

## **The Business Situation**

The economy has posted a further good advance since midyear and most newly available evidence continues to be consistent with widely held expectations of further gains to come. In July, industrial production and retail sales each registered rather substantial gains, while significant rises also took place in nonfarm payroll employment and in personal income. At the same time, new orders received by manufacturers of durable goods rose sharply and unfilled orders climbed again. The unemployment rate showed a substantial decline in July to the lowest level since February 1960, but a part of this improvement was reversed in August. Fragmentary data for August show little change in steel ingot production, a slight rise in the rate of automobile assemblies, and an apparent

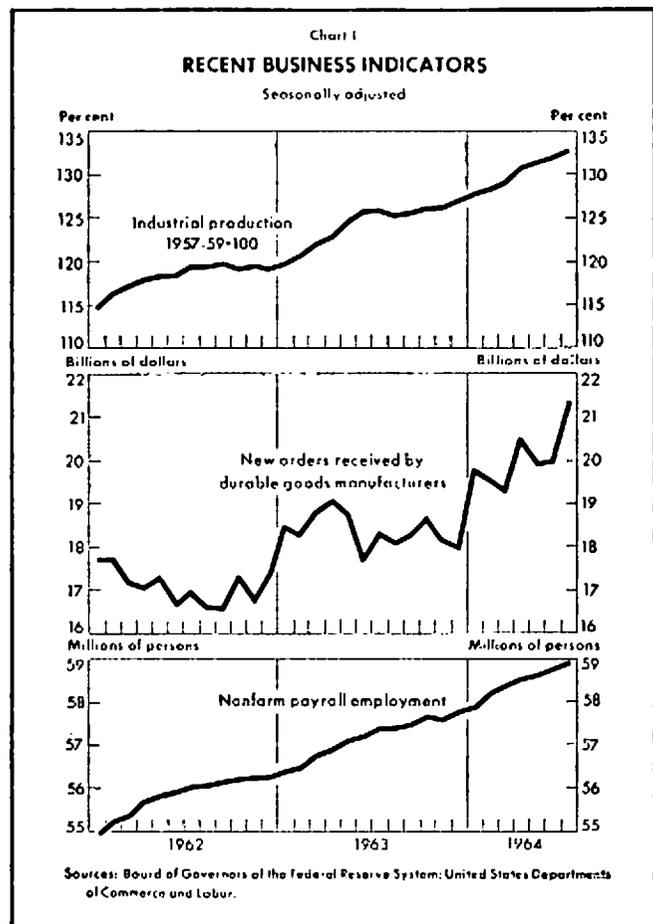
further expansion in retail sales. Several recently completed surveys point to continued strength in two sectors of demand. The Commerce Department-Securities and Exchange Commission's August survey of business capital spending plans over the balance of the year shows a further slight rise from the considerable increases over 1963 projected earlier, and the National Industrial Conference Board's survey of capital appropriations by large manufacturers reveals a substantial second-quarter rise. In addition, a Census Bureau survey taken in July indicates that consumer buying plans were stronger than a year ago. In the residential construction area, however, leading indicators continue to suggest a slippage from earlier peak demands.

Although negotiations in the automobile industry for a new labor contract remain unsettled, the old contract has been extended by a few days to September 9, which may enhance the possibility of a settlement without a work stoppage. Such a development would, of course, remove one of the significant uncertainties from the economic horizon. The contract terms which finally emerge from the present negotiations will have an important influence on over-all price stability and thus on the pace and orderliness of economic expansion. With regard to the recent past, the index of wholesale prices, after trending downward over the first half of the year, moved up by 0.4 percentage point in July, but early indications for August on balance suggest little further change. In the retail sector, the consumer price index in July edged up by 0.3 percentage point to reach 108.3 per cent of the 1957-59 average. So far this year, the consumer price index has advanced by 0.8 per cent from the average for the final quarter of 1963, compared with a rise of 0.9 per cent in the corresponding 1963 period over the final quarter of 1962.

#### PRODUCTION, NEW ORDERS, AND EMPLOYMENT

Industrial production, as measured by the Federal Reserve's seasonally adjusted index, advanced by a full percentage point in July, marking the eleventh month in a row in which a gain has been registered and bringing the index to 132.7 per cent of the 1957-59 average (see Chart 1). The over-all gain since December amounts to 4.7 per cent, compared with about 5.5 per cent in the comparable period a year earlier. In July, gains were scored by all major industry groups except utilities, where there was a slight decline. The durables sector, however, provided the largest push, mostly reflecting a markedly better than seasonal performance in steel ingot production and stepped-up activity in equipment-producing industries. Production data for August pointed to a modest rise in the rate of automobile assemblies after allowance for seasonal influence, as producers pushed hard to stock dealers with an adequate supply of the 1965 models which will go on sale in late September. The better than seasonal performance in steel ingot production may also have continued into August.

