AT

BY BAG [CULL]

FROM WASHINGTON

TO FCO TEL NO. 29 SAVING OF 1 OCTOBER 1984

UNITED STATES MONTHLY ECONOMIC REPORT FOR SEPTEMBER

(SEE MIPT FOR SUMMARY)

1. The main economic developments reported in September were:-

(a) Real GNP is estimated to have risen by 3.6% (saar) in the third quarter, according to the flash estimate from the Department of Commerce.

(b) Consumer spending (in current dollars) grew at an annual rate of 1.8% between June and August.

(c) Housing Starts fell by 12.8% in August to 1.54 million units annual rate.

(d) Interest Rates fell during September. Commercial banks lowered the Prime Rate from 13.0 to 12.75% at the end of the month.

(e) The Dollar surged by over 2% against most major currencies in September, though eased back towards the end of the month.

(f) The Administration decided to limit the share of steel imports in the US to some 20% through voluntary restraint agreements to be negotiated with major steel exporters.

(g) General Motors and the Auto Workers Union agreed a new 3 year contract providing wage increases of 2.25%, plus COLA's, and a $1 bn fund for workers displaced through automation.

ECONOMIC ACTIVITY

2. Real GNP is estimated to have grown by 3.6% at a seasonally adjusted annual rate (saar) in the third quarter, according to the flash estimate from the Department of Commerce. Growth in the third quarter contrasts with the (revised) estimate of GNP growth in the second quarter of 7.1% (saar), which contributed to growth of 8.6% at an annual rate in the first half of the year. The Department of Commerce acknowledged that the flash estimate showed lower than expected growth, due mainly to a sharp slowing in the growth of final sales. Although there are no estimates of the growth of final sales, most components are expected to show weak growth, especially personal consumer expenditures. Fixed investment and government spending may contribute much of the increase in final sales which did occur. Higher business inventories are expected to have offset some of the weakness in the contribution of final sales to growth, although some of this probably reflects involuntary stock building as demand fell. This is in contrast to the second quarter when final sales rose by 10.3% (saar), partly offset by a negative contribution of stockbuilding to growth.

3. Inflation is estimated to have risen at only moderate rates according to the broad estimates of inflation. In the third quarter, the implicit price deflator (which reflects changes in prices and the composition of output) is estimated to have risen by 2.9% (saar), and the fixed weight deflator by 3.4% (saar). The latest estimates for GNP growth in the second and third quarters are as follows:

US GNP 1984

	Level	Percent change from previous quarter (annual rate)	
	1984 Q3	1984 Q2	1984 Q3
Nominal GNP ($bn)	3704	10.7	6.6
Real GNP (1972 $bn)	1653	7.1	3.6
GNP implicit price deflator (1972 = 100)	224.0	3.3	2.9

4. Personal Income rose by 0.5% in August, following a revised 0.7% gain in July. The lower increase was due to a smaller increase in wages and salaries, which account for some 60% of total income. No change from the July levels of both hours worked and the hourly wage rate was partly responsible for the slower growth in wages. For the third consecutive month consumer spending in current dollars has grown well below the increase in incomes. In both July and August consumer spending rose by 0.1% (the estimate for July was revised downwards from the figure reported last month). This represented a decline in spending of 0.4% in real terms during July and although no estimates are available for real consumer spending in August, it is probable that spending fell again. The weak growth in expenditure is due to a reduction in spending on both durable and non-durable goods, offset by increased spending on services. The lower rate of spending has contributed to a rise in the savings ratio now estimated at 6.1% for July.

5. The weakness of consumer spending was reflected in a fall in retail sales of 0.8% in August, following a revised 2.0% decline in July. Most of the fall in both months was due to lower sales of both cars and clothing. The value of car sales, which represented some 20% of the value of total retail sales in August, declined by 4.0% in both July and August. There was a larger fall in the number of cars sold, down 5.6% in August to 10.0 million units at an annual rate. The fall was concentrated among domestically produced cars, which fell to 7.7 million units at an annual rate, owing to a shortage of inventories and model changeovers in some plants. The continuing demand for larger cars has ensured that the average price per vehicle has tended to rise, thus limiting the fall in the value of cars sold.

6. Industrial Production rose by 0.2% in August, following gains of 0.9% in both June and July. Although the growth of output remained strong among producers of business equipment and defence and space products, total production of durable goods fell by 1% in August. Most of this was due to 3.2% fall in car production. Production of primary metals also fell, mainly due to a 2.5% decline in steel production. In August the index of capacity utilization remained at 82.6% for total industry and 82.8% in the manufacturing sector.

7. Inventories rose by 0.8% in July to $551.3 bn. Sales by manufacturers, retailers and wholesalers declined by 0.8%, resulting in a rise in the inventory to sales ratio to 1.34. Some of the growth in inventory investment is thought to be involuntary as demand fell more sharply than expected. Most analysts expect firms will remain cautious about adding to stocks much above the current stock/sales ratio in view of the current level of financing costs.

