

GRS 434

RESTRICTED

IMMEDIATE



FM F.C.O. 231819Z SEP 82

TO IMMEDIATE PEKING

TELEGRAM NUMBER 440 OF 23 SEPTEMBER

FOLLOWING TELEGRAM NOW REPEATED TO YOU FOR P.M.'S PARTY AT REQUEST OF PRIVATE OFFICE WAS RECEIVED FROM WASHINGTON TELEGRAM NUMBER 3118 OF 22 SEPTEMBER

INFO SAVING PARIS BONN OTTAWA TOKYO AND CGS USA.

US ECONOMY : RECENT DEVELOPMENTS

1. THE MOST RECENT STATISTICS ABOUT THE US ECONOMY, AND PRONOUNCEMENTS ON THEM BY SOME SENIOR MEMBERS OF THE ADMINISTRATION, HAVE STRUCK A RATHER OPTIMISTIC NOTE. THE COMMERCE DEPARTMENT HAS NOW REVISED UPWARDS ITS ESTIMATE OF THE GROWTH IN REAL GNP IN THE SECOND QUARTER FROM 1.3 TO 2.1 PERCENT (BOTH AT ANNUAL RATES). THEIR FIRST INDICATION IS THAT THERE HAS BEEN SOME FURTHER GROWTH IN THE THIRD QUARTER (1.5 PERCENT AT AN ANNUAL RATE). THE INDEX OF LEADING INDICATORS HAS ALSO RISEN FOR FOUR SUCCESSIVE MONTHS.

2. WITH BOTH THE RATE OF INFLATION (NOW AT 6.5 PER CENT) AND INTEREST RATES FALLING, THE NEW YORK STOCK MARKET HAS CONTINUED ITS RALLY, AND ON 21 SEPTEMBER CLOSED WITH THE DOW JONES INDUSTRIAL AVERAGE AT OVER 934, THE HIGHEST FOR OVER A YEAR. THE YIELD ON A 3 - MONTH TREASURY BILL IS BELOW 8 PERCENT, AND ON A LONG-TERM TREASURY BOND BELOW 12 PERCENT.

3. IN RESPONSE TO THE LATEST DEVELOPMENTS, SPEAKES (WHITE HOUSE SPOKESMAN) HAS SAID THAT "THE SIGNS ARE UNMISTAKABLE. THE MOMENTUM FOR RECOVERY IS BUILDING, EVEN IF IT IS BUILDING SLOWLY". TREASURY SECRETARY REGAN SAID YESTERDAY THAT "THE WORST IS BEHIND US" AND (ON UNEMPLOYMENT, NOW AT 9.8 PERCENT) THAT THE ADMINISTRATION WAS "OPTIMISTIC THAT A STEADY, SUSTAINABLE RECOVERY WILL REFLECT ITSELF IN NEW HIRING" BY YEAR-END.

4. PRIVATELY, FELDSTEIN (CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS) HAS BEEN SAYING THAT THE US ECONOMY IS STILL FLAT. THIS VIEW IS SHARED BY MOST ECONOMIC COMMENTATORS OUTSIDE THE ADMINISTRATION, WHO BELIEVE THAT THE US ECONOMY IS STILL WEAK,

AND THAT THIS HAS BEEN ONE OF THE FACTORS LYING BEHIND THE  
DECLINE IN INTEREST RATES. THEY ALSO BELIEVE THAT THE FEDERAL  
RESERVE BOARD MAY SOON RE-TIGHTEN MONETARY POLICY TO RESTRICT  
RECENT RAPID GROWTH IN THE MAIN MONETARY AGGREGATE, M1, AND  
THIS COULD HALT THE DECLINE IN INTEREST RATES. FURTHER INCREASES  
IN UNEMPLOYMENT ARE ALSO CLEARLY POSSIBLE, AND THE CAR AND  
HOUSING INDUSTRIES REMAIN DEPRESSED. BUT, AS THE MID-TERM  
CONGRESSIONAL ELECTIONS APPROACH, THE ADMINISTRATION CAN NOW  
CLAIM WITH SOME CREDIBILITY THAT A SLOW RECOVERY IS BEGINNING  
AND THAT THE LATEST US ECONOMIC DEVELOPMENTS ARE AT LEAST IN  
THE RIGHT DIRECTION.

5. FCO PLEASE PASS TO BOTTRILL (TREASURY). WATSON (BANK OF  
ENGLAND) AND BROADBENT (ESID).

FCO PASS SAVING PARIS BONN OTTAWA AND TOKYO.

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