One favorable factor in the near-term outlook for production was the substantial 6.6 per cent rise (seasonally adjusted) in new orders received in July by manufacturers of durable goods, following some slippage in May and an essentially unchanged June figure (see Chart 1). The June sluggishness in these orders had reflected reduced bookings in the aircraft and parts industry, which are heavily defense oriented and tend to show erratic month-to-month



movements. This decline in June almost counterbalanced gains posted by most other industries. In July, on the other hand, new orders received by the aircraft and parts industry jumped, accounting for over two thirds of the gain in new durables orders. Sizable advances were also posted, however, in the steel and electrical machinery-producing industries. With new orders above shipments in July, the backlog of unfilled durables orders rose by 2.8 per cent (seasonally adjusted) to mark the seventh consecutive month of advance.

According to the August Commerce Department-Securities and Exchange Commission survey, business plans for plant and equipment spending for the year as a whole are now projected at a level 12.7 per cent above such outlays in 1963, while the corresponding May survey had indicated a gain of 12 per cent. Most of the small upward revision in spending is planned for the final quarter of the year. Also, the National Industrial Conference Board reports that capital appropriations of large manufacturing corporations rose sharply, by 21 per cent, be-

tween the first and the second quarters. This advance more than offset a first-quarter decline and pushed the level of capital appropriations to a record high. The backlog of such appropriated but unspent funds, moreover, also rose strongly, for the third consecutive quarter.

Nonfarm payroll employment, seasonally adjusted, advanced by 138,000 persons in July, the eighth consecutive monthly gain (see Chart I). The rate of increase in July was somewhat below the average monthly advance for the first half of the year—a slowdown that partly reflected less push from manufacturing industries and the government sector. Nevertheless, in combination with a decline in the labor force, the unemployment rate dropped in July to 4.9 per cent from 5.3 per cent in June. This was the first time that the rate had gone below 5 per cent since October 1957, except for February 1960, and all major unemployment rate categories shared in the July improvement. In August, according to the Census Bureau's household survey, total farm and nonfarm employment registered a modest decline, while the civilian labor force rose slightly. As a result, the unemployment rate increased to 5.1 per cent; nevertheless, the August rate continued within the range that has prevailed over the previous three months, which in turn represents a distinct improvement over the earlier months of the year.

#### RESIDENTIAL CONSTRUCTION AND RETAIL SALES

Recent developments in residential construction continue to suggest some leveling-off in demand in this sector. After a strong performance in the first quarter, such leading indicators of residential construction activity as nonfarm housing starts and building permits moved substantially lower in the second quarter. Moreover, both nonfarm housing starts and building permits also declined in July, with starts off by 4.8 per cent to the lowest level since August 1963 and permits down by 6 per cent. Reflecting the recent movements in starts and permits, outlays for residential construction in the second quarter, at an average seasonally adjusted annual rate of \$26.9 billion, were significantly below the average of \$27.5 billion for the first quarter. The seasonally adjusted annual rate for July-August was about equal to the average for the second quarter.

After moving down by 0.5 per cent in June, retail sales showed renewed strength in July, rising 1.2 per cent to reach \$21.9 billion (seasonally adjusted), a new high. Durables sales recouped a good part of their June decline to account for nearly three fifths of the July advance in

total retail sales, largely on strength from the automotive group. Fragmentary data for August suggest that sales in that month may have moved up further, as new car dealers strove to liquidate an unusually high inventory of 1964 model automobiles.

With regard to near-term prospects for further expansion in retail sales, it is noteworthy that consumer intentions to spend within the next six months continue to appear strong (see Chart II). According to the latest survey by the Census Bureau, the proportion of consumers planning as of mid-July to buy new cars was essentially the same as in January and April, and appreciably above July of 1963. Plans to buy household durables, moreover, were above the reading of a year ago, and July 1964 marked the first time since 1959, when the survey was first taken, that such plans did not show a decline between April and July. The continued, though moderate, expansion in personal income, which rose by \$1.5 billion in July, combined with the relatively high rate of personal savings and slower rate of increase in consumer instalment credit, would seem to suggest that consumers have the financial support to carry out their current buying plans.