8. Housing Starts fell by 12.8% in August to 1.54 million units annual rate. The decline followed a revised 6.1% fall in starts in July. Starts of single family houses declined for the fourth consecutive month. This fall was accompanied by a sharp fall in the number of starts for apartments. Most analysts believe the slowdown in housing activity due to the rise in mortgage rates in recent months. But some 80% of the August fall in starts was concentrated in the South, suggesting there may have been some overbuilding in earlier months and that much of the August decline reflects an adjustment to the recent surge in apartment building. Building permits also fell in August by 4% to a rate of 1.57 million units.

9. The composite Index of Leading Economic Indicators increased by 0.5% in August, following revised declines of 1.8% in July and 1.1% in June. Four of the ten indicators available for August contributed to the increase, including stock prices, net business formation, claims for state unemployment insurance and new orders for consumer goods and materials. The index of coincident indicators, which measures current economic activity rose by 0.2% in August, following a 0.1% gain in July.

EMPLOYMENT, PRODUCTIVITY AND PRICES

10. The civilian unemployment rate was 7.5% in August and has been at this level for three of the last four months. The two major surveys of employment showed contrasting movements in August. According to the household survey employment fell by 425,000 in August. Since most of the decline was due to a fall in employment of those under 25, it is believed the large fall may simply reflect students leaving jobs prior to returning to college. The payroll survey of employment registered an increase of 159,000 in August. Both measures of employment now record similar total gains in employment since the trough of recession in November 1982 - 5.9 million jobs under the payroll survey and 5.8 million according to the household survey. The average workweek of production workers on private non-agricultural payrolls was 35.2 hours in August, unchanged from the revised July figure. Seasonally adjusted average hourly and weekly earnings were both unchanged in August.

11. The consumer price index (CPI) rose by 0.5% in August due to higher food prices, and an increase in housing costs. The index is now 4.2% above its level of a year ago. The producer price index of finished goods declined by 0.1% in August and was 2% above its level of a year ago. The decline was mainly due to a 2.5% fall in energy prices, nearly offset by higher costs in other consumer and capital goods.

MONEY, CREDIT AND INTEREST RATES

12. The growth of the monetary aggregates remained slow in August, although domestic non-financial credit continued to grow well above the top of its target range. In August M1 rose by 0.1% and M2 by 0.4%, keeping both aggregates well within their respective target ranges.

The broader aggregate M3 also rose by 0.4%, bringing it back to the top of its target range. Some analysts believe M3 will move back within its target range during the remainder of the year. Much of the strong growth in the first half of the year, when M3 grew at an annual rate of 10.0% compared to its fourth quarter average in 1983, can be explained by the growth of large time deposits. These in turn reflected the sizeable increase in Certificates of Deposits issued by banks, to finance the surge in loan growth from the business and personal sector. There are now some signs (see below) that the growth in loan demands is moderating. The broad credit aggregate rose by 1% in July and has grown at an annual rate of 14% compared to its fourth quarter 1983 base.

13. The slowdown in the growth of the money supply over the last 12 months has meant that all the monetary aggregates are growing well within the interim targets established by the FOMC at its meeting in mid July. These are shown below:-

AUGUST 1984 GROWTH IN THE MONETARY AGRREGATES

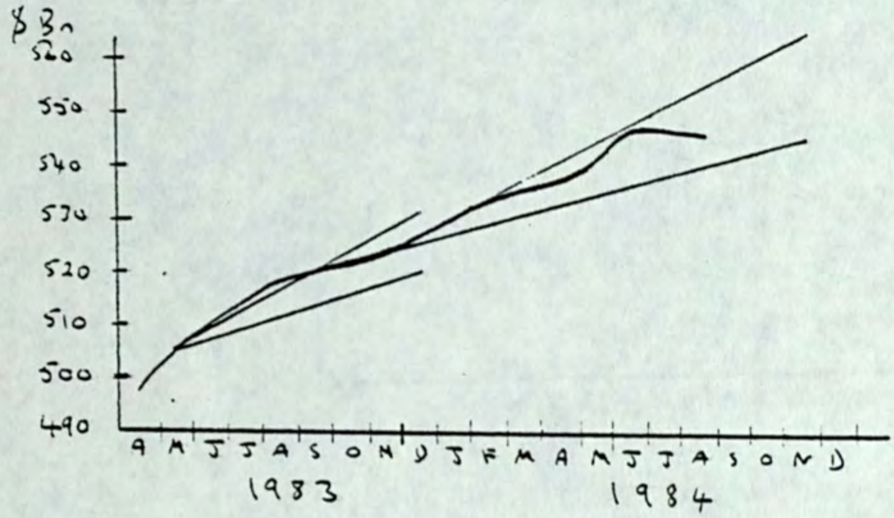
	Growth Rate June to August (annual rate)	June-September Interim Target	Growth Rates from QIV 1983	1984 Target Range
M1	0.2%	5.5%	5.9%	4-8%
M2	4.7%	7.5%	6.6%	6-9%
M3	6.7%	9.0%	9.2%	6-9%

