# The Business Situation

The pickup in the strength of the domestic economy that began in the first quarter has carried over into spring. Retail sales were maintained at a record level in April, and such other monthly measures as industrial production, nonfarm employment, personal income, housing starts, and new orders for durable goods all continued strongly upward. To be sure, a significant portion of the April gains in production and orders was attributable to the special situation in the steel industry. It is noteworthy, however, that there were also widespread increases in industries other than steel. For May, the data at hand point to gains in automobile assemblies and a continued high level of steel ingot production. Retail sales apparently declined, but the latest survey of consumer buying intentions—according to which plans to purchase new cars and household durables within six months were appreciably above the advanced January level—suggests some strengthening in the consumer sector in the months ahead.

While the available evidence would thus seem to indicate that the economy has gained renewed momentum, aggregate activity continues to run well below capacity levels. Indeed, few forecasts for 1963 envisage that the rate of unemployment will be materially reduced over the balance of the year. The unemployment problem is, of course, likely to become more troublesome in the weeks ahead, since the number of teenagers leaving their classrooms to enter the labor market at the end of the current school year will probably be significantly larger than in the past.

### CONTINUED GAINS IN PRODUCTION AND EMPLOYMENT

The Federal Reserve's index of industrial production moved up by nearly 2 percentage points in April and thus registered its largest increase in almost two years. This latest gain represented the third consecutive month of advance and brought output to 122.4 per cent of the 1957-59 average (see Chart I). About a third of the over-all April increase was attributable to a continued sharp rise in steel production, reflecting efforts to build up steel inventories as a strike hedge as well as some step-up in the rate of steel consumption. Resumption of publication of New York City and Cleveland newspapers, by contributing to the rise in the printing and publishing component of the index, was an additional factor in the over-all production gain. Even apart from such special factors, however, output in most industries registered rather sizable increases.

Fragmentary data on production in May suggest continued gains. Thus, although a strike-caused automobile

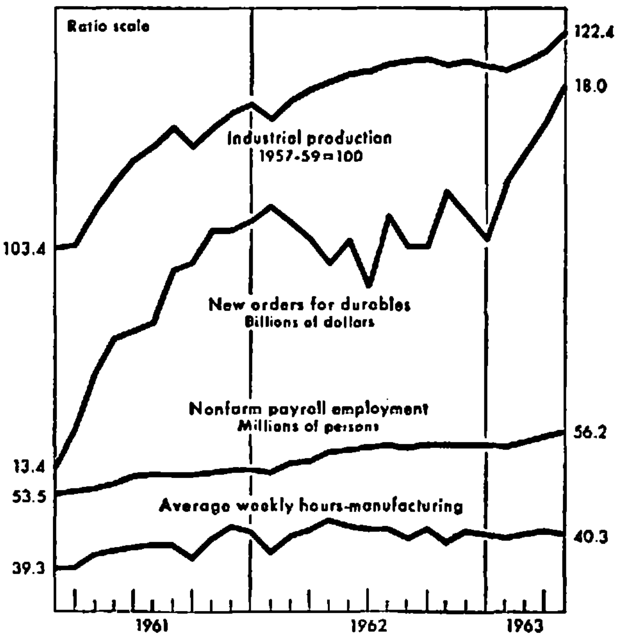


Chart I
RECENT BUSINESS INDICATORS
Seasonally adjusted

Sources: Board of Governors of the Federal Reserve System; United States Departments of Commerce and Labor.

parts shortage temporarily cut back production on some assembly lines, May output in the automobile industry as a whole pushed somewhat above the high plateau of the previous ten months. At the same time, steel ingot production maintained its high April level. The delay of the steelworkers' union in reopening its labor agreement apparently led some steel users to reassess the need for a further build-up in steel inventories, but this occurred too late to have any significant effect on May ingot production.

Continued strength in production over the near term was suggested by the growing volume of new orders placed with manufacturers of durable goods. In April, such orders moved upward by 3 per cent (seasonally adjusted), marking the fourth consecutive month of advance (see Chart I). Backlogs of unfilled orders held by durables manufacturers also rose for the fourth month in a row. While the volume of new bookings received by the steel industry jumped further in April, this accounted for only about half of the over-all increase in new orders. Indeed, total orders received by durables industries other than steel moved up appreciably.

