The Business Situation

Economic activity continued to advance as 1963 came to a close. Industrial production and nonfarm payroll employment both edged up in November. Steel and automobiles continued to show strength in December, and retail sales appear to have recovered following the small decline a month earlier. The December evidence is, of course, still fragmentary. Nevertheless, the statistics now available confirm the view that the change in the Presidency has had little effect on underlying business performance and expectations.

Prospects for further gains in business activity in 1964 remain good. At the same time, however, the business outlook is not completely unequivocal. Housing starts and new orders for durable goods both fell off in November; however, movements in these series are often erratic, and the November declines were from very high levels. One factor boosting payrolls in the fourth quarter—the rise in military pay scales—will not, of course, provide any further upward push in 1964. The latest Department of Commerce-Securities and Exchange Commission survey of businessmen's capital spending plans is also somewhat disappointing, since it implies a leveling-off in outlays for plant and equipment in the first quarter of the new year. On the other hand, the survey points toward a marked increase in such expenditures during the second quarter, which may indicate that there has been some upward revision in over-all spending plans for 1964, compared with those reported by the McGraw-Hill survey a month earlier. The outlook for such an upward revision would be improved if consumer spendin turns out to be as strong as current buying intentions suggest and, of course, by an early enactment of the proposed tax reduction.

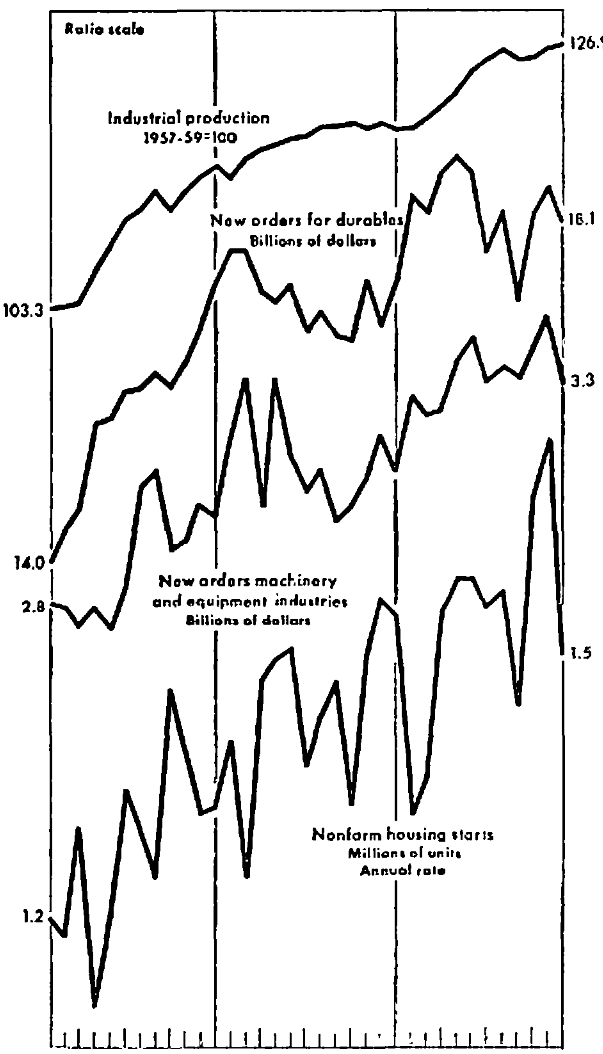
PRODUCTION, EMPLOYMENT, AND RETAIL SALES

Industrial production, as measured by the Federal Reserve's index, edged further ahead in November (see Chart I) to 126.9 per cent of the 1957-59 average (seasonally adjusted). Steel provided most of the push, as output in this industry moved up for the first time in six months, but other durable goods industries—including those producing business equipment—also showed some gains. Steel ingot production advanced further in December and, for the year as a whole, is estimated at 109 million tons. This level of output—higher than any year since 1957—was reached despite record steel imports in recent months. Moreover, steel inventories appear to be about in line with desired levels and only a little higher than a year earlier, and industry reports suggest that the orders picture is strong. Thus, prospects would seem to be favorable for a prolonged high level of steel output in the months ahead. December automobile assemblies remained at the high November level on a seasonally adjusted basis. This brought total 1963 output to 7.6 million units, the best year since 1955. Preliminary schedules for January point to some decline in output from the high December level.

In November, one indicator giving some information on future production—new orders received by manufacturers of durable goods—did decline. Most of this fall off, however, was attributable to a drop in orders for transportation equipment. Orders received by other durables industries edged down only slightly, on balance. These orders had shown an unusually large gain in the previous month and therefore were still at relatively high levels in November. The November decline in orders for durables was offset in part by a recovery in orders for nondurables to record levels, following three months of decline.