14. Most analysts believe the Federal Reserve has recently eased monetary policy. The rationale is thought to be the moderate rate of growth of the money supply and the indications of a slowdown in the real economy. During September the Federal Reserve, through its open market operations, appear to have supplied member banks with sufficient reserves to reduce their borrowing from the discount window to $750 million per day from the $1 billion which had been the average level since March. Although some of this intervention in recent weeks reflects the Federal Reserves desire to offset seasonal reserve shortages caused by rising Treasury balances, as tax receipts have increased, some analysts argue the scale of open market operations is consistent with a borrowing target for member banks in the region of $750 million per day. This, and the absence of any upward pressure on the Federal Funds Rate, has led analysts to conclude there has been a slight easing of monetary policy. Other analysts believe it is too soon to judge. They argue the FOMC is unlikely to have eased policy so quickly in view of the conclusion in the most recently published minutes of the FOMC that members would respond to an economic and monetary slowdown only after it was well established. In addition some analysts believe that GNP growth will rebound in the fourth quarter, making any easing of policy unnecessary.

15. There are some indications that the increase in the demand for loans is now slowing. Following a 20% annual rate rise in the first half of 1984, Commercial and Industrial loans rose at an 8.4% annual rate in August. Since June these loans have risen at an annual rate of 8.9%, the slower rate thought to reflect in part a reduction in the number of business acquisitions and leveraged buy outs. Consumer installment credit continues to grow rapidly. It rose by $7.1 bn in July, an increase of 19.8% at an annual rate, compared to growth of 22% annual rate during the first half the year.

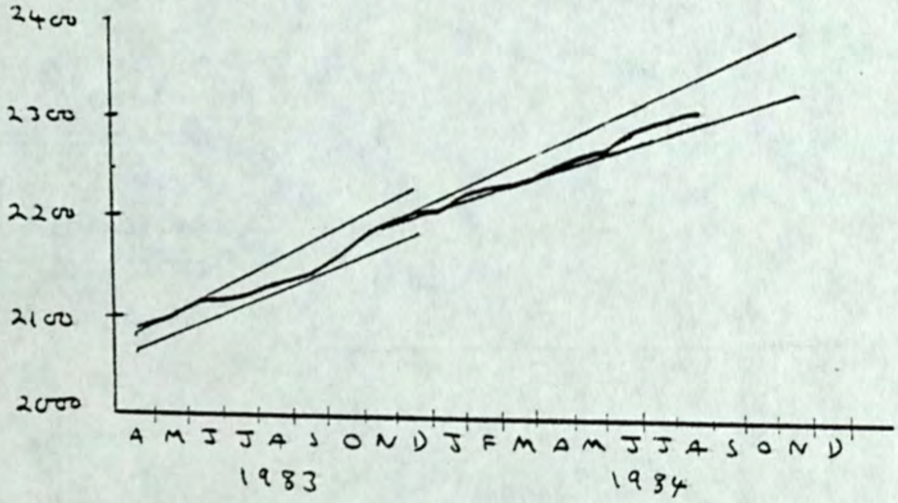
RESTRICTED

GROWTH OF MONETARY AGGREGATES



M1

Fed Target
IVQ/83 to IVQ/84
4-8%



M2

Fed Target
IVQ/83 to IVQ/84
6-9%

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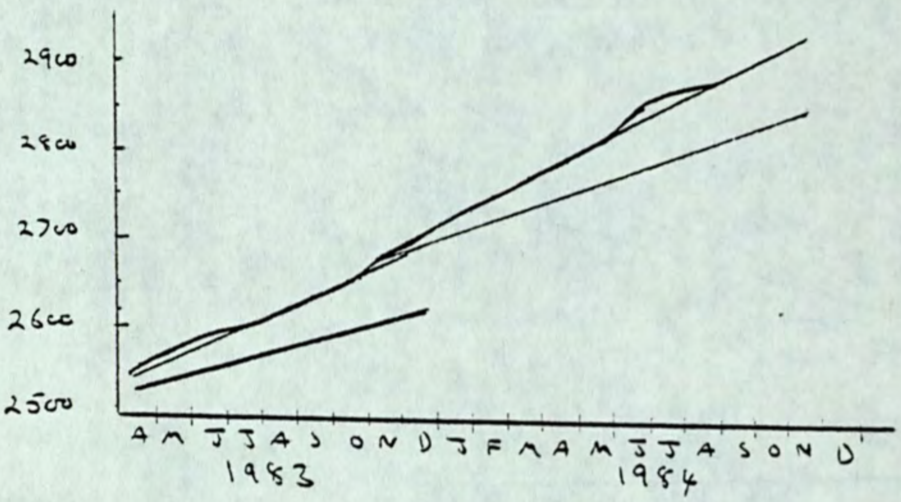
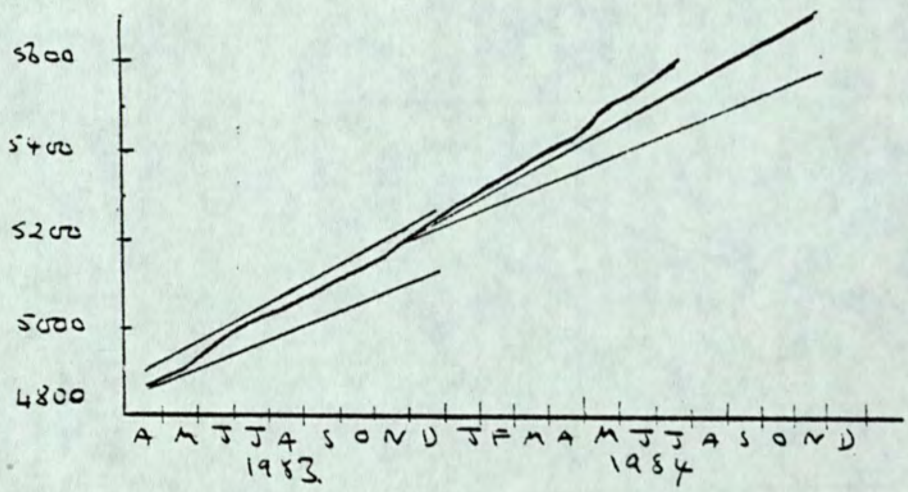


