis suggests that overall figures conceal marked discrepancies between regions, with Yorkshire, North-Western, Liverpool and South Western regions, all worse-hit than the average for "all works" for the country as a whole would suggest.

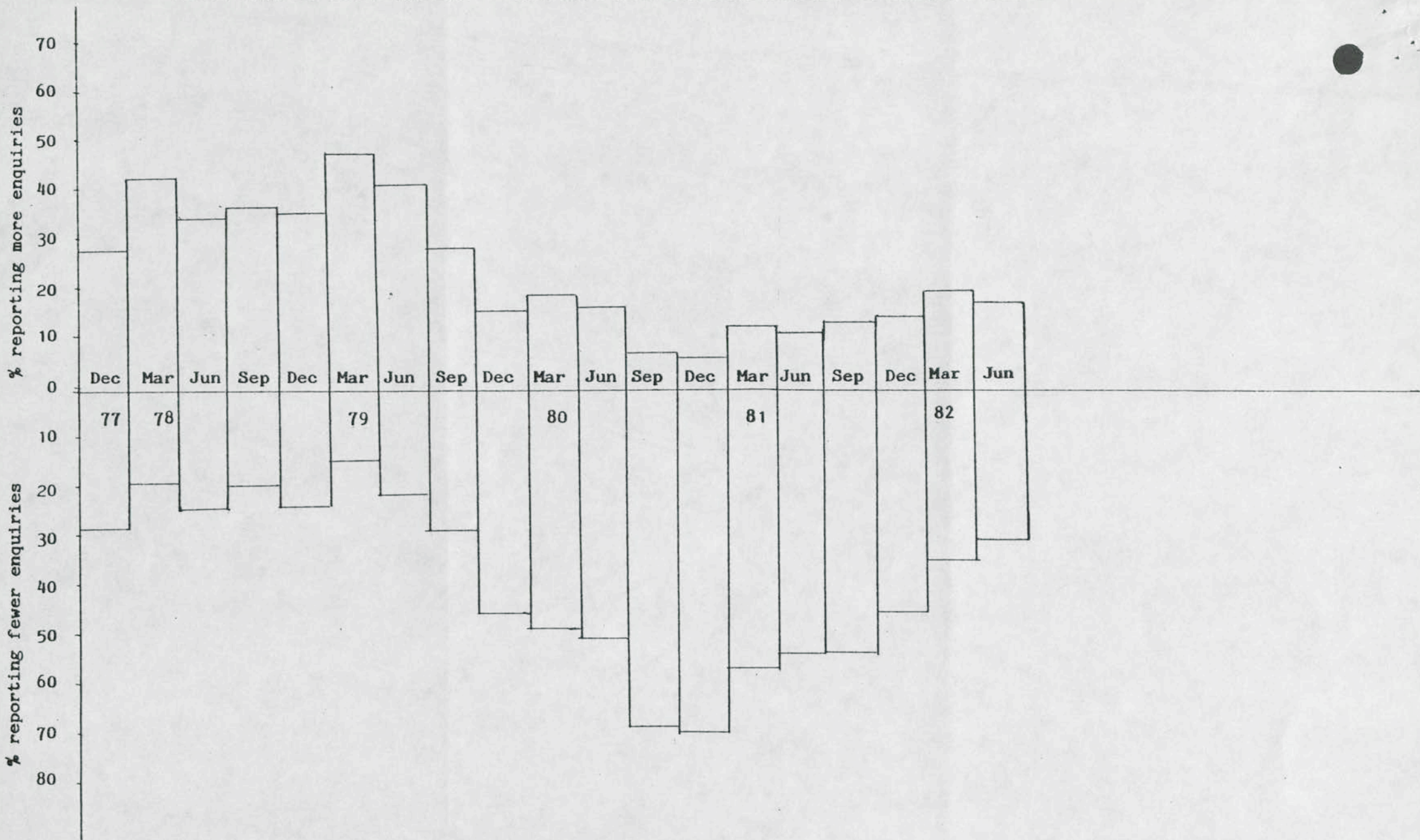
Volume of Work

Expectations for output remain virtually unchanged since the previous Enquiry. 20% of contractors expect output to increase this year, whilst 44% expect output to fall. These results are once again better than those for 1981 when two-thirds of respondents expected output to fall, but they do not point to an upturn in 1982. The results suggest that at best output should stabilise this year, whilst a further small drop in output cannot be ruled out.

