

## The Business Situation

The economy continued to operate at a high level in early 1964, and the existing uncertainties in the business outlook related mostly to the likely pace of future advance. To be sure, industrial production and retail sales were about unchanged in January and nonfarm payroll employment rose only moderately. Personal income moved up, but mainly because of a concentration into January of veterans' annual insurance dividend payments and the effects of the second stage of a Federal pay increase. Partial data for February suggest only slight increases in auto and steel production and little change in new-car sales or over-all retail volume. On the other hand, the tax cut has finally been enacted, with the reduction in withholding rates becoming effective on wages and salaries paid on or after March 5, and some of the leading business indicators point toward increased strength. In particular, nonfarm housing starts and new orders for durable manufactured goods rose substantially in January, and a Census survey taken that month suggests that consumer buying plans were generally stronger than a year earlier. Moreover, a special McGraw-Hill survey conducted in January confirmed impressions that prospects for a substantial rise in plant and equipment spending by business were decidedly better than had been indicated in plans reported last fall.

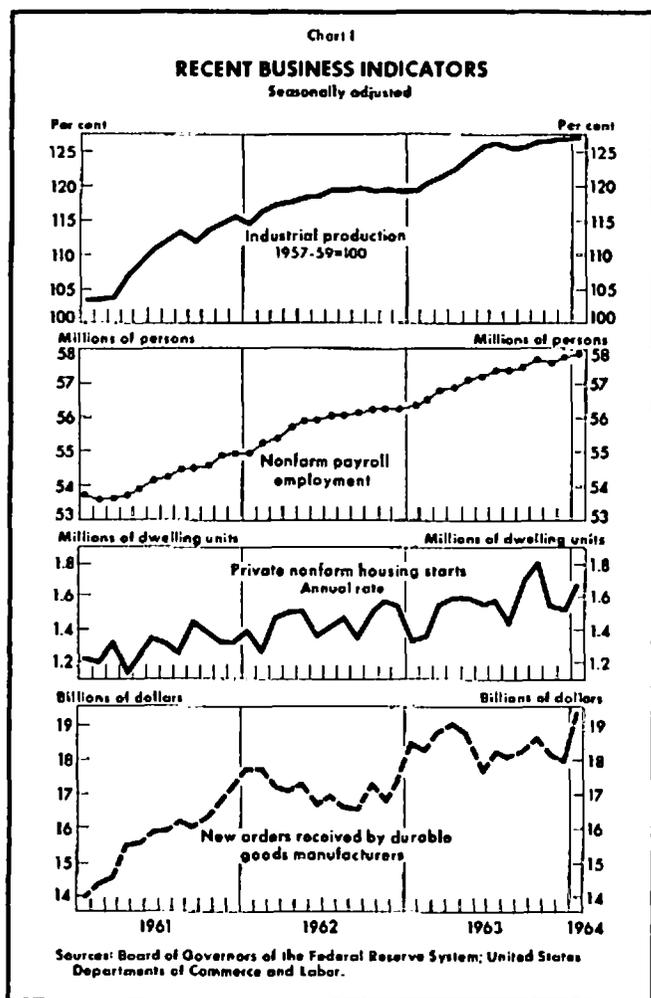
### PRODUCTION AND EMPLOYMENT

The seasonally adjusted index of industrial production in January remained at the record level of 127 per cent

of its 1957-59 average (see Chart I). Output declined slightly in the case of nondurable goods, but climbed a bit in utilities, mining, and durables manufacturing. The rise in the durables sector largely reflected a sizable step-up in steel ingot production—to the highest level since June—and expanded output of furniture and television sets (for which the continued widening of interest in color receivers may account in part). Equipment production also moved up again, bringing to 7 per cent the increase in this component since the 1963 low of last April. On the other hand, the rate of auto assemblies declined somewhat in January, although it remained substantially above the year-ago pace.

Preliminary data for February indicate that cars were rolling off the assembly lines at a modestly higher rate than in the previous month. Seasonally adjusted steel ingot production continued to rise, reflecting broadly based increases in customer demand. The Commerce Department has estimated that steel manufacturers may produce 114 million tons of ingots in 1964—well above the 1963 figure of 109 million tons but about in line with early 1964 rates of output.