M3
Fed Target
IVQ/83 to IVQ/84
6-9%



Domestic Non-
Financial Credit
Fed Range
IVQ/83 to IV Q/84
8-11%

16. Interest rates fell slightly during September in response to some reduction in the rate of increase in loan demand and some analysts' expectations that the Federal Reserve had eased monetary policy. Towards the end of September the Federal Funds rate had fallen below 11.5%, compared to 11.6% in August, and the rate on three month Treasury Bills had declined to 10.3% (10.5%). The declines prompted a reduction in the Prime Rate by most major banks from 13.0 to 12.75% at the end of September, the first reduction in the Prime Rate in more than a year and a half. Longer term rates continued to fall with the yield on 20 year Treasury bonds falling to 12.2%, compared to 12.7% in August.

EXTERNAL TRADE

17. Following the record merchandise trade deficit of $14.1 bn in July, the trade deficit amounted to $9.9 bn in August, bringing the cumulative deficit to $83.7 bn during the first 8 months of the year. The value of imports amounted to $27.9 bn, compared to $33.5 bn in July, with reductions in both the value of petroleum imports, manufactured goods and some agricultural commodities contributing to most of the decline. Exports amounted to $18.0 bn in August, a fall of $1.4 bn compared to the July figure due mainly to a decline in exports of manufactured goods.

18. During September the value of the dollar surged against most currencies, especially the European currencies. By mid September the effective rate for the dollar had risen 2.3% above its August level. Despite the fall in US interest rates, the markets perception of the relative strength of US economic performance appeared to be the main reason for the strong increase. Towards the end of the month the dollar eased, mainly as a result of limited intervention by some European central banks.

19. The US current account deficit rose to a record $24.4 bn in the second quarter, from a revised $19.7 bn in the first. Although the trade deficit was largely responsible for the total deficit on current account, the increase in the deficit was primarily due to a sharp decline in net service receipts from $8.3 bn in the first quarter to $3.4 bn in the second quarter. The decline was more than accounted for by a decrease in income on US direct investment abroad, due to capital loss largely related to the appreciation of the dollar. On the capital account, there was a marked decline in US direct investment abroad, reflecting lower reported earnings from US companies abroad as the dollar rose, and some inflows of equity capital. There was a sharp increase in capital inflows. These included an increase in direct investment in the US, up $7.6 bn compared to a rise of $2.4 bn in the first quarter, and a large increase in the purchase of Treasury securities up $6.5 bn compared to $1.4 bn in the first quarter, reflecting higher US interest rates and the strong demand for funds to finance domestic expansion. The statistical discrepancy rose from $6 bn in the first quarter to $13 bn in the second. The main results are recorded below (in $bn):

US CURRENT ACCOUNT

	1983 Year	1984 Quarter 1	1984 Quarter 2
Merchandise exports	200.3	53.9	54.6
Merchandise imports	261.3	79.8	80.3
Balance on trade	-61.0	-25.9	-25.7
Invisible exports	132.0	36.8	34.1
Invisible imports	103.8	28.4	30.7
Invisible balance	28.2	8.4	3.4
Unilateral transfer	-8.6	-2.1	-2.1
Current Account	-41.6	-19.7	-24.4
Net US purchases of foreign assets (capital outflow)	-49.5	-1.9	-24.9
Net foreign purchase of US assets (capital inflow)	81.7	15.7	35.9
Statistical Discrepancy	9.3	6.0	13.3

THE REGIONS: CALIFORNIA

20. The Californian economy has grown strongly during 1984 and the prospects are that the states' real gross product will increase by 4-5% in 1985, faster than the consensus forecast for the US as a whole. In 1984 industrial production has grown steadily, especially in the aerospace sector, and in the machine tools and computer industries; construction activity has been strong in both residential and non-residential sectors; retail sales have risen by over 8% compared to a year ago, similar to the national average. In the Los Angeles area it is estimated that retail sales fell by some 20% during the period of the Olympic Games in July. Part of this may reflect the third quarter weakness in sales evident in the national economy, but it was also accentuated by declining sales in the Los Angeles area as tourists were deterred by predictiions of limited hotel accommodation and congestion.

