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R E S T R I C T E D

FM WASHINGTON 252140Z OCT 82  
TO PRIORITY CG NEW YORK  
TELEGRAM NUMBER 12 OF 25 OCTOBER  
INFO PRIORITY F C O  
INFO SAVING ALL OTHER US CGS

US ECONOMY

1. YOUR INTERESTING TELNO 27 OF 22 OCTOBER REINFORCES OUR IMPRESSIONS (WASHINGTON TELNO 3320 OF 12 OCTOBER) THAT THE IMMEDIATE PROSPECTS FOR THE US ECONOMY MAY BE LESS OPTIMISTIC THAN THE RECENT BEHAVIOUR OF THE NEW YORK STOCK EXCHANGE MIGHT INDICATE, AND THAT THE FEDERAL RESERVE BOARD'S MORE RELAXED ATTITUDE STEMS IN PART BECAUSE IT IS CONCERNED ABOUT ECONOMIC PROSPECTS. GROWTH OF 3-4 PER CENT IN 1983 OVER 1982 WOULD REPRESENT ONLY A WEAK RECOVERY COMPARED TO NORMAL, AND STILL LEAVE UNEMPLOYMENT VERY HIGH. IT SHOULD NOT ALTOGETHER BE RULED OUT AT THIS STAGE, BUT THE STATE OF CONSUMER CONFIDENCE, WHICH YOU MENTION, WILL BE AN IMPORTANT FACTOR IN DETERMINING HOW STRONG THE RECOVERY WILL BE. FOR WHAT IT IS WORTH, THE SO-CALLED BLUE CHIP CONSENSUS FORECAST, WHICH IS THE AVERAGE OF LEADING PRIVATE FORECASTS, AND IS USUALLY FAIRLY ACCURATE BY THIS STAGE IN THE YEAR, CURRENTLY SHOWS A GROWTH OF GNP IN 1983 OF 3.2 PER CENT.

2. THE POLICIES OF THE FED HAVE ATTRACTED MORE INTEREST RECENTLY THAN THE SIZE OF THE BUDGET DEFICIT AS A DETERMINANT OF US INTEREST RATES. BUT IF ADMINISTRATION PROPOSALS FOR THE FY84 BUDGET (TO BE PRESENTED IN EARLY 1983) WERE TO REPRESENT CLEARLY INADEQUATE PROGRESS TOWARDS THE ADMINISTRATION'S EXPRESSED AIM OF EVENTUALLY BALANCING THE BUDGET, THIS COULD ONCE AGAIN HAVE A SIGNIFICANT AND EARLY ADVERSE EFFECT ON FINANCIAL MARKETS, AND COULD AFFECT LONG-TERM INTEREST RATES IN PARTICULAR.

3. LIKE YOU, WE ARE RATHER SURPRISED BY THE COMMENT OF YOUR INFORMANTS RECORDED IN THE LAST SENTENCE OF YOUR PARAGRAPH 7. OPINIONS ON THIS POINT DO OF COURSE DIFFER, DEPENDING PARTLY ON THE EXPOSURE OF DIFFERENT BANKS TO COUNTRIES CURRENTLY IN THE NEWS. BUT THE MAJOR BANKS REPRESENTED AT THE CHANCELLOR'S LUNCH IN TORONTO DID NOT GIVE THE IMPRESSION THAT THEY HAD BEEN TAKEN BY SURPRISE BY THE SITUATION WHICH WAS BEING DISCUSSED THERE. INDEED, HAVING COME WITH A FEELING WHICH ONE OF THEM DESCRIBED AS QUOTE WORRED BUT NOT ALARMED UNQUOTE, THEY GAVE THE IMPRESSION THAT THEY HAD BEEN, IF ANYTHING, SOMEWHAT REASSURED BY THEIR TALKS IN TORONTO.

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4. WE AGREE GENERALLY WITH YOUR ASSESSMENT OF THE PROTECTIONIST MOOD IN THE US. US EXPORTERS, OF COURSE, FACE PRESSURE FOR IMPORT RESTRICTIONS IN OVERSEAS MARKETS NOT ONLY BECAUSE OF BALANCE OF PAYMENTS DIFFICULTIES THERE, BUT ALSO BECAUSE OF UNEMPLOYMENT PROBLEMS OVERSEAS.

WRIGHT

STANDARD  
NAD  
ESID  
TRED  
WED  
ECD (E)  
MR THOMAS  
CABINET OFFICE

COPIES TO  
H. M. TREASURY

COPIES SENT TO  
No. 70 DOWNING STREET

THIS TELEGRAM  
WAS NOT  
ADVANCED

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