Paralleling the gain in production, seasonally adjusted nonfarm payroll employment rose by 276,000 persons in April, the third sizable advance in a row (see Chart I). Almost one third of the April increase was in construction employment, as warmer weather permitted some step-up in outdoor activity. Most of the rest was attributable to a strong rise in the number of persons at work in manufacturing. Indeed, factory employment has been restored to its high level of last July. In contrast to typical past experience, these gains in manufacturing employment were not foreshadowed by any particularly noticeable rise in the average workweek. Thus, average weekly hours in manufacturing have remained between 40.2 and 40.4 since last November and are somewhat below the April 1962 peak (see Chart I). Fragmentary data on claims filed for unemployment compensation in May suggest that employment in that month may at least have held near its advanced April level.

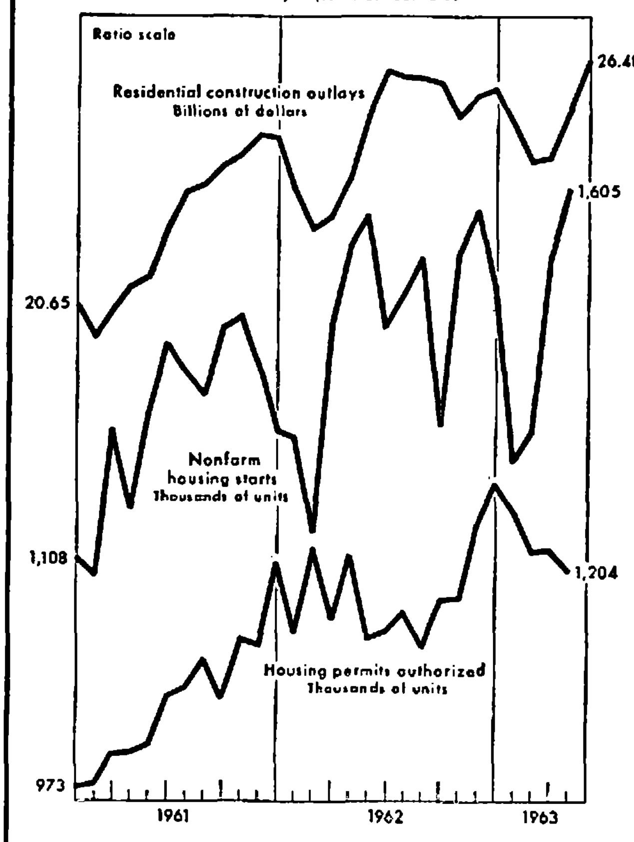


Chart II
INDICATORS OF PRIVATE RESIDENTIAL CONSTRUCTION ACTIVITY
Seasonally adjusted annual rates

Note: The number of starts exceeds the number of permits, because permits are not legally required for some units.

Source: United States Bureau of the Census.

## DEVELOPMENTS IN SELECTED DEMAND SECTORS

Like industrial production, activity in the housing sector has shown renewed buoyancy in recent months. After being curtailed by unusually severe weather during the winter—a factor not fully taken account of in the seasonal adjustment procedures—outlays for private residential construction rose by about $1 billion (seasonally adjusted annual rate) in April and by an even greater amount in May (see Chart II). A prospect of still further advances over the near term is suggested by the 28 per cent jump from February to April in the number of housing units started. Moreover, despite the sharp increase in starts and recent declines in the number of building permits issued, the backlog of unused permits has apparently remained at a high level.

In the area of capital spending, the winter survey of the Commerce Department and the Securities and Exchange Commission and the spring McGraw-Hill survey had pointed to increases in outlays for plant and equipment of 5 per cent or more for the year as a whole. A later reading of such plans will be available with the release of the second-quarter Commerce-SEC survey in early June. In the meantime, available monthly indicators related to capital spending show a mixed pattern. In April, output moved up in industries producing construction materials and business equipment, and orders placed with manufacturers of machinery and equipment edged somewhat above the plateau that had been maintained in the preceding five months. Despite their latest gains, however, these indicators are still below, or only slightly above, the high levels already attained during the second half of last year. Moreover, outlays for commercial and industrial construction continued sluggish in May, and were below their level at the end of 1962, having declined in three of the five months so far this year. The performance of these various indicators thus continues to raise questions as to the extent of the rise in actual plant and equipment spending that can be expected in 1963.

Developments in the consumer sector, on balance, appear to be encouraging. To be sure, in recent months the net increase in consumer credit outstanding has been somewhat below its rate in the fourth quarter of 1962, as repayments of existing loans have increased at a faster rate than new loan extensions. Moreover, retail sales apparently declined somewhat in May. Their volume remains at an advanced level, however, and consumer incomes have continued to expand—with the April gain the largest of any this year. In addition, consumer buying plans moved up in April, according to a survey conducted by the Census Bureau. Intentions to purchase new cars and household durables increased from their already high levels at the start of this year and were above the levels reported in April 1962.