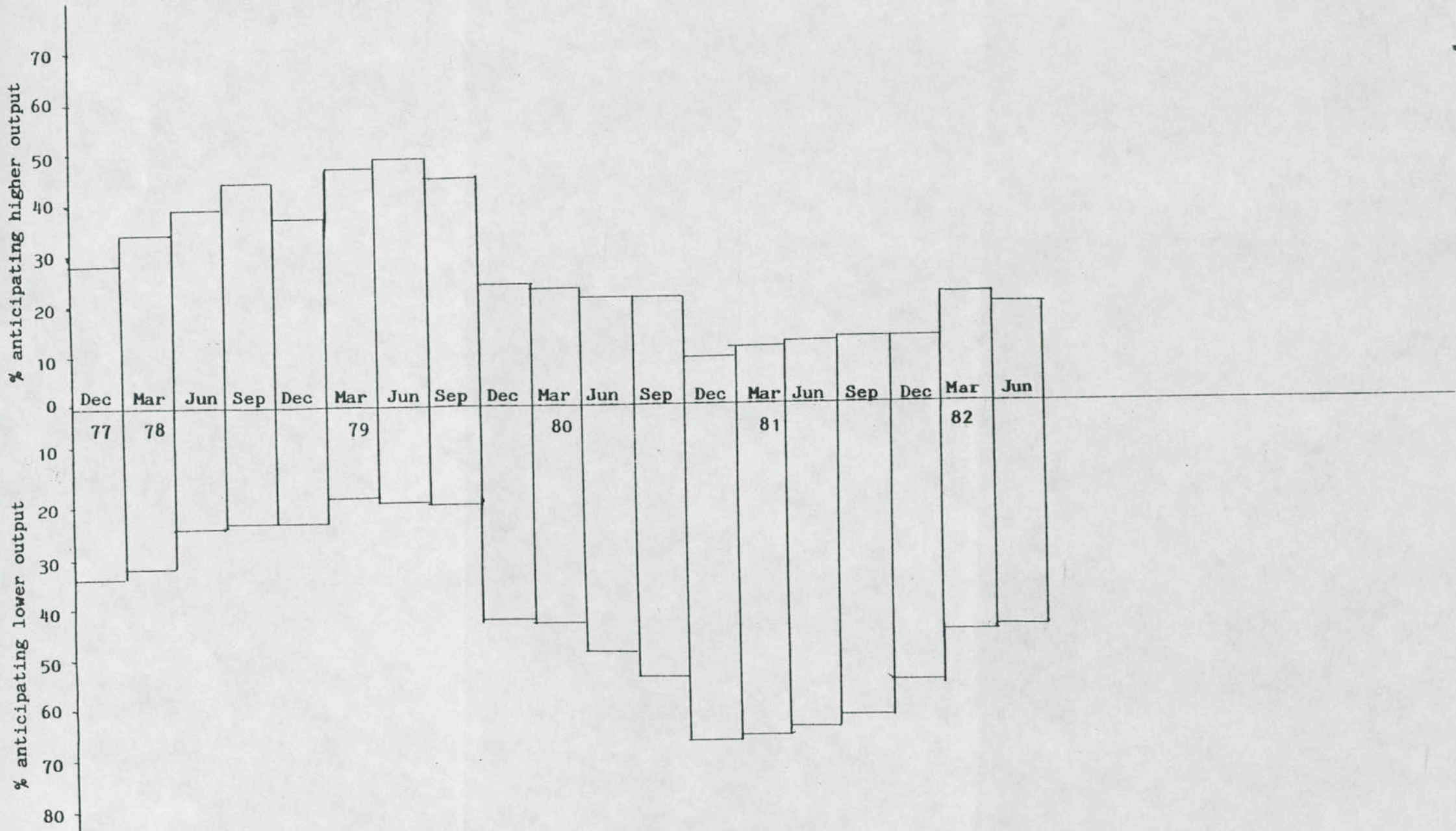
Capacity of Operations

The number of contractors working at full or almost full capacity has risen slightly to 23%, exactly the same percentage as the number of contractors working at half or less than half capacity. However, this moderately optimistic picture is counterbalanced by some extremely gloomy regional results - worst-hit are Liverpool and Northern Regions. In Liverpool, only 4% of contractors are working at full or almost full capacity, whilst 52% of contractors are working at less than half capacity. Northern Region is similarly depressed, with only 6% of contractors working at full or almost full capacity and 50% of contractors working at less than half capacity.