21. It is estimated employment in the state will grow by 500,000 during 1984, which will be the largest increase since 1978. The state unemployment rate was 7.5% in June. Much of the increase in employment has been in the aerospace industry, which is the states' second largest manufacturing industry, with almost 80% of the industry concentrated in southern California. Although California's relative share of US aerospace employment (currently about one-third) is declining, this has been offset by several factors including continued increases in defence spending, some improvement in the prospects for the commercial airline industry; the success of the Space Shuttle programme and the growth of private outlays on satellites.

22. Prospects for 1985 are for relatively strong growth of between 4-5% in state GNP, further increases in production from the aerospace and electronics industries and continued growth of employment. The chief restraint is reported to be the relatively high rate of inflation,

currently estimated at 6.8%, compared to the national average of over 4%. Approximately half of California's increase in inflation has reflected higher housing costs, especially rents, utility costs and insurance. In southern California the high cost of land and housing may be acting as a disincentive to further expansion. One large enterprise, Hughes Helicopter, recently decided to move it corporate headquarters and workforce from southern California to Arizona.

ECONOMIC PROSPECTS

23. There is now some disagreement among analysts over the immediate prospects for the economy. Some analysts believe consumer confidence remains strong and this will enable the economy to rebound in the fourth quarter, growing at between 4.5 - 6.0% at an annual rate. Much of the expected increase in consumer expenditure would reflect an increase in car sales since these analysts believe car sales in the third quarter were artificially depressed by the lack of inventories. Other analysts believe the third quarter flash estimate is an indication that the economy will now moderate, chiefly because they believe consumers have satisfied their demand for the purchase of durables and will now attempt to rebuild savings. The Blue Chip Consensus of Private Forecasters estimate the economy will grow at 7.3% in 1984 and 3.5% in 1985 (the same forecast for 1985 as reported last month).

24. The majority of the Blue Chip forecasters expect inflation to remain moderate during 1985. The average forecast is for the GNP deflator to rise by 4.9% in 1985, compared to 3.8% in 1984. For 1985 these inflation forecasts are in a range of 3.9 - 6.1%. Those arguing that inflation will grow towards the top of this range believe some weakening of the dollar and pressures on the Federal Reserve to monetize part of the budget deficit will be significant. The forecasters who expect inflation to remain at the lower end of the range believe food and oil prices will remain stable and anticipate continued moderation of wage claims.

25. One sector of the economy which is expected to maintain steady growth through the remainder of the year is fixed investment. The latest survey of Business Capital Spending Plans from the Department of Commerce indicates real capital outlays will rise by 13.3% in 1984. The cyclical upswing in business fixed investment has contributed significantly to the growth of real GNP. Since the trough of the recession in the fourth quarter 1982, real fixed investment has grown by over 25%. Much of the increase has been in investment in equipment, which have risen more strongly than the average of previous recoveries. Outlays on investment in plant are closer to the average of recent recoveries, chiefly because investment continued to fall once the recovery was underway. Investment in plant then rose from mid 1983, especially in the retail and service sectors, and among some utilities. Much of the gain in equipment spending has been recorded among relatively few sectors including cars and trucks, and hightechnology equipment such as computers.

26. A number of reasons have been put forwards for the surge in investment spending at a time when interest rate levels have remained at high levels. Most analysts are agreed that the accelerated depreciation allowances of the 1981 Tax Act provided a strong incentive, especially for investment in equipment with relatively short lives. There may

also have been some pent up demand, a need to improve competitiveness and a need to increase capacity in certain sectors. Most analysts believe capital spending will moderate in 1985, as the economy slows, but will nevertheless make an important contribution to growth. A slower rate of investment spending would also ease the pressure on interest rates.

POLICY DEVELOPMENTS

27. In early September the US Trade Representative, Brock, announced that the President had decided to reject a request for import relief, submitted by the US copper mining industry. The Administration believed that import restraints would have raised copper prices and led to job losses in the domestic copper fabricating industry.

28. On 18 September the President announced he had decided against giving relief to the US steel industry in the S 201 carbon steel case. The President rejected the recommmendations of the International Trade Commission to impose tariffs and quotas covering some 70% of steel imports. Instead the Administration has said it will seek voluntary restraints agreements with steel exporting countries in the hope of reducing the share of imports from its current level of 25% to the 1983 level of some 20%. Excluding imports of semi-finished steel the Administration hoped to reduce imports to 18.5%. In further elaboration of the Administration's decision, USTR Brock said that the Administration would seek voluntary limits on steel imports from Brazil and Spain, and hold talks with Japan and Korea about their diversion of steel exports to the US to fill gaps left by steel exporting countries already subject to restraint. He would report to the President within 90 days on the progress made in implenting the President's decision. Although the decision enabled the Administration to claim that it was consistent with its anti-protectionist policies, the decision was also welcomed by major US steel companies, including Bethlehem Steel, which initiated the original 201 case. This has raised speculation that the steel copanies interpret the decision as a firm commitment by the Administration to limit steel imports to 18.5% (20.5% including imports of semi finished steel). USTR Brock described the 18.5% figure as "an estimate of what the Administration hopes to attain".