Nonfarm payroll employment showed a moderate expansion of 87,000 in January, after adjustment for normal seasonal variations (see Chart I). This was a somewhat smaller rise than in December, mainly because payroll employment in the building trades fell by some 70,000, influenced by snowstorms during the survey week in January. On the other hand, employment in trade, services, and



state and local government—the sectors in which job growth has been greatest during the past year and, indeed, during the past decade—continued to rise significantly. State and local government payrolls have shown a sharp over-the-year increase, primarily as a result of the increased hiring of educational personnel to meet the needs of the expanding school population.

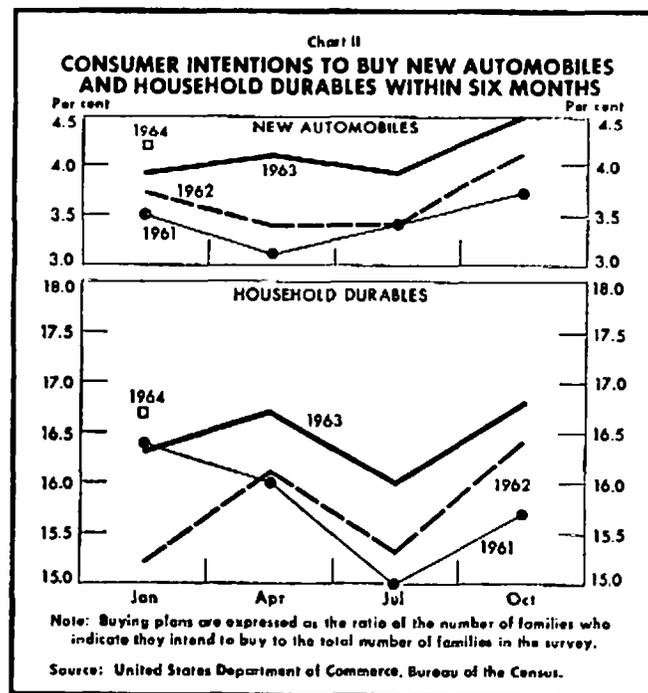
**INDICATIONS OF FUTURE DEMAND**

After a sizable rise in December, retail sales remained about the same in January and apparently also in February. The likelihood of future strength in consumer spending is suggested by the latest quarterly survey of consumer buying intentions taken by the Census Bureau in January, when the tax cut appeared likely but may not yet have been viewed as a certainty. That survey indicated

that the proportion of respondents planning to purchase a new car within six months was somewhat above the already high rate reported in the January 1963 survey (see Chart II). Intentions to buy household durables also showed some rise from a year earlier, but plans to buy used cars fell below the high level reached in January 1963. Buying intentions are, of course, never a precise predictor of sales in the months ahead. Nevertheless, they do at times suggest the direction of year-to-year changes in sales. This was the case in the January 1963 survey, although the estimated degree of rise over the year earlier turned out to be somewhat conservative for new-car purchases and a little optimistic for household durables.

The near-term outlook for residential construction also appears rather favorable in view of a considerable increase in January in the number of nonfarm housing units started (see Chart I). Such an advance was not totally unexpected in light of the very high fourth-quarter rate of building permits issued, which largely reflected the continued uptrend in planned apartment construction. Although permits for new apartment houses fell off somewhat in January—more than offsetting the slight increases for smaller structures—the backlog of unused permits apparently continues to be quite sizable.

