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FM WASHINGTON 222245Z

TO PRIORITY FCO

TELEGRAM NUMBER 721 OF 22 MARCH 1983

SAVING TO PARIS, BONN, TOKYO, OTTAWA, UKREP BRUSSELS.

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US ECONOMY: GNP GROWTH IN THE FIRST QUARTER OF 1983.

1. THE US ECONOMY HAS BEEN GROWING AT 4 PER CENT ANNUAL RATE IN THE FIRST QUARTER OF 1983 ACCORDING TO THE QUOTE FLASH UNQUOTE ESTIMATE FROM THE DEPARTMENT OF COMMERCE. THIS IS CLOSE TO THE LATEST BLUE CHIP CONSENSUS OF PRIVATE FORECASTS WHICH IS FOR 4.4 PER CENT GROWTH AT AN ANNUAL RATE DURING THE FIRST QUARTER, AND AT THE BOTTOM END OF THE COMMERCE DEPARTMENT'S EARLIER PREDICTIONS.

2. THE ESTIMATES OF HIGHER ACTIVITY, BASED ON PRELIMINARY DATA FOR JANUARY AND PROJECTIONS FOR FEBRUARY/MARCH, REFLECT HIGHER PRODUCTION OF CARS, STEEL AND HOME APPLIEANCES (FOLLOWING THE HEAVY DRAWDOWN OF STOCKS IN THE FORTH QUARTER OF 1982) AND CONTINUED IMPROVEMENT IN RESIDENTIAL CONSTRUCTION. THERE WERE HOWEVER DECLINES IN THE NET EXPORT OF GOODS AND SERVICES, AND IN GOVERNMENT EXPENDITURE. BUSINESS FIXED INVESTMENT SHOWED LITTLE CHANGE, AND THERE WAS PROBABLY ONLY A MODERATE INCREASE IN CONSUMERS' EXPENDITURE. THE MAIN FACTORS BEHIND THE RECOVERY SO FAR SEEM THEREFORE TO BE A DECELERATION IN INVENTORY DRAWDOWN AND THE RECOVERY IN HOUSING.

3. TREASURY SECRETARY REGAN, COMMENTING ON THE NEW GNP ESTIMATES, SAID THAT GROWTH COULD EXCEED AN ANNUAL RATE OF 4 PER CENT IN THE FIRST QUARTER AND INCREASE TO 5 PER CENT BY THE THIRD QUARTER PROVIDED THAT INTEREST RATES DO NOT RISE. THE PRESIDENT SAID THAT THE RECOVERY QUOTE LOOKS LIKE IT WILL BE LONG AND STRONG UNQUOTE. UNTIL THERE ARE SIGNS OF A HIGHER RATE OF INCREASE IN CONSUMER SPENDING, HOWEVER, MOST MAJOR FORECASTING ORGANISATIONS BELIEVE THAT THE RECOVERY WILL BE GRADUAL, AND WELL BELOW THE AVERAGE FOR POST-WAR BUSINESS CYCLES.

FCO PASS SAVING PARIS, BONN, TOKYO, OTTAWA, UKREP BRUSSELS.

WRIGHT

[REPEATED AS REQUESTED]
[THIS TELEGRAM WAS NOT ADVANCED]

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