29. The Administration announced a programme of Federal loan guarantees and temporary interest subsidies to alleviate the debt problems of the farm community. The programme is in response to the sharp rise in the value of farm debt in recent years, following a period of weak commodity prices and declining land values. It also follows the ending of the Payment-In-Kind Programme (PIK). The main elements of the new programme are: the Farmers Home Administration (FHA) will guarantee up to 90% of the value of bank loans to farmers, if the banks reduced the value of loans to farmers facing default by 10%; the FHA will grant a 5 year grace period on interest payments on 25% of the loans up to the value of $100,000 to farmers in financial difficultuies; provide financial advice to farmers to restructure their finances.

30. Following the decision to repeal the 30% withholding tax - the 30% tax on portfolio interest paid to foreign investors (and subsequently included in the Tax Reform Act of 1984), Congressional concern over tax evasion led the US Treasury to announce in mid September it was banning new issues of US bearer bonds. The Senate in particular were concerned that American citizens or residents could evade US taxes by purchasing

bearer bonds, which allow the bond holder to remain anonymous. Instead the Treasury will issue registered bonds. Although these keep the identity of the bond holder secret, the financial institutions which sell them must certify that the purchasers are not Americans. In a report to Congress reviewing recent decisions in this area, Treasury Secretary Regan indicated that the Treasury had to strike a balance between the need to avoid tax evasion and the legislation's objective of facilitating efficient access to international financial markets by US borrowers.

31. Two important wage negotiations were concluded in September. The United Auto Workers Union (UAW) reached an agreement with General Motors (GM) on a three year contract to replace the one which expired on September 14. The contract provides for an average 2.25% wage increase in each of the three years plus cost of living adjustments. Although much attention had been focused on the size of the eventual wage settlement, and the extent to which it could be regarded as inflationary, the main problem in the negotiations was over job security. In the face of increasing competition from Japanese imports, GM were concerned to increase their automation to cut costs, while the UAW was concerned with preserving jobs. The agreement provides for a $1 bn programme lasting six years to enable GM to retrain, transfer and support workers who will be displaced as a result of increased automation. Most analysts believe the agreement is non-inflationary and will enable GM to speed up its automation process, thus improving productivty. The agreement has to be ratified by the union members. The United Mine Workers (UMW) reached a tentative agreement with the coal mine operators on a new 40 month contract to replace the one which expired on September 30. The main provisions include a total wage increase of 10.25% over the life of the contract, higher pensions and enhanced job security. The agreement was subsequently ratified by miners at the end of the month. The main significance of this contract is that it is the first peaceful wage settlement in the industry for many years.

32. The Democratic Presidential Candidate, Walter Mondale, published his proposals to reduce the budget deficit. Compared to the CBO baseline deficit, Mondale's plan would reduce the deficit by a total of $177 billion by FY 1989, leaving the deficit at $86 bn. The main elements of the programme, which assumes GNP growth of 3.5% a year, are:

Mondale's Deficit Reduction Plan FY 85-89 ($bn)

Tax increases	85
Spending Cuts	54
of which defence	25
health care	12
Additional federal spending	-30
Revenue from higher economic growth	17
Savings on interest payments on the federal debt	51
Total deficit reduction	177

33. On the spending side Mondale would cut back the growth of defence expenditure to between 3-4% per year in real terms, partly by cancelling the MX and B-1 bomber programme, and propose a cost containment programme for the health costs. His proposals also call for additional spending on certain discretionary programmes which have been cut by the Reagan Administration. Mondale's tax proposals are more specific and include a 15% minimum corporate tax; modified tax indexation for individuals; a limit on the third year of the Reagan tax cut for high income earners and a 10% tax surcharge on married couples with incomes over $100,000 and for single people with incomes over $70,000. The balance of the savings are made up of reduced interest charges on the debt reflecting the implementation of the proposals to lower the deficit and an assumption that interest rates would fall to 7.5% by 1989 as the Federal demand for credit is reduced.

