

The Business Situation

Most measures of economic activity posted significant gains in July, and incomplete information for August suggests continued strength. Particularly noteworthy among the July results was a further advance in industrial production, despite special factors pulling down automobile and steel output. In addition, nonfarm employment rose for the sixth consecutive month, and there were continued gains in two important areas of final demand—retail sales and private construction outlays. New orders for durable goods also moved up, after two months of decline. Weekly data for August point to further declines in automobile and steel production, as previously anticipated, but retail sales appear to have edged up despite a decline in new car sales caused partly by shortages of some models.

On balance, the performance of production and related indicators since midyear has been at least as good as most analysts had expected. Moreover, the upward revision of gross national product figures for the second quarter, now that fuller June data are available, suggests more strength than had been apparent earlier. To be sure, the near-term outlook is not without its normal quota of uncertainties. Prominent among these is the possible extent and duration of the drag on production currently being exerted by the overhang of steel inventories. There is also a question whether construction activity will maintain its buoyancy in the face of recent declines in some leading indicators. Other unknowns are the kind of reception that will be accorded the new car models and the nature and timing of Congressional decisions on tax legislation.

Despite these question marks, a number of factors seem to be working in the direction of further gains in economic activity. Consumer buying intentions have remained strong, and the expected passage of the military-pay-rise bill will provide a push to Federal spending in the fourth quarter of the year. The latest Commerce Department-Securities and Exchange Commission survey of businessmen's capital spending plans points to a sharp rise in such spending in the third and fourth quarters of the year—a rise that is about in line with earlier expectations. (Actual outlays rose in the second quarter, but not quite so much as had been expected.) Meanwhile, capital appropriations by large manufacturers in the second quarter recouped most of the first-quarter decline. Corporate profits also

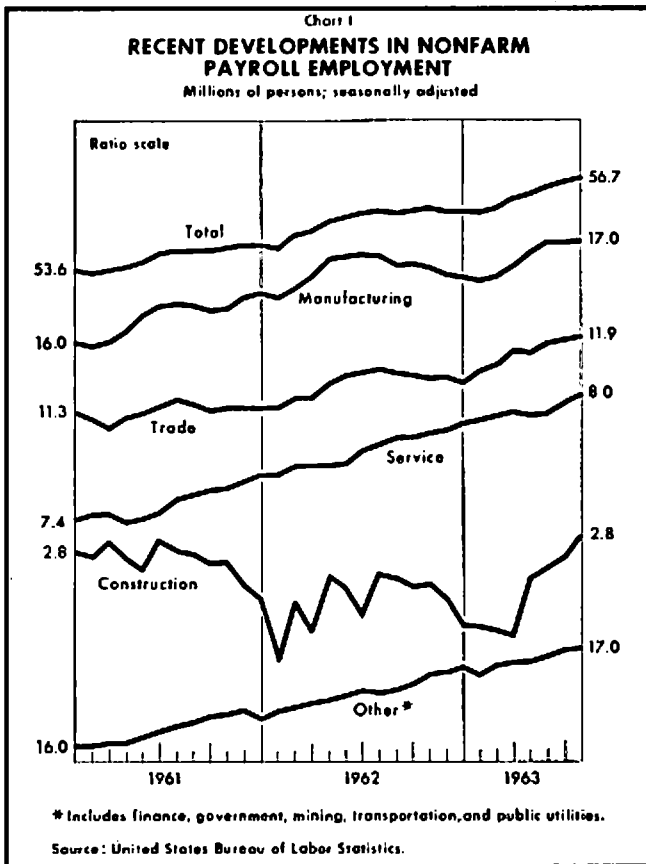
apparently increased in the second quarter, a development which may help to encourage the realization of plant and equipment spending plans over the balance of the year.

In assessing the outlook for the remainder of the year, Chairman Heller of the Council of Economic Advisers recently estimated that GNP for the year as a whole would reach \$580 billion or "perhaps a bit more", which would be consistent with moderate gains in both the third and fourth quarters. It is noteworthy, however, that should such a rate of growth occur it would still be insufficient to bring about any marked reduction in the rate of unemployment from the high levels registered so far this year.

PRODUCTION, ORDERS, AND EMPLOYMENT

Although steel and automobile output each declined by about 5 per cent in July, the Federal Reserve's seasonally adjusted index of industrial production advanced by nearly a point, marking the sixth sizable increase in a row and bringing the index to 126.5 per cent of the 1957-59 average. Gains were fairly widespread; perhaps most significant, producers of business equipment tacked on an increase of one percentage point atop the two-point gains scored in both May and June. Although the sluggishness of output in this industry during the early part of the year had raised some concern, the recent surge in equipment production would seem to reinforce the belief that businessmen are in fact largely going through with their capital spending plans for 1963.

Fragmentary data for August indicate a continued decline in automobile production, with part of the decrease, however, reflecting the greater than usual concentration of model change-overs during the month. Preliminary schedules for the early part of the 1964 model run point to a recovery of production in September. In the steel industry, seasonally adjusted ingot production fell off in August for the third month in a row. However, weekly production figures appear to have leveled off since early August. Meanwhile, consumption of steel apparently has been well maintained. Thus, there exists the possibility that the inventories accumulated during the spring and early summer in anticipation of a possible strike may now be drawn upon.