Nonfarm payroll employment (seasonally adjusted) rose by 41,000 persons in November, largely reflecting increases in the number of persons at work in the trade, finance, services, and government sectors. At the same time, there was some contraction in manufacturing employment despite increases in industrial production. During the first eleven months of last year, unemployment averaged 5.7 per cent of the civilian labor force, a level that was slightly above the 1962 average. Indeed, the only previous postwar years to show such a high over-all unemployment rate were years directly associated with economic recession. The rise in over-all joblessness in 1963 reflected somewhat higher unemployment among adult single males and adult women, and a substantial rise in unemployment among teen-agers. On the other hand, the employment situation for married men improved fairly steadily throughout 1963 despite a November setback; the unemployment rate for this group through November thus averaged 3.3 per cent, compared with 3.5 per cent in 1962. This suggests that cases of pressing economic hardship may possibly have been somewhat less widespread than a year earlier.

Chart I
RECENT BUSINESS INDICATORS
Seasonally adjusted



Note: Latest data plotted are for November 1963.

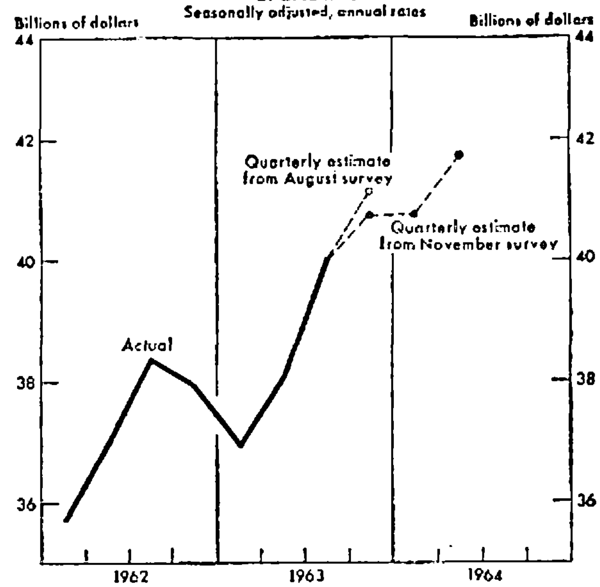
Sources: Board of Governors of the Federal Reserve System; United States Departments of Commerce and Labor.

In contrast to the November gains in production and employment, retail sales slipped about 1 per cent on a seasonally adjusted basis in that month. This decline, however, was in large part attributable to the sluggishness of sales in the several days immediately following President Kennedy's assassination. Most stores were, of course, closed on November 25, the national day of mourning, and total retail sales in that week fell 8 per cent below the comparable period a year earlier. Weekly totals during the early part of December suggested a virtually complete recouping of the late November declines, and sales for December as a whole appear to have risen about 3 per cent (seasonally adjusted) from November while also setting a new Christmas season record. Part of the December push came from a rise in sales of new automobiles that brought total car sales in the United States (including imports) for the year to more than 7½ million units, an all-time high.

Chart II

RECENT DEVELOPMENTS IN PLANT AND EQUIPMENT SPENDING

Seasonally adjusted, annual rates



Sources: United States Department of Commerce; Securities and Exchange Commission.

HOUSING AND PLANS FOR CAPITAL SPENDING

In the housing sector, a decline in the number of starts in November appears to be at least in part simply an aftermath of the surge that occurred in September and October. Unusually warm weather permitted outdoor work to continue at more than the normal pace, with the result that some September and October starts were probably "borrowed" from later months. In spite of the sharp drop in November, the average level of starts for the last three months was at a record for any three-month period, suggesting that residential construction activity over the next few months should be at a high level.

The latest survey of capital spending plans, conducted in November by the Commerce Department and the Securities and Exchange Commission, shows a somewhat mixed picture. Although the survey reported an estimated rise in total outlays for plant and equipment of $750 million (seasonally adjusted annual rate) in the final quarter of the year—from $40 billion to $40¾ billion—this was appreciably less than the amount of increase for the fourth quarter that had been indicated by the August survey (see Chart II). The downward revision in fourth-quarter outlays planned earlier is largely attributable to a shortfall in spending by commercial and communications firms. This category includes outlays for construction of new shopping centers, which according to some observers is now passing its peak. Manufacturers' estimated capital spending in the fourth quarter, however, was also slightly less than planned earlier.

The survey also pointed toward a leveling-off in total capital outlays in the first quarter of the new year, with sluggishness rather widespread among all industries. A more encouraging sign, on the other hand, is the fact that preliminary plans for the second quarter call for about a $1 billion increase in total capital expenditures over the first-quarter level. To be sure, manufacturers anticipate only a small rise in outlays in the second quarter—an increase that appears to be about in line with their full-year plans as reported in the recent McGraw-Hill survey. This survey, it will be recalled, suggested that manufacturers were planning 1964 outlays about 8 per cent over the 1963 average, but had indicated marked weakness in capital spending by the nonmanufacturing sector for 1964 as a whole. The new Commerce-SEC survey, in contrast, found that the nonmanufacturing sector is planning on a sharp rise in the second quarter following a first-quarter decline. This latest survey would thus seem to suggest that the capital spending plans of the nonmanufacturing sector may have been revised upward since the McGraw-Hill survey was taken. It must be recognized, however, that the Department of Commerce and the Securities and Exchange Commission have for the first time undertaken to release projections of spending plans so far into the future. There is as yet limited experience for assessing the outcome of this welcome attempt to extend a key statistic in the appraisal of business prospects.