

The Business Situation in January



BUSINESS activity on the whole continues to move upward after allowing for seasonal influences. January frequently does not provide a clear guide for gaging the extent of cyclical change because of the variability of the weather influence on some important segments. It appears that this year again severe weather has retarded activity in some areas of the country. Comparisons with a year ago reflect

the fact that in early 1961 business was still in a cyclical decline, which makes the current period appear unusually favorable on this basis.

The broad indicators of current change now available present a somewhat mixed picture. Retail sales did not quite maintain the high seasonally corrected rate of November–December, when consumers spent at a record rate. Department store sales fell much more than usual in January. Consumer purchases of new automobiles, despite some strong spots, did not in total match the fourth quarter average. But for the model run to date—October 1961 through January 1962—auto sales have been at an annual rate in excess of 6 million units.

Steel output registered a further substantial increase. Motor vehicle production, though lower than the rate earlier in the model year, continued to reflect in part the need for a larger volume of dealer stocks.

The seasonally adjusted rate of unemployment declined to somewhat less than 6 percent of the civilian labor force in January, continuing the drop of late 1961. The current rate is about 1 full percentage point below the figure that prevailed throughout most of last year.

Personal income flow

Personal income in January was at a seasonally adjusted annual rate of \$430 billion, a bit below the December figure and \$1.5 billion above the fourth quarter monthly average. There was a slight decline in labor income as hours and employment were down from the previous month; in addition, the December total had been temporarily bolstered by a special veterans' life insurance dividend payment and an

unusually large yearend corporate dividend payment. The January total was \$27 billion above a year ago.

Employment in nonagricultural establishments declined by somewhat more than the usual seasonal amount from December to January although there were diverse movements by industry. Seasonally adjusted decreases in manufacturing and construction more than offset increases registered in government and trade; in the other main groups changes were quite small. Within manufacturing, increases in primary metals and electrical machinery were more than offset by lower totals in transportation equipment, nonelectrical machinery and fabricated metals. Nondurable employment showed either no change or slight declines by industry.

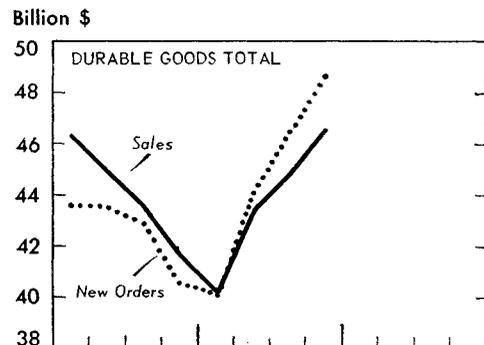
Seasonally adjusted hours of work also fell in January and averaged just 40 hours per week. Declines over the month occurred in both durables and nondurables, and were pronounced in transportation equipment.

Rise in steel

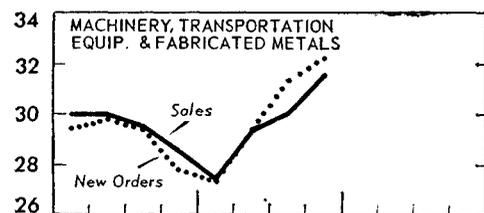
Steel users are stepping up their steel purchases to support a higher level of fabricating activity, and also as a hedge against an interruption in the flow of supplies resulting from a possible strike this summer. An outstanding development in this respect has been the very sharp advance in new orders received by steel manufacturers and the resultant rise in production. Although new orders had been showing a fairly steady increase through the year, the December seasonally adjusted total was up substantially and was the highest since early 1959, when steel consumers were also taking steps to accumulate steel

BUSINESS ENTERS 1962 WITH RISING BACKLOGS

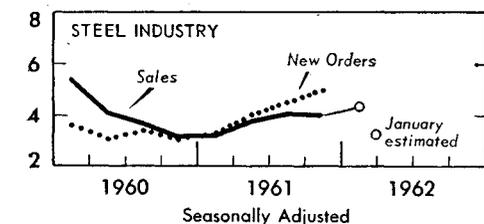
New Orders Advance Outstrips Increase in Sales of Durable Goods



