

The Business Situation

The economy posted a good advance in April, and fragmentary data for May suggest that these gains have been at least maintained in recent weeks. Leading indicators such as new orders for durable goods, the backlog of business appropriations for capital spending, and consumer buying intentions add support to the widespread expectation of further gains in output and employment in the months immediately ahead. The limited data so far available, however, do not provide an adequate basis for assessing the ultimate impact of the tax cut on economic activity.

In April, industrial production, employment, and personal income showed the largest rises in several months. Retail sales, to be sure, edged down for the second month

in a row, but such sales often show erratic movements, and appear to have risen somewhat in May after allowance for seasonal factors. Steel production in May appears to have been maintained at the already high April level, and weekly data suggest that auto output also remained about unchanged.

The prevailing atmosphere of confidence has not been accompanied, so far at least, by either a general speculative inventory build-up or by over-all inflationary price developments. Indeed, the broad indexes of prices have continued to exhibit substantial stability—a fact that may to some extent reflect continued excess capacity in several lines as well as unemployment still in excess of 5 per cent of the labor force. If further gains in economic activity cut

into these unused resources, price and wage stability may face a more severe test in the months ahead than has been experienced up to now.

PRODUCTION, ORDERS, AND EMPLOYMENT

After showing only relatively small month-to-month movements for almost a year, industrial production—as measured by the Federal Reserve Board's index—moved up a full percentage point in April to a record level of 129 per cent of the 1957-59 average (see Chart I). Increases in the production of two major components—iron and steel, and motor vehicles and parts—accounted for almost half the April gain, although all major sectors of the industrial economy shared in the advance. Output of business equipment climbed more than a point, suggesting rising outlays by business for capital goods, as overtime operations in the machinery industry reached their highest level in seven years. Production of consumer goods also rose in April, more than offsetting the small March decline.

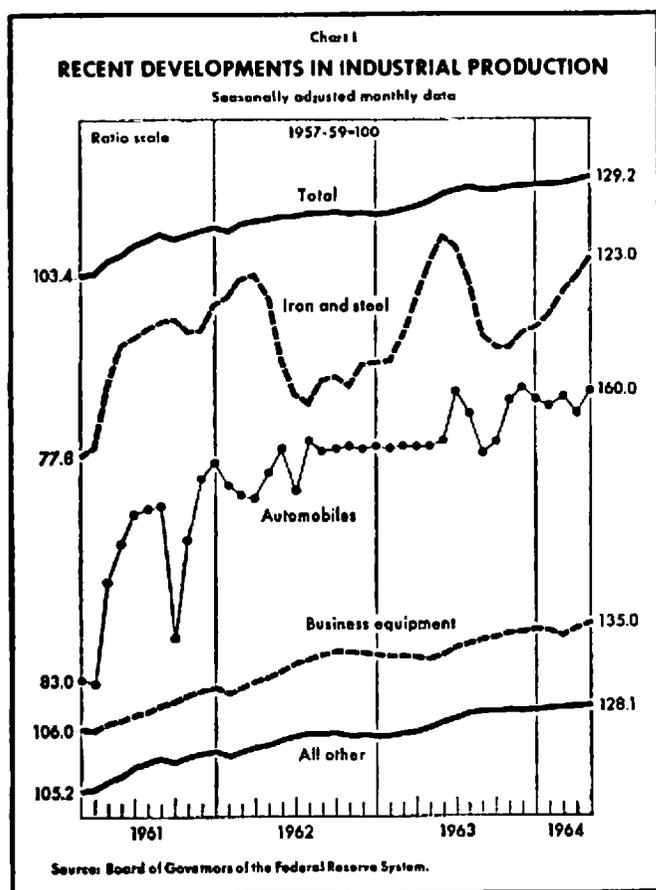
The general gains throughout manufacturing production in April, moreover, were also reflected in higher output of electric and gas utilities and in the mining industry.

Partial May data suggest that, on a seasonally adjusted basis, steel ingot production as well as assemblies of new cars held at about the advanced April rate. Even with dealer inventories at record levels, automobile production schedules do not point to any decrease in the rate of assemblies in June. However, the assessment of possible additional gains in industrial production in the months ahead will be complicated by the relatively early completion—scheduled for July—of output of 1964 model cars. The steel industry has already experienced a slowdown in new orders from the auto industry, but over-all steel orders remain strong as a result of heavy broad-based demand, particularly by the construction industry and by manufacturers of heavy equipment.

Prospects for future gains in industrial activity received a strong boost from a rise to a record in new orders received by manufacturers of durable goods. The aerospace and primary metals industries contributed substantially to this advance, but gains were widespread throughout all major industries. In particular, new orders for machinery and equipment, a series closely related to business capital spending, posted a good rise. Moreover, with orders exceeding shipments, the backlog of total durable orders on the books of producers grew in April for the fourth month in a row.