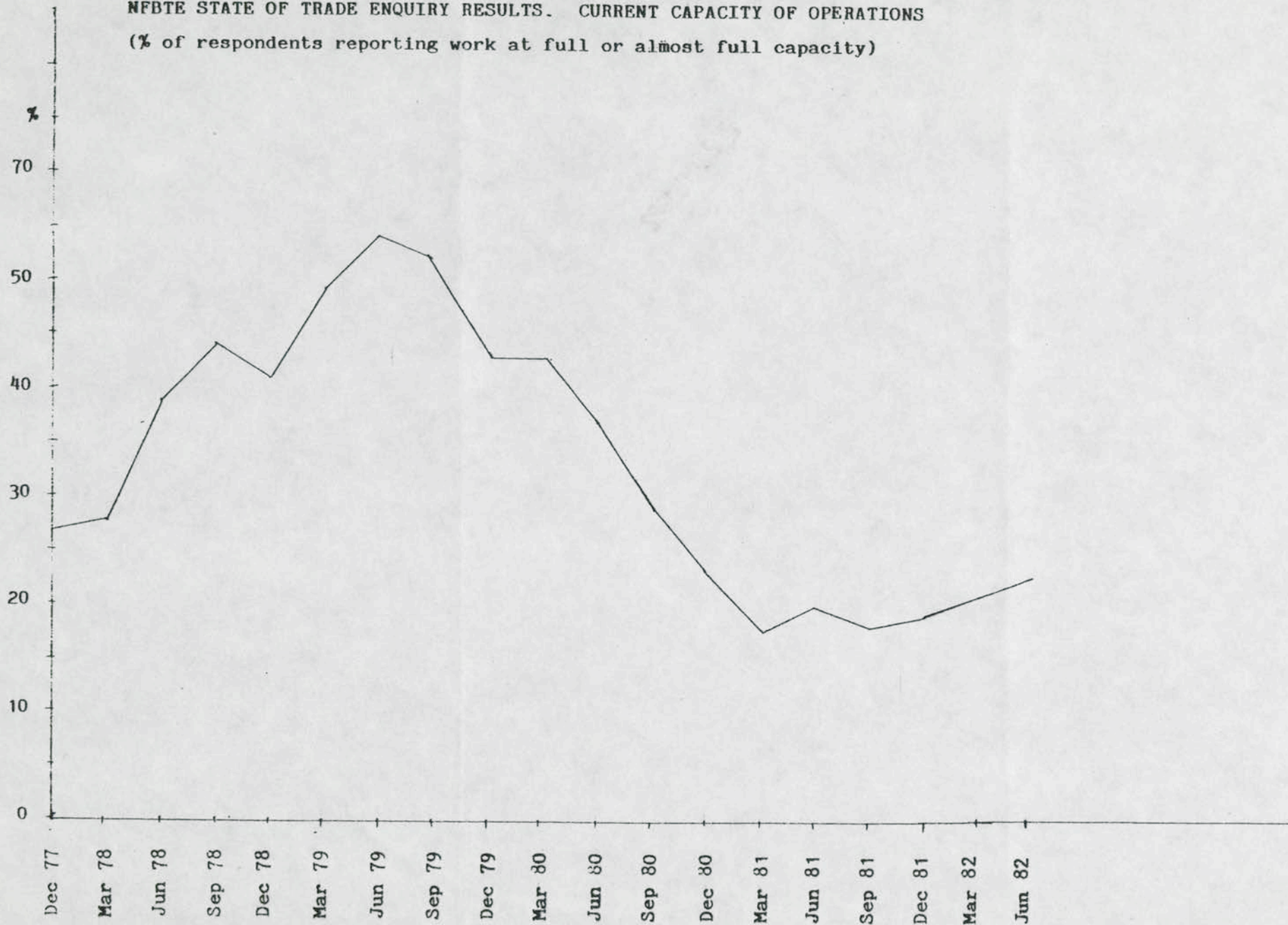
NFBTE STATE OF TRADE ENQUIRY - NEW ENQUIRIES FOR WORK RELATIVE TO PREVIOUS QUARTER



NFBTE STATE OF TRADE ENQUIRY - VOLUME OF WORK THIS YEAR RELATED TO LAST YEAR



NFBTE STATE OF TRADE ENQUIRY RESULTS. CURRENT CAPACITY OF OPERATIONS
(% of respondents reporting work at full or almost full capacity)





2 JUL 1982