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SAVING OF 12

FEBRUARY 1980

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MONTHLY ECONOMIC REPORT FOR THE UNITED STATES

SUMMARY

1. The long awaited US recession has still not arrived. The economy grew by 0.3% in the fourth quarter of 1979, following a strong performance in the third. This brings to 2.3% the rate of growth for 1979 as a whole.
2. The rise in economic activity was mainly associated with higher real personal consumption, financed by a further decline in the household savings ratio. This now stands at 3.3% -- the lowest level since 1950. Fixed investment was slightly lower, and net imports virtually unchanged.
3. Industrial production is also consistent with a relatively buoyant economy, with total production slightly higher in December, following small declines in November and October. There are, however, some signs of weakness in cyclically sensitive sectors. Although privately owned housing starts were unchanged in December, the level was 26% down on a year earlier. Sales of US produced motor vehicles were also 24% down in the first half of January, compared with a year earlier. Generally inventories were higher, with the inventory/sales ratio rising to 1.42 in November from 1.41 a month earlier. The unemployment rate, which has remained in the range of 5.6% to 6.0% for over a year, increased to 6.2% in December.
4. The rate of inflation continues to be a major cause of concern. The consumer price index rose by 1.2% in December (seasonally adjusted) and now stands 13% higher than a year earlier. As anticipated, house prices and mortgage costs rose sharply, but other components also contributed to the overall rise. The implicit GNP price deflator rose by 2.1% in the fourth quarter of 1979.

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5. The growth in the monetary aggregates M1 and M2 continues to be within the target ranges. The credit aggregates (total loans and business loans) appear to be growing at a slower pace than in the period immediately preceding the Fed's October 6 measures. Growth in bank reserves in recent weeks has been faster than that of the monetary aggregates. Although this is causing some concern in financial circles the Fed seem content provided growth in the main monetary and credit aggregates remains satisfactory. Interest rates in the long term bond markets rose sharply at the end of January, in response to a more pessimistic view of inflation prospects and the banks' prime rates remain in a range of about 15 $\frac{1}{4}$ %.

6. The strong growth in US exports over the last 18 months appears to be tapering off. Total exports were only 1.4% higher in the fourth quarter. In December the trade deficit increased to \$3.08 bn, in part a result of a higher oil import bill and lower gold exports.

7. January saw a number of economic policy announcements. The President sent his budget proposals to Congress (see our Telegram No. 415) and published his economic report (our Telegram No. 548). The Administration decided against proposing a tax cut at this time, although they indicated that a tax cut would be considered if economic conditions and prospects were significantly to worsen. The Administration's forecasts were notable for their pessimism about the prospects for US inflation and labour productivity growth over the next 18 months. As a response to these problems, Senator Kennedy has called for a statutory 6-month freeze on prices, wages and dividends, to be followed by an incomes policy.

(SEE MIFT FOR FULL REPORT)

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U.S. MONTHLY ECONOMIC SITUATION  
REPORT

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PRINCIPAL INDICATORSQuarterly Data (1979 - Q4)% change on

	<u>Previous Quarter</u>	<u>Year earlier</u>
GNP	0.3	0.8
Exports of Goods and Services	1.4	8.9
Imports of Goods and Services	1.1	2.2

Actual Level

	<u>Latest Quarter</u>	<u>Previous Quarter</u>
Balance of Payments Current Account (Q3)	\$ 0.8 bn	\$-1.1 bn

Monthly Data% change on

	<u>Previous Month</u>	<u>Year earlier</u>
Consumer Price Index (Dec)	1.2	13.3
Money Stock M1 (Dec)	0.4	5.7
M2 (Dec)	0.5	8.4
Dollar Effective Exchange Rate	-0.8	1.2

Actual Level

	<u>Latest Month</u>	<u>Year earlier</u>
Banks Prime Rate % (Jan)	15.3	11.8
Unemployment Rate % (Jan)	6.2	5.8