

## The Business Situation

Business activity expanded at a good rate in January, and most newly available evidence, on balance, points to further gains in the immediate months ahead. Reflecting this upward momentum, such broad current indicators as industrial production, nonfarm payroll employment, new orders received by manufacturers of durable goods, and outlays for residential construction all increased in January, while spending at retail outlets remained near its advanced December level. Early returns for February suggest that the automobile and steel industries were both still straining their facilities to meet pressing demands and that retail sales moved up somewhat. The unemployment rate, moreover, continued within the lower range that has prevailed in recent months. With the economy continuing to advance from already high levels, the price indicators bear close watching. The consumer price index increased again in January, while the industrial component of the wholesale price index (seasonally adjusted) was unchanged. However, weekly data for February suggest that the industrial component moved up in that month.

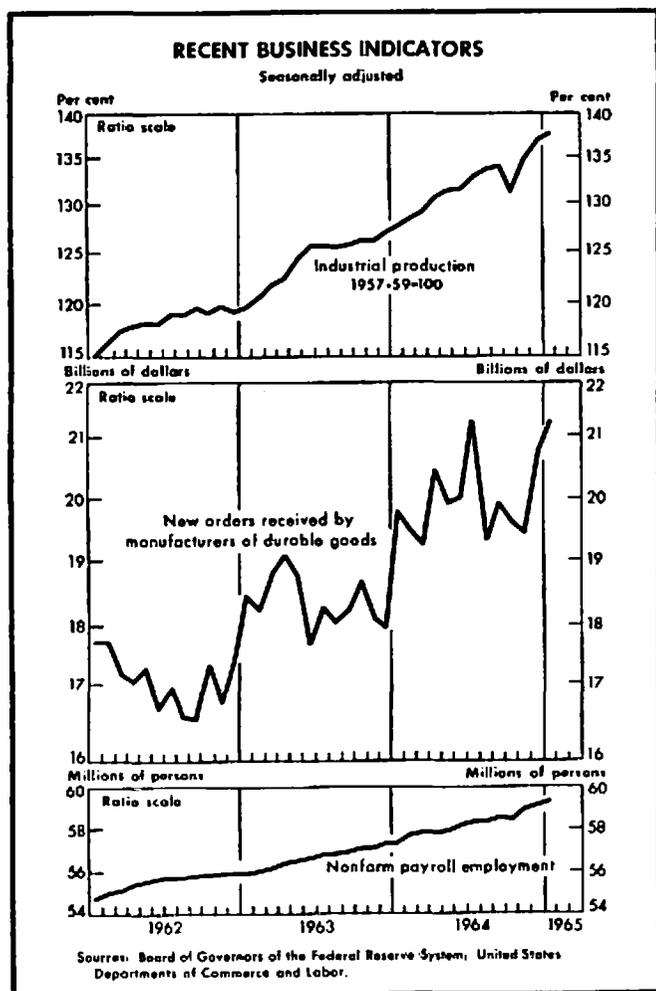
Labor-management negotiations have continued to occupy much of the business news. In early February, East and Gulf Coast longshoremens who had already signed wage contracts returned to their jobs after an extended and costly work stoppage. Although the strike continued at some ports, activity in the opened ports immediately surged as shippers sought to make up for the business lost during the walkout. Meanwhile, with the results of the presidential election in the steel union still being contested, there is some question as to when meaningful contract negotiations can be resumed. Indeed, the uncertainty over the election was probably a contributing factor in the breakdown of the union's negotiations with major can producers on March 1, which resulted in the first strike in this industry in eleven years. Many observers have urged that the present contract in the steel industry be extended

beyond its April 30 termination date. To do so would remove one significant short-term uncertainty but would also prolong the period of inventory stockpiling as a hedge against a possible strike.

### PRODUCTION, ORDERS, AND EMPLOYMENT

Industrial production rose further in January, as response to broad-based demand brought a 0.7 percentage point advance in the Federal Reserve's seasonally adjusted index. Following on the heels of the unusually large gains in November and December, which reflected efforts to make up for production lost during the earlier automobile strikes, the January advance brought the index to 137.7 per cent of the 1957-59 average (see chart), or 8 per cent higher than the reading a year earlier. The production increase included advances in consumer goods and materials output, which were all the more significant since they did not depend on a further push from the auto and steel industries.