Activity Rises in Metal Fabricating Industries



And in Basic Materials

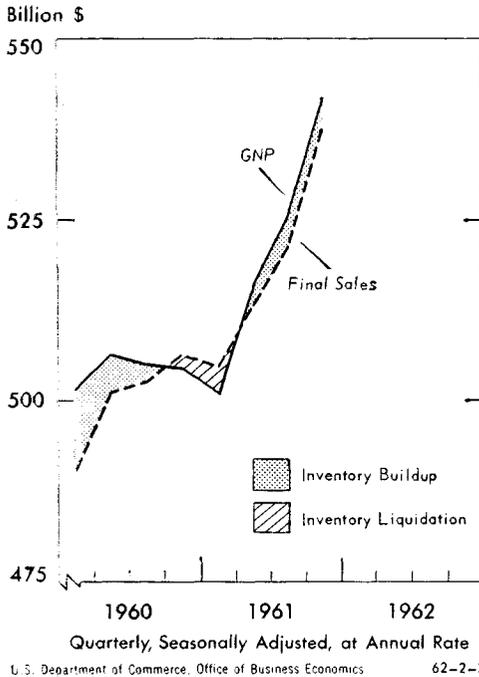


stocks in anticipation of a tie-up that year.

Steel output has increased in every week since the end of November, aside from the normal Christmas let-down. For the week ended February 3, more

GNP RECOVERS SHARPLY IN 1961

Final Purchases Major Factor
Inventory Shift Important in First Half



than 2.4 million tons of steel ingots and castings were poured, an annual rate of about 125 million tons and the highest since April 1960. January production totaled close to 10.4 million tons, an increase of 8 percent over December and well above the usual seasonal rise.

Steel consumption has been gaining steadily as metal fabricating activity has increased through the year. But because inventories in steel-using industries are low relative to the volume of production, it is understandable that the uncertainty about the outcome of the labor negotiations has led to an increase in the placement of new orders for steel and a consequent acceleration in steel production.

Construction activity is high

Total construction demand has continued at a high rate this winter, apart from the usual seasonal influences. It is running about 5 percent higher than a year ago and at about the same pace as in the fourth quarter of 1961.

Residential construction activity in January was estimated to be higher than in the fourth quarter, and about 10 percent above a year ago. Seasonally adjusted housing starts in the last 2 months of 1961 were lower than the 1961 high point in October, and this drop is not yet fully reflected on the current expenditure figures. It should be kept in mind, however, that the starts series is an erratic one and underlying economic conditions remain favorable for housing construction in the near term. Income has been rising and long-term loans remain in good supply on terms more favorable than a year earlier. Seasonally adjusted applications for new dwelling units to be started with FHA-VA guaranteed financing have been moving up, after a limited pickup during the first half of last year. Moreover, mortgage commitments of savings and loan associations have been at a high rate in the very recent period.

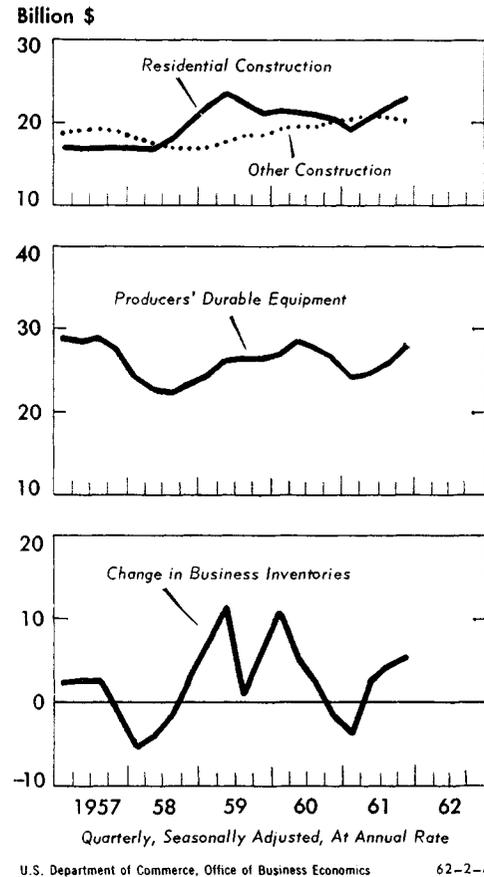
Nonresidential activity picks up

Private construction other than residential has looked a little firmer recently, after drifting downward since mid-1961. After seasonal adjustment, commercial construction was at a record rate, continuing the strong upward movement that has characterized this type of construction in the past several years. There was some indication that last year's decline in industrial construction might be coming to a halt, as a result of the improvement in industrial activity, since this type of building registered a sharp seasonally adjusted gain in January. Public utility con-

struction has been showing little change but other private nonfarm building, largely institutional, continues to move steadily upward.

A review of recent business in the machinery and equipment industries confirms the current improvement in

INVESTMENT SPENDING IN CURRENT RECOVERY
Major Components Contribute to Business Advance



capital formation, earlier forecast by the regular quarterly anticipations survey. More definite information will be available on the prospects for plant and equipment expenditures in the March issue of the Survey, which will have the results of the regular OBE-SEC annual forward look at plant and equipment investment.