WRIGHT

FINANCIAL

ERD

NAD

ECONOMIC INDICATORS

(All figures are seasonally adjusted unless otherwise noted)

.. ECONOMIC ACTIVITY

xpenditure on GNP (Quarterly data bn 1972 prices at annual rate)

	Latest Quarter 1984 (Q2)	% change at annual rate over: last Quarter	same quarter year earlier
. GNP	1638.8	7.1	7.5
Personal Consumption	1064.2	7.9	5.8
. Durables	178.6	11.8	14.3
. Non-durables	396.6	10.2	5.8
. Services	488.9	4.6	2.9
. Business fixed investment (non-res)	202.9	21.4	22.7
Housing investment	56.8	21.5	18.1
Change in business inventories	20.3(A)	31.6 (A)	-6.1 (A)
. Government Purchases of Goods & Services	302.1	18.6	3.3
0. Federal	123.2	45.4	5.1
1. State and Local	178.9	3.7	2.1
2. Net Exports of Goods and Services	-11.4 (A)	-8.3 (A)	13.6 (A)
3. Exports	144.7	-0.6	5.6
4. Imports	156.2	8.1	26.6
5. Price Deflator (1972 = 100)	222.4	3.3	3.8
6. GNP (Current Prices)	3644.7	10.7	11.6
7. Net Exports (Current Prices)	-58.7 (A)	-51.5 (A)	-6.5 (A)

Ionthly Indicators

	Month	Level	% change at annual rate over: previous month	3 months earlier	one year ago
8. Retail Sales ($bn current prices)	AUG	106.2	-9.7	-17.0	8.1
9. Car Sales (m. units pa)	AUG	10.0	-50.3	-34.1	12.6
0. Industrial Production	AUG	166.2	2.9	8.6	9.5
1. Capacity Utilization mfg	AUG	82.8	0	5.5	7.1
2. Inventory Levels ($bn current prices)	JULY	551.3 (A)	546.8 (A)	541.1(A)	501.4
3. Housing Starts (m units pa)	AUG	1.5	-80.7	-46.1	82.0
4. Index of 10 Leading Indicators nsa	AUG	164.5	6.0	-9.3	3.5
5. Index of 4 Coincident Indicators nsa	AUG	156.0	2.3	5.5	10.9
6. Index of 6 Lagging Indicators nsa	AUG	119.9	13.9	14.1	8.2

B. EMPLOYMENT, PRICES AND PRODUCTIVITY

		Month	Level	% change at annual rate over: previous month	3 months earlier	one year ago
27.	Civilian Employment (millions)	AUG	105.0	-4.7	-1.2	3.4
28.	Unemployment (%)	AUG	7.5 (A)	7.5 (A)	7.5 (A)	9.5
29.	Average Weekly Hours (pnf nsa)	AUG	35.2	0	-1.1	0.6
30.	Average Hourly Earnings (pnf nsa)	AUG	160.6	-1.5	2.5	3.3
31.	Consumer Price Index (1)(2)	AUG	313.0	5.1	4.3	4.2
32.	PPI (3) finished products (nsa)	AUG	291.8	-3.2	0.4	2.0
33.	Productivity (4)	Quarter 2 84	106.4	n/a	4.6	2.7
34.	Unit Labour Costs (5)	Quarter 2 84	158.0	n/a	-0.8	1.3

C. MONEY, CREDIT AND INTEREST RATES

	Monetary Aggregates	Month	Level ($bn)	% change at annual rate over previous: 4 weeks	13 weeks	52 weeks
35.	M1	AUG	546.4	1.7	4.0	5.6
36.	M2	AUG	2289.6	4.5	5.4	7.2
37.	M3	AUG	2867.9	3.9	10.8	10.3
38.	Domestic Non-Financial Debt	JULY	5626.0	16.1	15.1	12.4
39.	Monetary Base	AUG	196.1	8.3	8.6	8.5
40.	Total Reserves	AUG	38.5	6.4	11.1	6.6
41.	Non-Borrowed Reserves + Ext. credit	AUG	37.5	3.2	37.9	6.8
42.	Discount Window Borrowing nsa ($ million)(6)	AUG	974	916(A)	2951(A)	1055(A)
43.	Consumer Instalment Credit	JULY	437.2	21.7	26.8	19.3
44.	Commercial and Industrial Loans by all Commercial Banks	AUG	459.7	7.6	11.3	14.2

	Interest Rates	Month	Rate (%)	Actual Rates (%): previous month	3 months ago	1 year ago
45.	Federal Funds	SEPT	11.5	11.6	11.1	9.4
46.	3 Month Commercial Paper	SEPT	11.0	11.2	11.0	9.3
47.	3 Month CDs	SEPT	11.3	11.5	11.3	9.4
48.	3 Month Treasury Bills	SEPT	10.3	10.5	9.9	9.0
49.	US Govt. Bond (20 year)	SEPT	12.2	12.7	13.5	11.9
50.	Prime Rate	SEPT	13.0	13.0	12.5	11.0
51.	Corporate AAA Bonds	SEPT	12.4	12.9	13.5	12.3

D. EXTERNAL SECTOR

		Value ($bn) in			
		Latest Month/Quarter	previous months	3 months earlier	1 year ago
52.	Merchandise Exports	AUG 18.0	19.4	17.9	17.4
53.	Merchandise Imports (cif)	AUG 27.9	33.5	26.8	23.8
54.	Trade Balance Quarter 2	-25.7	n/a	-25.8	-14.9
55.	Current Account Quarter 2	-24.4	n/a	-19.7	-9.6

