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FM WASHINGTON 032330Z MAR. 83

TO PRIORITY FCO

TELEGRAM NUMBER 512 OF 3 MARCH 1983

INFO SAVING PARIS, BONN, TOKYO, UKREP BRUSSELS

US ECONOMY: SHORT-TERM PROSPECTS

1. THE INDEX OF LEADING ECONOMIC INDICATORS ROSE BY 3.6% IN JANUARY, PROVIDING FURTHER EVIDENCE THAT AN ECONOMIC RECOVERY IS UNDER WAY. THIS INCREASE IN THE REVISED INDEX (THE LARGEST FOR OVER 30 YEARS) FOLLOWS A 0.8% INCREASE IN DECEMBER AND A 0.4% INCREASE IN NOVEMBER. THE INDEX HAS NOW RISEN FOR 9 OUT OF THE LAST 10 MONTHS. WHILE MUCH OF THE INCREASE WAS BECAUSE OF THE GROWTH IN THE MONEY SUPPLY (M2), LARGE INCREASES WERE ALSO RECORDED IN THE AVERAGE WORK WEEK, NEW ORDERS AND BUILDING PERMITS. FELDSTEIN, CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS, IS REPORTED AS SAYING THAT THE LATEST FIGURE FOR THE INDEX SHOWS THAT THE RECOVERY BEGAN IN JANUARY.

2. THE BLUE CHIP CONSENSUS OF PRIVATE FORECASTERS IS THAT IN 1983 GNP GROWTH WILL BE 2.5% OVER 1982, COMPARED TO THE ADMINISTRATIONS BUDGET FORECAST OF 1.4%. COMMERCE UNDER SECRETARY DEDERICK HAS SAID THAT REAL OUTPUT COULD BE GROWING AT AN ANNUAL RATE OF 4% OR MORE IN THE FIRST QUARTER OF THIS YEAR AND THAT THE RECOVERY IS QUOTE CLEARLY GOING TO BE FASTER THAN THE FORECAST UNDERLYING THE BUDGET DOCUMENT UNQUOTE. HE FORECASTS GROWTH OF 5 PER CENT BETWEEN THE FOURTH QUARTERS OF 1982 AND 1983.

3. FELDSTEIN HAS SAID THAT THE ADMINISTRATION WILL REVISE UPWARDS ITS ECONOMIC FORECASTS FOR 1983. DISCUSSIONS WITH SENIOR OFFICIALS IN THE COUNCIL OF ECONOMIC ADVISERS HAVE CONFIRMED THAT THEY EXPECT THE REVISED GROWTH RATE TO BE WITHIN THE RANGE OF 2.0 - 2.5% OVER 1982. THE NEW ESTIMATE WILL REFLECT THE COMMENCEMENT OF THE RECOVERY IN JANUARY, RATHER THAN LATER DURING THE FIRST QUARTER AS WAS ORIGINALLY ASSUMED, AND THE FALL IN OIL PRICES. LOWER OIL PRICES WILL REDUCE INFLATION FURTHER AND ARE THEREFORE EXPECTED TO RAISE CONSUMERS' REAL DISPOSABLE INCOME AND SPENDING.

4. THE MAIN CONCERN CONTINUES TO BE THE NEED FOR LOWER INTEREST RATES TO SUSTAIN THE GROWTH IN OUTPUT INTO THE SECOND HALF OF THE YEAR. DEDERICK HAS ACKNOWLEDGED THAT LARGE BUDGET DEFICITS COULD BE A MAJOR PROBLEM IN ACHIEVING A SUSTAINED AND BALANCED RECOVERY.

5. FCO PLEASE PASS TO BOTTRILL (HMT) AND WATSON (BANK).

FCO PASS SAVING:- PARIS BONN TOKYO UKREP BRUSSELS

WRIGHT
FINANCIAL
ERD
NAD

[NOT ADVANCED]

(REPEATED AS REQUESTED)

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