In the steel industry, new bookings appear to have risen only about seasonally in January. Trade sources, however, reported that orders for some types of steel had to be turned down because forward commitments made earlier in response to strike-hedge ordering had already filled the books at some mills for several months ahead. It was also reported that steel shipments, although rising, have recently tended to fall considerably behind delivery dates promised earlier. Ingot production, which had been limited to levels that could be handled by the industry's finishing facilities for flat-rolled products, edged up a bit further in February in response to increased demand for pipe and wire products, but with operations already at such a high rate the gain was less than is usual for that time of year. In the auto industry, dealers continued to press manufacturers for deliveries. However, a severe Midwest snowstorm that



kept many automobile production workers off their jobs for several days apparently caused assemblies in February to edge off a bit from the unprecedented height of the previous month.

Prospects for further gains in over-all production appear good. Despite a lack of push from steel orders in January, total new orders received by manufacturers of durable goods (seasonally adjusted) advanced again (see chart). Backlogs of unfilled orders also were up and currently amount to more than two and a half times the monthly rate of shipments. Orders booked by machinery- and equipment-producing industries rose in January and reached a level 8 per cent higher than a year ago. Increases in such orders tend to confirm the indications of the November Commerce Department-Securities and Exchange Commission survey that business capital spending will con-

tinue to climb in the first half of 1965. A more up-to-date reading of spending plans should be available in early March with the publication of the results of the Government's February survey.

Although the absence of dock workers from their jobs in January curtailed employment in transportation industries, the expansion in over-all economic activity helped push total nonfarm payroll employment (seasonally adjusted) up by 93,000 persons in that month. Except for the brief interval during the automobile strikes last fall, payroll employment has risen virtually without interruption for three years (see chart). The number of persons at work in manufacturing rose to 17.7 million in January, the highest level since mid-1953, and the average workweek clocked by manufacturing production workers climbed to 41.4 hours. This represented an average of 3.3 hours of overtime per production worker, the highest overtime rate for January since this series began in 1956. According to the Census Bureau's household survey, the unemployment rate was 5.0 per cent in February, up slightly from 4.8 per cent in January, but close to the range that has prevailed since mid-1964. Total employment was about unchanged in February, while the civilian labor force rose somewhat.

#### RESIDENTIAL CONSTRUCTION AND RETAIL SALES

Developments in the residential construction sector continue to present a mixed picture. Vacancy rates for the nation as a whole on both rental and for-sale units in the fourth quarter of 1964 were exactly the same as a year earlier. Building permits issued in January advanced markedly and outlays for new buildings rose in February for the third month in a row. On the other hand, the dollar value of residential construction awards (seasonally adjusted) moved down in January after a two-month rise, and the number of nonfarm housing units started in January dropped sharply after a surge in December. The major area of weakness in starts, compared with the high levels of about a year ago, apparently continues to be in multifamily units on the West Coast.

Consumer spending at retail outlets eased a bit in January from the record December level, but remained nevertheless almost 7 per cent above the year-earlier performance. Weekly data for February suggest that retail volume in that month probably more than made up the decrease of the month before. It should be noted that the sharp advance in personal income in January, partly reflecting early payment of dividends to veterans holding Government life insurance, buttressed consumers' ability to spend. While new car sales appear to have dipped a bit in February fol-

lowing their surge in January, they remain at a very high level.

The Census Bureau's latest survey of consumer buying plans, taken in January, suggests that auto sales will continue at a good rate over the near term. The January results do show a decline in the proportion of consumers planning to buy new cars within the next six months, compared with the results reported last October. However,

such plans are usually reduced in the interval between these two surveys, with October plans probably biased upward because of the introduction of the new car models. Plans to buy a new car within six months were higher in January 1965 than a year earlier, and the 1964 survey was, of course, followed by a year of record sales. Plans to purchase household durables, on the other hand, were off somewhat from their high level at the start of 1964.