A Actual value in period specified, NOT percentage change

1 All urban consumers

2 Level and % changes are not seasonally adjusted

3 Producer Price Index

4 Output per hour, 1977 = 100, all persons, non-farm business sector

5 Unit labour costs, 1977 = 100, all persons, non-farm business sector

6 Excluding extended credit

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BY BAG

[CULL]

FROM WASHINGTON

AT to me

AM

TO FCO TEL NO. 28 OF 1 OCTOBER 1984

UNITED STATES MONTHLY ECONOMIC REPORT FOR SEPTEMBER

SUMMARY

1. There is now firmer evidence that the pace of the recovery is slowing, following growth in the first half of the year at an 8.6% annual rate. The Department of Commerce's flash estimate of GNP growth in the third quarter was 3.6%. Much of the slowdown was due to weak growth in consumer spending, which declined in real terms in July and probably in August as well, and to a further decline in net exports.

2. Most of the August economic indicators reflected this slowdown. Consumer spending rose by only 0.1% in current dollars, following a similar increase in July. The weakness in consumer spending was reflected in a 0.8% fall in retail sales, mianly owing to lower car sales. Housing starts declined by 12.8%, following a 6.1% fall in July. The growth of industrial production slowed to 0.2%, following 0.9% gains of June and July. The unemployment rate remained at 7.5% and has been at that level for three of the last four months. However the index of leading economic indicators rose by 0.5%, reversing the decline of the previous two months.

3. Inflation remains moderate, although the Consumer Price Index rose by 0.5% in August owing to higher food and housing costs: the index is 4.2% above its level of a year ago. General Motors and the United Auto Workers Union reached agreement on a new 3-year contract which provides for wage increases averaging 2.25%, plus cost of living adjustments in each year. The main issue in the negotiations was job security, rather tahn the level of the union's pay claim. GM agreed to a $1 bn programme to assist workers displaced through automation. Most commentators believe the agreement is non-inflationary and will enable the company to improve its competitiveness.

4. The growth of the money supply slowed during August: the narrow aggregates M1 and M2 grew by 0.1% and 0.4% respectively and the growth of M3 also slowed. All the monetary aggregates remained well within the interim target ranges for the June-September period set by the Federal Open Market Committee in July. But the total non-financial credit aggregate continued to grow at a rate well above its 8-11% growth range.

5. Market interest rates fell during September, resulting in a decision by most major banks to cut the Prime Rate from 13.0% to 12.75%. The rate on three month Treasury bills fell to below 10.3% in September, from 10.5% in August. This may have reflected some moderation in the demand for credit by the business sector, but it also reflected a slight easing of monetary conditions by the Federal Reserve in response to the weaker than expected growth in the real economy in the third quarter, and the absence of inflationary pressures. The yield on longer term bonds continued to fall - the yield on 20-year Government bonds declined to 12.2% by mid-September from 12.7% in August.

6. Despite the fall in interest rates, the dollar surged against most major currencies in September but eased back towards the end of the month following intervention by several European central banks. The strength of the dollar during September was thought to reflect the market's perception of the relative attractiveness to investors of the US economy, and in particular the sustained success in containing inflation. The trade deficit in August was $9.9 bn, bringing the cumulative deficit for the year to $83.7 bn.

7. During September the President announced two decisions on trade which the Administration claimed were consistent with its anti-protectionist policy. Requests for import relief from the US copper mining industry and the US steel industry were rejected. In the case of steel, although the Administration rejected the request for tariffs and formal quotas for imports, they agreed to seek voluntary restraint agreements with major steel exporting countries in the hope of reducing imports from the current level of 25% of the market to the 1983 level of 20%. US Trade Representative Brock will report to the President within 90 days on the outcome of these negotiations. Since the decision was welcomed by the US Steel industry, some uncertainty surrounds the exact nature of the commitment that was given to the steel producers by the Administration.

8. Details follow by bag.

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SUMMARY: ECONOMIC INDICATORS

(All figures are seasonally adusted unless otherwise noted)

Quarterly Data (1972 prices)	(1984 - Q2)	% change on Previous Quarter	% change on 1 Year Earlier
GNP		1.7	7.5
Personal Consumption		1.9	5.8
Exports of Goods and Services		-0.1	5.6
Imports of Goods and Services		2.0	26.6

	Actual Level Latest Quarter	Actual Level Previous Quarter
Current Account (1984 - Q2) $bn	-24.4	-19.7

Monthly Data		% change on Previous Month	% change on 1 Year Earlier
Retail Sales	AUG	-0.8	8.1
Industrial Production	AUG	0.2	9.5
Consumer Price Index	AUG	0.5	4.2
M1	AUG	0.1	5.6
M2	AUG	0.4	7.2
Dollar Effective Exchange Rate nsa	SEPT	2.3	8.9

		Actual Level Latest Month	Actual Level 1 Year Earlier
Unemployment Rate (%)	AUG	7.5	9.5
3 Month Treasury Bill nsa (%)	SEPT	10.3	10.5