The Business Situation

Strikes in the automobile industry had a significant impact on most business indicators in October and November, but these are now settled and the underlying strength of the domestic economy appears sufficient, on balance, to support further expansion. Work stoppages arising out of labor-management disputes are always difficult to evaluate in terms of their impact on business trends, current and future. While strikes are in progress, output, sales, and payrolls in the industry involved are of course lower than would otherwise be the case, and when settlements are finally reached there may be attempts to make up for lost production; only after some passage of time are these distortions gradually removed. In addition, both the strikes and developments after their settlement may influence production and employment in other industries not directly involved, and these influences may have secondary effects on prices, inventory behavior, and expectations.

Whatever the net effect of all these forces may be, it remains true that with the settlement of the strikes at both General Motors and Ford the entire automotive industry is now producing cars and allied products at peak rates and should provide a substantial push to economic activity in the months to come. At the same time, the economy is moving into the Christmas season amid expectations of record sales even after allowing for seasonal influences. The Census Bureau's October survey of near-term consumer buying plans, moreover, would generally seem to support the outlook for further improvements in sales performance at retail outlets over the coming weeks. Aside from strike effects, personal income and employment have continued to advance. Leading indicators of activity in the residential construction industry in September and October, moreover, appeared somewhat stronger than had been the case in earlier months. The latest Department of Commerce-Securities and Exchange Commission survey of businessmen's capital spending plans, conducted in November, also points to further near-term strength. In particular, the survey indicated that total business spending for plant and equipment for the first half of 1965 would reach $48.7 billion at an annual rate, up $2.0 billion from the rate now expected for the final quarter of 1964.

While the settlements in the automobile industry have removed some significant uncertainties from the economic picture, other problems—including important labor negotiations—still lie ahead. The most immediate question concerns the possibility of an East and Gulf Coast dock strike on December 20. In the somewhat more distant future, there is, of course, the possibility of a strike in the steel industry after April 30. The results of these various negotiations are certain to have an important bearing on the outlook for a continued orderly economic advance and for price stability. With regard to recent price movements, the consumer price index in October edged up by 0.1 percentage point to reach 108.5 per cent of the 1957-59 average. For the year through October, the consumer price index advanced by 1 per cent from the average for the final quarter of the year before, compared with a rise of 1.2 per cent in the corresponding 1963 period. Specific price announcements related to industrial commodities continue mostly on the up side, and weekly data for November suggest that the industrial component of the wholesale price index moved up further in that month, following a modest advance the month before.

PRODUCTION, NEW ORDERS, AND EMPLOYMENT

Reflecting the lost production at General Motors, the Federal Reserve Board's seasonally adjusted index of industrial production dropped by 2.3 percentage points in October to 131.7 per cent of the 1957-59 average (see Chart I). Excluding the substantial drag exerted by the motor vehicles and parts component, however, the overall index would have shown a slight rise. Iron and steel production rose by 1.3 per cent, reflecting broadly based demands. Despite the decline in truck production, total output of business equipment advanced by 1 per cent to a new high. Weekly data for November suggest that auto-

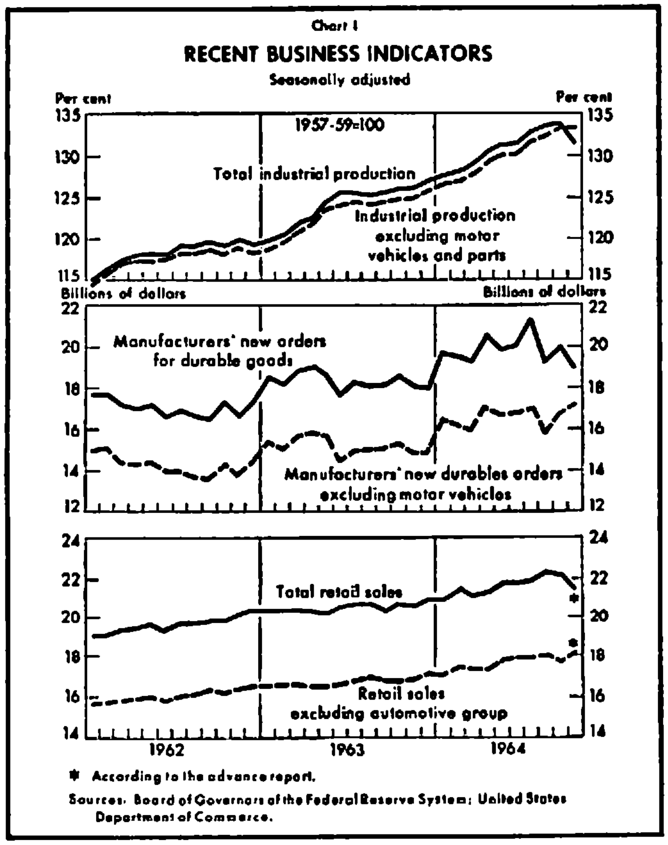

Chart I
RECENT BUSINESS INDICATORS
Seasonally adjusted

* According to the advance report.
Sources: Board of Governors of the Federal Reserve System; United States Department of Commerce.

mobile assemblies made a strong recovery toward the end of the month and that steel ingot production continued to expand at a modest rate.

