Supporting Notes for September 22, 1970
Speech to Rockford Chapter of the
National Association of Accountants

## Introduction

The press has characterized the present state of the economy as being "blah." They have further characterized the present situation as a movement from a recession that wasn't quite a recession, to a recovery that isn't quite a recovery.

Agree that slowing has been slight. Total employment, personal income, industrial production and GNP are all at or close to all-time highs. With consumer outlays growing and business fixed investment "reasonably" well maintained, the over-all economic adjustment since last summer has been much milder than in any of the recessions since World War II. For example, the 3-1/2 percent decline in industrial production to the June low contrasts with a fall of almost 6 percent in the 1960-61 recession--the mildest of the postwar period. The decline in total manhours worked in nonfarm industries has also remained small by comparison with the 1960-61 experience.

## Trillion dollar economy

Stans recently argued that GNP would top one trillion dollars sometime in the next few months and for the year we would reap an "economic harvest that is the greatest in the history of the world."

Even with the GM strike, this is a pretty good bet. GNP for the first quarter 1970 was $959.5 billion. The second quarter showed an annual rate of increase of 11.6 billion. If we get 14 and 15 billion dollar increases for the third and fourth quarter we'll hit 1 trillion by end of year. Increases of this magnitude are modest compared to quarterly increases posted from the third quarter 1967 through the third quarter of 1969. (Range 15.0 to 23.2 billion.)

High marks for tightrope act

This basic point has been made by many including Burns but it deserves to be emphasized again. About a year ago we were searching for ways to deal with the upsurge in demand that had given rise to a dangerous degree of inflationary pressure. This pressure had gone on longer than it should have and it proved to be more stubborn to bring under control than any had expected. But Federal expenditure programs were curbed and monetary policy moved to a highly restrictive posture. The consequence of these policies has been a slowing in the pace of total spending, an elimination of excess demand and a period of relatively sluggish economic activity.

No one argues that the adjustment was accomplished without cost. The effects of the economic slowdown, for example, have become increasingly apparent in the labor market. Obviously, we are not complacent about this development but the alternative of letting inflation run rampant would have been disastrous. The success story is that the weaknesses that developed as a necessary concomitant of the inflationary fight have been contained and from all indications we have paved the way for a resumption of sustainable economic growth.

Recent declines in indicators

Industrial production was off .2 to 169.0 percent in August. Since May when the index was also 169.0, monthly changes in the index have been quite small. Retail sales in August also declined. But retail sales changes have also been quite small since the second quarter of this year.

These declines are so slight as to suggest virtually no change. In fact, the performance of these indicators has been relatively flat for several months. Thus, they can hardly be construed as indicators of deterioration in the economic environment. This does not argue that further substantial declines are not possible but in line with your later remarks you may wish to indicate that "substantial declines are not probable if economic policy continues on its present course."

Housing starts and state and local outlays

Preliminary housing starts figures for August were at a seasonally adjusted rate of 1,431 million down from a revised July figure of 1.591. But these figures are not adjusted for working days and with an extra day in August, the figures are low. Further, permits were apparently up in August leading to expectation of further increases in housing starts in coming months. Also assuming more favorable credit conditions, the housing outlook for the remainder of this year is favorable.

Easier financial markets should also permit more rapid expansion of state and local outlays. Sales of long-term bonds by state and local governments in August were about $1.3 billion, the same as July. But with the continued improvement in market conditions the forward calendar is beginning to improve, and new offerings are expected to increase significantly in coming months.

Defense spending

There is still some uncertainty on budget outlays because the defense appropriations bill is still being worked out in Congress. It appears likely that pressure from Congress and Administration will result in a cut in defense spending by as much as $1 billion.

Plant and equipment spending

The increase in anticipated 1970 outlays is now 3 percentage points below that reported in the February survey. Current plans now indicate an increase in total outlays of 6.6 percent over 1969. Past experience suggests, however, that additional short-falls of actual spending from planned outlays are likely to occur.

Capital goods and price pressures

The moderation in capital spending was to be expected and in a sense welcomed. Continued large increases in capital outlays eventually would have raised excess capacity to a level threatening a serious investment decline later on. Furthermore, an ending of the capital goods boom tends to reduce upward pressures on prices, costs and interest rates. This is added insurance that excess demand will not re-emerge as economic activity turns up again, and that we will make further progress in getting inflation under control.

Prices

Wholesale prices declined from July to August as a result of a drop in prices of farm and food products and a slower increase in prices of industrial commodities. The decline in the over-all index was the first since April 1967. The slower rate of increases in prices of industrial commodities in the July-August period is encouraging.

The increases in consumer prices have been well below the 6 percent advance of the first five months of the year. The rise in service costs has moderated but most of the drop has been due to the reversal in mortgage rates. Medical care costs and transportation service costs are rising even more rapidly than last year.

Productivity

There has been a marked change in the trend of productivity and unit labor costs in manufacturing. Last year, output per manhour showed almost no growth--partly because of labor hoarding. This year as sales weakened and profit margins deteriorated, closer attention is being paid to costs. Firms have released their excess work force, overtime has been cut back and other cost-cutting measures have been adopted. The result has been a distinct improvement in the trend of productivity and a sharply reduced rise of unit labor costs in manufacturing.

But unduly large increases in wage rates have continued. However, as improved rate of productivity continues we can look forward to further abatement of upward pressures on unit labor costs and on industrial commodity prices. As these work their way through to consumer prices, the prospects for lower and more reasonable wage settlements will be enhanced.