The National Industrial Conference Board reported that new capital appropriations of major manufacturing companies edged a bit lower in the first quarter, but that such appropriations nevertheless remained at a very high level. Taking into account a sharp upward revision in the figure earlier reported for the fourth quarter of 1963, new appropriations have now been maintained for three quarters at levels not exceeded since the first quarter of 1956. The backlog of funds appropriated but not yet spent is continuing to mount, and since appropriations of manufacturing firms have tended to lead capital outlays by about six to nine months, prospects are excellent that the substantial gains in planned business spending for plant and equipment in 1964 reported by recent surveys will, in fact, be achieved.

Partly reflecting the April rise in industrial production, nonagricultural employment showed a further advance in that month: all major sectors of the economy, except construction and services, added to payrolls. The Census Bureau's household survey reflected the improved employment picture by recording a seasonally adjusted increase of 750,000 in the total number of persons employed, the largest monthly increase since April 1960. The gain, how-



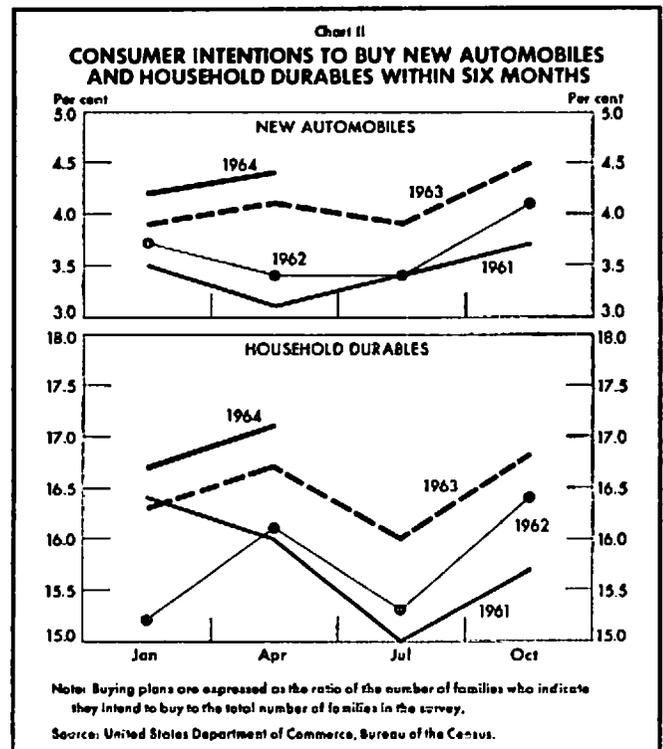
ever, was primarily the result of increased part-time employment of women and reflected additions to the labor force. The number of unemployed also rose, although only slightly. Consequently, the April unemployment rate remained at the March level of 5.4 per cent. However, the long-term unemployment rate (fifteen weeks or more) declined to 1.2 per cent, the first clear movement below the 1.5 per cent level in two years.

CONSUMER SPENDING, RESIDENTIAL CONSTRUCTION, AND PRICES

Retail sales, which had declined in March, receded slightly further in April but nevertheless remained close to the record February level. The April decline was concentrated entirely in nondurables, with sales of durable goods actually rising somewhat. Seasonally adjusted sales of domestically produced automobiles moved ahead in April, and preliminary data suggest no slackening in May. Rising disposable income in the hands of consumers—reflecting income gains as well as smaller Federal tax withholdings since the March tax cut—lend strong support to the prospect for further gains in consumer spending in the months ahead. This prospect is supported by the April Census Bureau Survey of Consumer Buying Intentions: plans to buy new cars and household durables were once again ahead of the previous year (see Chart II). Preliminary weekly data for May do, in fact, suggest some pickup in retail sales.

Residential construction activity remained as high in April as it had been in March and thus continues to be a factor of strength in general economic activity. The level of housing starts and new building permits likewise remains high, although both of these indicators fell in April. While month-to-month changes in these two series are highly volatile, the declines do underscore the need for caution in assessing the outlook for residential construction.

Broad measures of price behavior continue to exhibit near stability. Wholesale prices of commodities other than farm and food products were unchanged in April at below end-of-1963 levels and, on the basis of weekly data, appear to have remained unchanged in May. Wholesale prices of farm and food commodities declined in April and, on balance, may have edged down a bit further in May. A recent substantial decline in the Bureau of



Labor Statistics index of spot raw industrial prices, moreover, ended more than six months of advance in that sensitive but somewhat erratic series. At the retail level, the consumer price index has continued to inch upward, climbing by 0.1 percentage point in both April and May. The over-all rise so far this year, however, has been only 0.2 per cent—well within the range of the moderate increases for similar periods experienced in recent years. Most recently, moreover, announcements of price reductions for specific goods (including color TV sets, some steel products, and aluminum sheets and plates) appear to have become more frequent than those of price advances. The business attitude on the pricing outlook is indicated by a recent survey of purchasing executives: many of these buyers do anticipate some upward price movement, but virtually all who see such a trend project only a slight to moderate updrift and expect price increases to be selective rather than general within various industries.