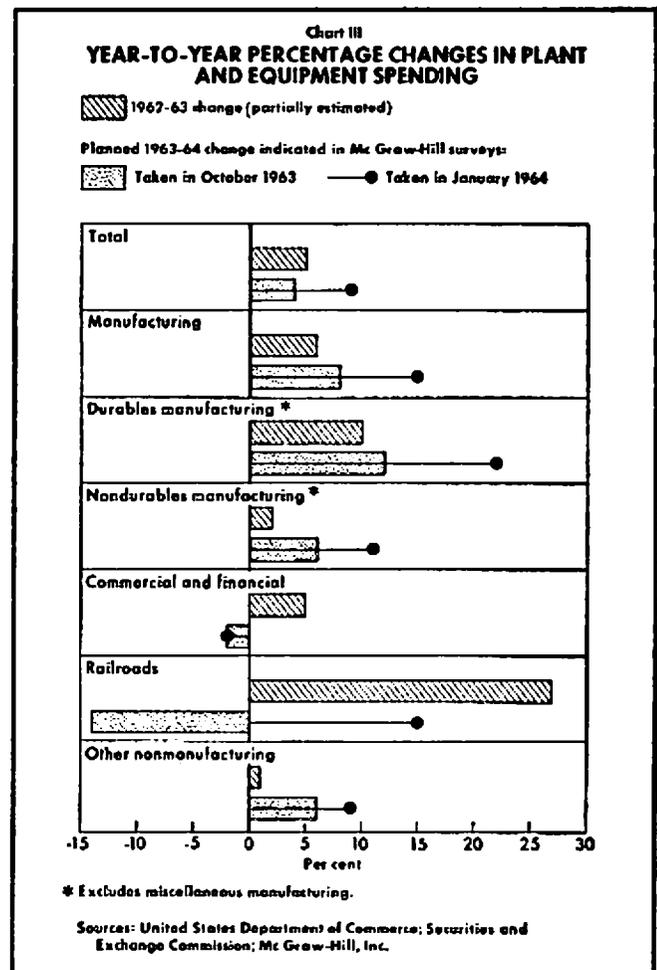
New orders received by manufacturers of durable goods advanced substantially in January, thus more than recoup-



ing the declines of the preceding two months (see Chart I). The January rise was widespread, although much of the gain came in the aircraft industry—which had experienced a rather sharp decline in the preceding three months—and in the primary metals industry. Orders received by machinery and equipment manufacturers were about maintained at December's record level, following a sizable advance from November. This strong showing, coupled with the December-January strengthening in contract awards for commercial and industrial construction, points to impending rises in plant and equipment expenditures.

A strengthening in the outlook for capital spending this year appears to be corroborated by a special McGraw-Hill survey, conducted in January, which shows that businessmen's capital spending plans have been revised substantially upward since last fall. Thus, it seems likely that business fixed investment may provide more push to the economy this year than it did in 1963 (see Chart III). The new survey indicated that businessmen plan an 8.7 per cent year-to-year increase in plant and equipment expenditures in 1964, rather than only the 4.2 per cent rise suggested in McGraw-Hill's fall survey taken last October. The upward revisions were widespread, with the largest step-ups occurring in the durables manufacturing sector and the railroad industry. In the commercial sector, however, plans continued to point to some weakness, with outlays here scheduled to slip slightly below 1963 levels. The over-all rise now planned for 1964 compares favorably with the increases in capital spending actually achieved in most recent years of economic expansion, though it falls far short of the 22 per cent advance registered in the investment boom year of 1956.

While the results of the latest McGraw-Hill survey are encouraging, it is difficult to assess precisely what they mean for capital spending in the year ahead. Some step-up in over-all plans since last October might have been expected, given the generally optimistic business sentiment associated with the tax cut and rising corporate profits as well as the above-noted recent strengthening in machinery and equipment orders and in construction contract awards. Indeed, when the fall survey has pointed to an increase in capital expenditures, it has tended to underestimate the actual extent of the rise—and at times by a sizable amount. On the other hand, the other regular McGraw-Hill survey—usually taken in March and early April—has generally been somewhat too optimistic. Since this year's January survey is the first conducted in that month,



it has no antecedents to suggest its performance as a predictive guide.

The need for some continued caution in interpreting the outlook for capital spending is highlighted by the fourth-quarter decline in capital appropriations of large manufacturing corporations, as reported by the National Industrial Conference Board. Even with the decline, however, appropriations were still at the second highest level reached in recent years, though somewhat below the 1955-56 record. Additional information on plant and equipment spending prospects will be provided in the quarterly survey by the Commerce Department and the Securities and Exchange Commission, taken in February, which is to be released shortly.