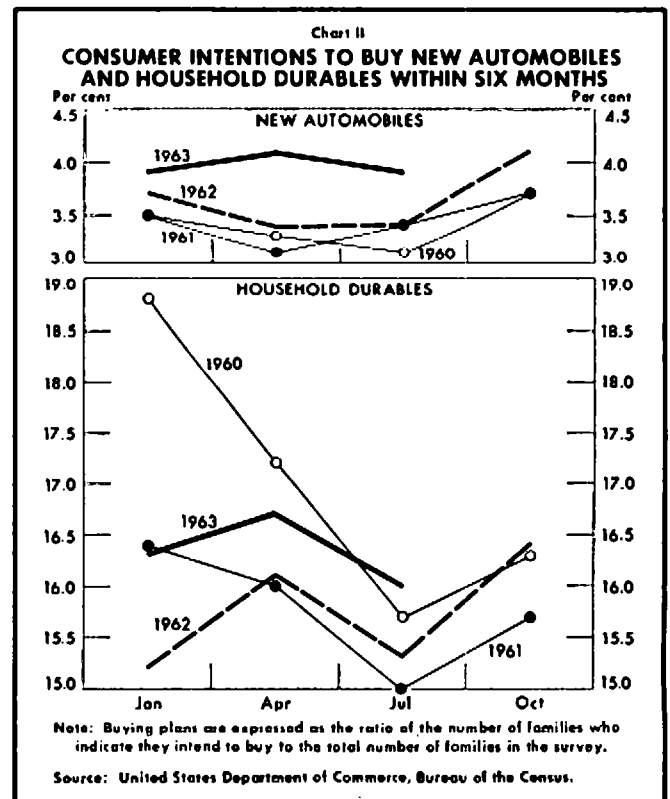
A more favorable factor in the near-term prospects for production is the July rise in new orders received by manufacturers of durable goods, following two months of decline. In particular, orders for industrial machinery—which tend to provide some clue to the future course of capital investment—recovered in July from the June decrease and remained above the volume of sales of such machinery for the fourth month in a row. Bookings received by the steel industry also increased somewhat, but were still below the levels prevailing just prior to the early-1963 surge in orders in anticipation of a possible strike.

Nonfarm payroll employment (seasonally adjusted) advanced for the sixth consecutive month in July. The total rose to 56.7 million persons, or nearly 1.2 million above the January level. The rate of increase in July, however, was only about half as large as occurred during the spring months. The slowdown largely reflected less push from manufacturing industries, among which only machinery and instrument producers registered employment gains as great as in earlier months. Outside of manufacturing, employment in the trade, service, and construction industries continued to expand appreciably (see Chart I). In August,

according to the Census Bureau's household survey, employment was about maintained at its recent levels, while a greater than seasonal decline in the number of young persons looking for work helped to bring about a slight reduction in the amount of unemployment. The unemployment rate, at 5.5 per cent of the labor force, was at its lowest level for this year, but still was no better than in December 1962 and hardly better than the 1962 average.

CONSTRUCTION AND RETAIL SALES

Recent developments in construction show a somewhat mixed picture. After a strong performance during the spring, such leading indicators of private construction activity as contract awards and housing starts edged off in June and then declined further in July. Building permits also decreased in July. Since construction outlays tend to follow movements in these indicators with a lag of several months, however, the current level of outlays still reflects the high volume of contract awards in earlier months. Indeed, private outlays continued to move upward in both July and August, spurred by an appreciable pickup in work on commercial and industrial facilities following the



sluggishness shown in this sector during the earlier part of the year. Recent Government forecasts of the volume of private construction for 1963 as a whole imply little change from present levels over the balance of the year.

Spending by the consumer sector, on the other hand, appears to have taken on new vigor in the past several months. Thus, retail sales registered gains of better than 1 per cent in both June and July, and weekly data for August suggest a further small increase in that month. While new car sales fell off in August, this may in part have reflected a shortage of models most heavily in demand as the production of 1963 models came to a close. Department stores, in contrast, set a new sales record during August, as cooler weather reportedly brought on a rush to purchase back-to-school items and fall fashions.

The recent higher levels of spending appear to be amply supported by consumer incomes, which rose in July for the fifth consecutive month. Intentions to spend within the next six months apparently also remain favorable (see Chart II). Thus, according to the latest survey by the Census Bureau, consumers' new-car buying plans in mid-July

were about the same as in January and April and were appreciably above the year-earlier level. Plans to buy household durables, though showing what appears to be a seasonal decline from the April level, were also higher than a year ago.

Consumer purchases of cars and durables, of course, often involve the use of consumer credit, the steady expansion of which has been one of the factors contributing to the strength in consumer buying throughout the current business upswing. Automobile credit, in particular, has shown a marked rise, reflecting the high rate of car sales, which was perhaps partly stimulated by the continuation of the trend toward lower downpayments and longer maturities. It is noteworthy that, despite this easing in the terms of credit, data available from banks on delinquency rates for consumer instalment credit have shown no discernible increase over the past three years. Indeed, such rates at a selected group of commercial banks surveyed by the American Bankers Association averaged slightly lower in the first six months of this year than in the corresponding period of 1962.