

Prime Minister

BY BAG

FM WASHINGTON

RESTRICTED [CULL]

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M/P 13/VI

MONTHLY ECONOMIC REPORT FOR THE UNITED STATES FOR MAY 1980

SUMMARY

1. There are growing signs that the recession will be quite deep. The unemployment rate has risen rapidly from 6.2% in March to 7.8% in May. There are however some indications that increases in consumer prices may be moderating from recent high levels, although the underlying inflation rate remains close to 10%
2. Industrial production fell sharply in April by 1.9%, following smaller declines in both February and March. The largest declines in April occurred in the production of motor vehicles and in construction supplies.
3. Retail sales fell by 1.0% in April, following a 1.3% fall in March (nominal terms). Durable goods contributed most to this decline. Housing starts fell 2% in April, following a 22% fall in March and are now close to the level reached at the bottom of the 1974/5 recession, and car sales fell 10.6% following a 18.5% fall a month earlier.
4. The US merchandise trade deficit improved further in April, mainly due to another reduction in oil imports. The level of oil imports is being held down by the healthy state of US oil stocks, itself a product of the mild winter and lower gasoline consumption.
5. The increase in the consumer price index (CPI) slowed in April to 0.9%, less than the 1.4% increases that occurred in January, February and March. The CPI now stands 14.7% above the level of a year ago. Producer prices rose only 0.3% in May, the smallest increase for some two years.
6. Growth in the main monetary aggregates has been weak. The most closely watched aggregate, M1-B, has fallen 1.6% between its peak in early February and the middle of May, and is now below the target range. Consumer instalment credit, after rising rapidly in /the second

the second half of 1979, has been declining since the turn of the year. Commercial and industrial loans which continued to increase early this year, fell back slightly in April.

8. Interest rates continued to decline in May. Six-month Treasury bills stood at 8% at the end of May, down from 16% at their peak in early April. Banks' prime rates, which reached 20% at about the same time, declined to about 14%. The falls in interest rates caused further pressure on the US dollar, which at the end of May stood 9% below its peak at the beginning of April (trade weighted basis).

9. The Federal Reserve Board (FRB) on 22 May started to dismantle the specific credit controls it introduced on 14 March. The FRB's imposition of these controls on top of its policy of restraining the growth in the monetary aggregates has been criticised from some quarters for aggravating the economic recession.

10. Congress has failed to meet its 31st May deadline for passing the first budget resolution that sets ceilings on Federal expenditure. The failure reflects conflicting views about the priorities that should be given to defence and social programmes and to reducing taxes, within the context of a balanced budget. The budget process is likely to be placed under further strain in the months ahead as a result of Congress's action overturning the President's oil import fee proposals; the prospect that the recession will be more severe than assumed in the budget calculations; and the growing pressure for a tax cut. These developments make it very unlikely that the budget for FY81 will, in the event, be balanced.

(See MIFE for full REPORT)

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US MONTHLY ECONOMIC SITUATION REPORT

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PRINCIPAL INDICATORS

Quarterly Data (1980 - Q1)

	<u>% change on</u>	
	<u>Previous Quarter</u>	<u>Year earlier</u>
GNP	0.2	0.8
Exports of Goods & Services	4.6	11.1
Imports of Goods & Services	1.4	5.6

Actual Level

	<u>Latest Quarter</u>	<u>Previous Quarter</u>
Balance of Payments Current Account (Q4) ¹⁹⁷⁹	-\$0.9 bn.	\$1.1 bn.

Monthly Data

	<u>% change on</u>	
	<u>Previous Month</u>	<u>Year earlier</u>
Consumer Price Index (Apr)	0.9	14.7
Money Stock M1B (Apr)	-1.2	4.8
M2 (New) (Apr)	-0.2	7.5
Dollar Effective Exchange Rate (May)	-5.0	-1.1

Actual Level

	<u>Latest Month</u>	<u>Year earlier</u>
Banks Prime Rate % (May)	16.25	11.75
Unemployment Rate % (May)	7.8	5.8