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THE US ECONOMY: MOVEMENTS IN THE LEADING INDEX OF ECONOMIC INDICATORS

1. THE INDEX OF LEADING ECONOMIC INDICATORS, WHICH IS DESIGNED TO PREDICT MONTHLY MOVEMENTS IN AGGREGATE ECONOMIC ACTIVITY, DECLINED BY 0.8 PERCENT IN JULY, FOLLOWING A REVISED 1.3 PERCENT IN JUNE. THE LARGEST CONTRIBUTION TO THE DECLINE WAS IN BUILDING PERMITS, AND NEW ORDERS FOR PLANT AND EQUIPMENT FELL FOR THE SECOND MONTH IN A ROW. THE LAST TIME THE INDEX DECLINED FOR TWO CONSECUTIVE MONTHS WAS IN DECEMBER/JANUARY 1981/2.

2. A WHITE HOUSE SPOKESMAN SAID THE FALL IN THE INDICATORS QUOTE SIGNALS SOME MODERATION AHEAD IN ECONOMIC ACTIVITY WHICH SHOULD HELP IN DIMINISHING PRESSURE ON INTEREST RATES UNQUOTE. MOST ANALYSTS ARE AGREED THAT AT LEAST THREE CONSECUTIVE MONTHS OF DECLINE IN THE INDEX ARE REQUIRED BEFORE ONE CAN SAFELY PREDICT AN ECONOMIC DOWNTURN. THE LAG BETWEEN SUCH CONSISTENT DECLINES IN THE INDEX AND THE PEAKS OF THE BUSINESS CYCLE HAS VARIED BETWEEN 3 AND 23 MONTHS IN THE POST-WAR ERA, BUT IN THREE OF THE LAST FOUR BUSINESS CYCLES (1970, 1974 AND 1980) THE INDEX FELL SOME 8-10 MONTHS BEFORE THE ACTUAL PEAK.

3. OTHER RECENT ECONOMIC INDICATORS PROVIDE MIXED SIGNALS. IN JULY INDUSTRIAL PRODUCTION, AND PERSONAL INCOME ROSE SHARPLY. BUT THE PACE OF CONSUMER SPENDING SLOWED, HOUSING ACTIVITY FELL, AND A RECORD TRADE DEFICIT WAS RECORDED. IN THE FIRST HALF OF 1984, REAL GNP GREW AT AN ANNUAL RATE OF 8.8 PERCENT, IE FASTER THAN THE GROWTH RATE IN THE FIRST YEAR OF THE RECOVERY, WHICH IS UNUSUAL. MOST ANALYSTS EXPECT SOME MODERATION IN ACTIVITY DURING THE NEXT 12 MONTHS. THE LATEST FORECAST FROM THE BLUE CHIP CONSENSUS OF PRIVATE FORECASTERS SHOWS GNP GROWING AT ABOUT A 4 PERCENT ANNUAL RATE DURING THE SECOND HALF OF THE YEAR, AND AT 3.4 PERCENT IN 1985 OVER 1984.

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4. THE INDEX OF LEADING INDICATORS WILL BE PUBLISHED TWICE MORE BEFORE NOVEMBER, AND MUCH ATTENTION WILL OBVIOUSLY FOCUS ON THESE LATER FIGURES. THOUGH IT WOULD NOT IN FACT CONSTITUTE FIRM EVIDENCE OF AN EARLY DOWN-TURN, DEMOCRAT SPOKESMEN WOULD HIGHLIGHT ANY FURTHER FALL. AND IT WOULD BECOME MORE DIFFICULT FOR THE PRESIDENT TO MAINTAIN CONVINCINGLY DURING THE CAMPAIGN THAT THE ECONOMY WAS SET FIRMLY ON A COURSE OF SUSTAINED ECONOMIC GROWTH DURING A SECOND TERM.

5. FCO PLEASE PASS TO BOTTRILL (TREASURY), GREEN (BANK), TAIT (ERD) AND ROLLO (ESID).

WRIGHT

[REPEATED AS REQUESTED]

FINANCIAL
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