

RESTRICTED  
SAVING TELEGRAM

WSD

BY BAG

FROM WASHINGTON

[CULL]

TO FCO TELNO 5 SAVING OF 12 MARCH 1982

MS

UNITED STATES MONTHLY ECONOMIC REPORT FOR FEBRUARY 1982

SUMMARY

1. Senate Republican leaders have indicated the President's FY83 budget proposals are unlikely to pass Congress in their current form. Senate Budget Committee Chairman Domenici is working for a bi-partisan consensus on alternative proposals. These might include lower growth in defence expenditure, a freeze on federal pay and entitlement payments in FY83, a freeze in most other programmes for 3 years, and closing tax loopholes. Other Congressmen have proposed postponing the third instalment of the 3 year personal tax cut enacted last year. Should a bi-partisan consensus be reached, the Congress might seek to impose it on the Administration as a condition of approving an increase in the federal debt limit which will be needed in April or May. On 9 March President Reagan said that he was prepared to work with Congress on the budget issue, but he studiously avoided comment on specific alternative proposals.

2. The Congressional Budget Office (CBO) published a report on 25 February on the President's FY83 budget proposals. The CBO have estimated that the Administration's budget would produce higher deficits than the Administration projects. They have used less optimistic economic assumptions, and expect significantly higher outlays. The CBO estimate that, if the Administration's measures are passed, the FY83 budget deficit would be \$121bn, rising to \$129bn in FY84 and \$140bn in FY85 (compared with the Administration's forecast of \$91.5bn, \$82.9bn and \$71.9bn respectively).

3. The US recession is continuing. Industrial production fell by 3% in January to stand 10% below its level in July 1981 (when the recession began). The decline has been widespread;

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with the car and housing industries remaining depressed. The unemployment rate rose to 8.8% in January, compared with 7.2% in July 1981. Most private forecasters consider that the prospects for the US economy in 1982 have become gloomier since the beginning of the year. Many forecast a postponement of the end of the recession to mid-year, and are scaling down their predictions of the strength of the recovery.

4. An encouraging trend is the moderation in inflation. The January Consumer Price Index stood 8.4% above its level of a year earlier. The rate of increase in the housing component continues to ease, while lower petrol prices have contributed to a decline in the transportation component. Average earnings per hour in the private sector were 7.5% higher in February than a year earlier.

5. Market interest rates have eased from the middle of February, partly because of the prolonged weakness of the economy. At the end of the month, rates on 3-month Treasury Bills stood at 12.8% and on 20-year Government bonds at 14.1%.

(See MIFT for Full Report)

HENDERSON

FINANCIAL  
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THIS TELEGRAM  
WAS NOT  
ADVANCED

## PRINCIPAL INDICATORS

### Quarterly Data (1981 - Q4)

	<u>% change on</u>	
	<u>Previous Quarter</u>	<u>Year earlier</u>
GNP	-1.2	0.8
Exports of Goods & Services	-3.7	-2.0
Imports of Goods & Services	-0.2	7.2

### Actual Level

	<u>Latest Quarter</u>	<u>Previous Quarter</u>
Balance of Payments Current Account (Q3)	\$2.1bn	\$1.1bn

### Monthly Data

	<u>% change on</u>	
	<u>Previous Month</u>	<u>Year earlier</u>
Consumer Price Index (JAN)	0.3	8.4
Money Stock M1B(JAN)	1.5	7.0
M2 (New) (JAN)	1.0	10.5
Dollar Effective Exchange Rate (FEB) nsa	3.2	12.4

### Actual Level

	<u>Latest Month</u>	<u>Year earlier</u>
Banks Prime Rate % (FEB) nsa	16.6	19.4
Unemployment Rate % (FEB)	8.8	7.3

Note: all figures are seasonally adjusted unless otherwise noted.