New orders booked by durables manufacturers registered a 2.1 per cent decline in October, following a modest 2.9 per cent gain the month before (see Chart I). The October fall in these orders reflected a sharp drop in orders for motor vehicles and parts, also attributable to the labor disputes at General Motors. Excluding the motor vehicles component, new orders edged up slightly, largely however on strength from the aircraft and parts component which tends to show somewhat erratic month-to-month movements. With new orders above shipments in October, the backlog of unfilled durables orders advanced by 1.9 per cent (seasonally adjusted) to mark the tenth month in a row in which an increase has been posted.

Nonfarm payroll employment in October moved down by 66,000 persons, seasonally adjusted, to 59.0 million. The October decline represented the first time since November 1963 that this series had turned down. The substantial 252,000 drop in manufacturing employment, which accounted for the fall in the total, was for the most part centered in the transportation equipment producing industry, again reflecting the wider impact of the strike at General Motors. Meanwhile, employment with state and local governments continued its long-sustained advance, and the service and trade groups also showed further moderate gains. In November, according to the household survey, both total employment and the civilian labor force rose, with the gain in the number of people finding jobs considerably larger than the expansion in the civilian labor force. As a result, the aggregate unemployment rate fell to 5.0 per cent, which has been bettered only once since February 1960. The unemployment rate for married men also showed marked improvement in November, dropping to 2.5 per cent. Teen-agers, however, remain a serious problem; their unemployment rate stood at 14.9 per cent in November, compared with 14.4 per cent the month before.

RESIDENTIAL CONSTRUCTION AND RETAIL SALES

Outlays for residential construction in November declined by 0.4 per cent (seasonally adjusted), thus continuing the weakening first noted in the second quarter. The latest

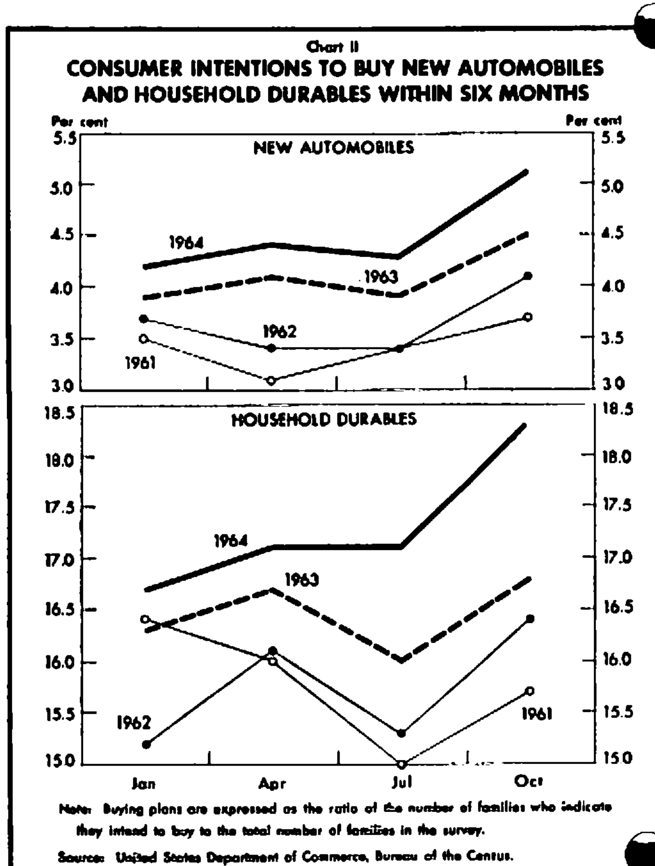

Chart II
CONSUMER INTENTIONS TO BUY NEW AUTOMOBILES AND HOUSEHOLD DURABLES WITHIN SIX MONTHS

Note: Buying plans are expressed as the ratio of the number of families who indicate they intend to buy to the total number of families in the survey.
Source: United States Department of Commerce, Bureau of the Census.

forward-looking indicators of housing activity, however, suggest the possibility that the downtrend of the past several months may now be leveling out. In September, nonfarm housing starts posted a modest 2.3 per cent gain after having moved down for two months in a row. In October, moreover, nonfarm housing starts rose by 8.9 per cent and building permits issued posted a slight increase following a considerable September decline.

Retail sales in October fell by 2.9 per cent, following a much smaller movement on the down side the month before (see Chart I). The October decline was fully accounted for by a 25 per cent drop in the automotive component, which in turn reflected the limited availability of new cars. As is also apparent from the chart, retail sales excluding the automotive group posted a good gain (2.7 per cent). Unit sales of new automobiles did appear to recover somewhat in November, but it will take a few more weeks to assess fully the post-strike strength of automobile demand. Consumer buying plans, at any rate, suggest strength. The Census Bureau's mid-October survey of such plans shows that the proportion of consumers planning to buy new cars within the next six months was markedly above the proportion for the second quarter as well as considerably above the corresponding 1963 period (see Chart II). The chart also shows that the proportion of consumers planning to purchase household durables within the next six months was even more substantially above earlier readings than in the case of cars.