

High hopes of cut in base rates

● **David Smith**
Economics Editor

A SHARP DROP in inflation this week, coupled with a cut in American interest rates, will provide room for Norman Lamont to cut base rates. Sterling's continued strength in the European exchange-rate mechanism, reflected in a rate of DM2.98 in New York on Friday, means the pound's level is not a constraint on the chancellor.

Expectations are that Lamont will cut rates from 12.5% to 12%, following Friday's publication of the retail prices index for March. The inflation rate is set to drop from 8.9% to 8.4%. A further half-point cut in base rates will allow a cut in mortgage rates by 0.75 points, effective from May 1, in time to influence voting in the May 2 local elections.

The Bank of England, in its money-market operations last week, failed to stamp out interest-rate hopes. Glenn Davies, economist at Crédit Lyonnais Securities, said: "There is an excellent chance of a base-rate cut this week. The pound is performing exceptionally well and there are enough weak data to show that a cut is needed."

Friday's US employment data, showing a 206,000 fall in non-farm jobs, and a rise in the unemployment rate from 6.4% to 6.8%, dashed hopes of an early end to the American recession.

"These figures spelt recession not recovery," commented Gerard Lyons, economist at DKB International. "The Fed will cut the discount rate to 5.5% in the next few days, and the rate can fall to 4% by the end of the year."

The gloomy American data are accompanied by new evidence that, despite hopes of recovery later this year, Britain's economy is still deep in recession.

A survey of manufacturing and service companies by the West Midlands Regional Group of Chambers of Commerce, to be published tomorrow, shows home and export orders have dropped further

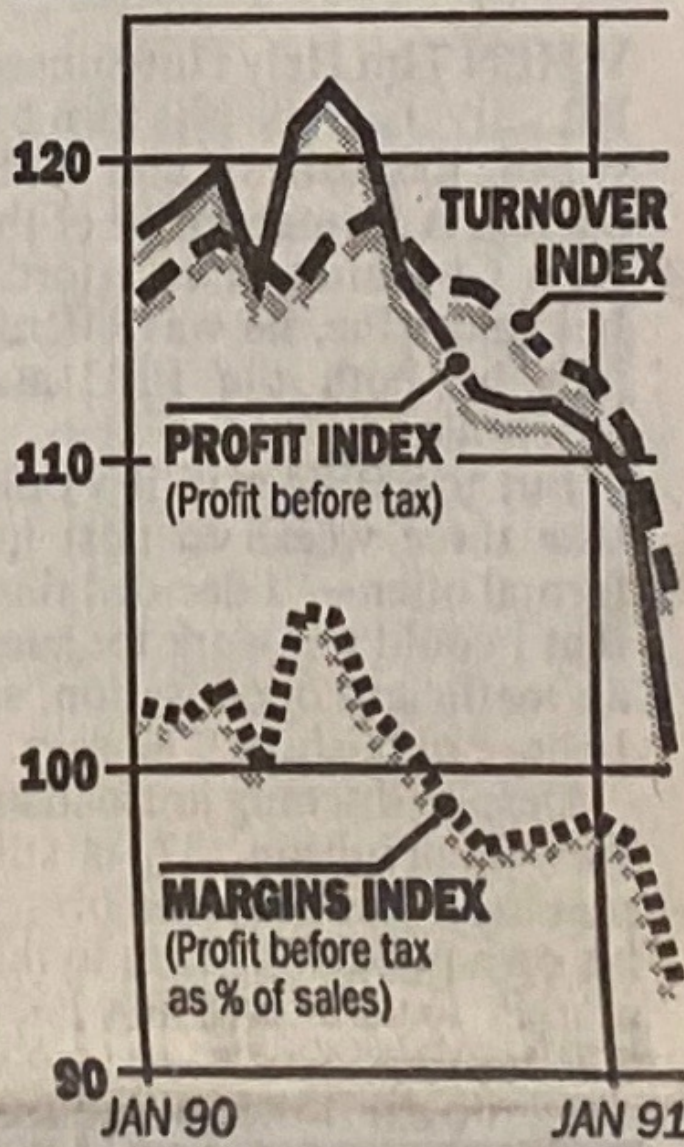
over the past three months, and the proportion of firms working below capacity has increased.

Companies in the region are gloomy about employment prospects, and productivity has suffered with the decline in output. Although business confidence has stabilised at December's levels, the situation remains fragile.

New official figures last week revised away a provisional estimate that retail sales had recovered by 1% in February. The revised picture, which is consistent with retailers' own estimates, is that sales have been flat so far this year.

The Sunday Times/P-E International Business Baro-

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PE-International
business barometer



meter, for March, shows that the recession is still biting hard. The profits-before-tax measure dropped sharply as margins were squeezed.

The moving annual figure for turnover fell below inflation, for the first time since the barometer was established in December 1986. The most gloomy results monitored in the survey were from building, construction and vehicle distribution companies.

Although analysts are confident that a cut in base rates to 12% will come in the wake of this month's inflation data, they are less certain about longer-term rate prospects.

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