



November 25, 1965

MEMORANDUM FOR THE PRESIDENT

Subject: The Economic Outlook

In the next few weeks we will be working intensively, along with Budget Bureau and Treasury, on our forecast of the economy for 1966 as a whole. We will first complete our detailed assessment of the outlook for private demand. Then, as you arrive at decisions regarding the Fiscal Year 1967 Budget, these will be incorporated in our forecast of the probable path of economic activity during the second half of the year. The purpose of this memorandum is to summarize our preliminary view of the prospects through the first half, as background for your budgetary decisions.

We have already sent you our assessment of the price outlook, and the Cabinet Balance of Payments Committee will be reporting in that field. Consequently, this memorandum concentrates on GNP and its components.

I. Remainder of 1965

Despite the working-off of steel inventories in the current quarter, the year is ending on a strong note. As 1965 shapes up, GNP is showing an advance near to the upper end of the range of \$33 billion to \$43 billion forecast by the Administration in January. Our present guess is a GNP just under \$672 billion for 1965.

Our estimate in January represented one of the more optimistic views at that time. But private demand has shown even more strength than we anticipated, particularly in the areas of consumer and business capital spending. We were counting on these elements to contribute most to continued vigorous expansion, and they have more than lived up to expectations.

Continued expansionary fiscal policies have boosted consumers' incomes through social insurance benefits and lower excise taxes, and have helped to keep consumer spending moving ahead in an unprecedented way. Federal purchases for defense have been expanding during the course of this year, but they ran below expectations in the first half. Hence, for

the year as a whole, they do not account significantly for the more-than-anticipated gains in economic activity.

2. The first half of 1966

As we see it now, the first half of calendar 1966 is likely to generate further well-paced advance, at approximately the same steady rate as in the past two years. From \$677-1/2 billion in the third quarter, GNP can be expected to approach \$719 billion in the second quarter of 1966, continuing the average gain of \$10-plus billion a quarter. Corrected for price change, this is a "real" growth rate above 4-1/2% a year.

Inventory investment is likely to be lower than this year, reflecting the adjustment in steel. There is no basis for expecting homebuilding to revive from its sluggish pace. But consumer spending and business fixed investment should continue to rise strongly. Private surveys confirm the prospects for vigor in the business investment area, with capacity growing about in line with demand. And both current retail sales and surveys of buying intentions show that consumer demand remains buoyant.

Fiscal policy will continue to support expansion, although the Budget will be somewhat less stimulative in the first half of next year than currently in view of the forthcoming rise in payroll taxes.

3. Uncertainties for the near term

In the next few weeks, we will have the results of Commerce surveys of both business capital spending and inventory plans. These will provide important new information on next year's outlook. Economic developments in the closing weeks of 1965 should help to clarify how much and how long steel inventory liquidation will continue to hold down activity in manufacturing industry. As you well know, the timing and pace of the defense build-up cannot be gauged exactly at this time but this uncertainty is not of major proportions for the period between now and mid-1966.

4. Employment and Unemployment

We have made a bigger dent in unemployment this year than we had dared hope for. Nevertheless, the gratifying decline in unemployment to 4.3% is being interpreted nervously by some observers as a possible

indication of tightening labor markets. The labor market is indeed in much better balance today, but it is not tight. In fact, it is striking how isolated and relatively insignificant the instances of labor shortage are.

Anti-poverty programs like the Job Corps and Neighborhood Youth Corps have created jobs for some of the least readily employable people who are out of work. In removing people from the tail end of the hiring line, they have significantly reduced unemployment without infringing on the supply of the most employable additional labor available to business firms.

With the continued expansion of such programs and the advancing prosperity that we foresee for the economy, gradual progress in unemployment should continue in the first half of next year. At the same time, improved job opportunities may encourage more women to join the labor force, and it may turn out that some business firms have already partly anticipated their 1966 hiring needs. For these reasons, it would be premature to conclude that even our interim 4.0% unemployment target is just around the corner.

5. Into fiscal 1967

Looking into the second half of calendar 1966, we see strong markets and excellent profits maintaining the incentives for expansion of business investment. We see no reason to expect the consumer to lose his enthusiasm for improved living standards. We believe that continued expansion at an appropriate pace is attainable. But it will take careful fiscal planning in adjusting civilian programs and defense requirements to produce an over-all budget stimulus that is adequate but not excessive.

Too small a budget would invite fiscal drag; one too large could propel the economy forward at a pace threatening inflationary pressures in an economy already close to full utilization. \*

Our detailed work in the next few weeks will try to define the range between these two limits.

Gardner Ackley

Table 1.--Consumer Prices, 1961-65

(1957-59=100)

Period	All items	Food	Nonfood commodities	Services
1961 .....	104.2	102.6	102.0	108.8
1962 .....	105.4	103.6	102.8	110.9
1963 .....	106.7	105.1	103.5	113.0
1964 .....	108.1	106.4	104.4	115.2
1964: January .....	107.7	105.8	104.3	114.2
February .....	107.6	106.0	104.1	114.3
March .....	107.7	105.7	104.3	114.5
April .....	107.8	105.7	104.3	114.8
May .....	107.8	105.5	104.3	114.9
June .....	108.0	106.2	104.3	115.1
July .....	108.3	107.2	104.3	115.3
August .....	108.2	106.9	104.2	115.4
September .....	108.4	107.2	104.3	115.5
October .....	108.5	106.9	104.6	115.7
November .....	108.7	106.8	104.8	116.0
December .....	108.8	106.9	104.9	116.2
1965: January .....	108.9	106.6	104.9	116.6
February .....	108.9	106.6	104.7	116.9
March .....	109.0	106.9	104.8	117.0
April .....	109.3	107.3	105.0	117.3
May .....	109.6	107.9	105.2	117.5
June .....	110.1	110.1	105.1	117.6
July .....	110.2	110.9	104.7	117.8
August .....	110.0	110.1	104.7	117.9
September .....	110.2	109.7	104.9	118.5
October .....	110.4	109.7	105.3	118.7

Source: Department of Labor (BLS).

Table 2.--Wholesale Prices, 1961-65

(1957-59=100)

Period	All commodities	Farm products	Processed foods	Industrial commodities	
				All industrials	Non-ferrous metals
1961 .....	100.3	96.0	100.7	100.8	100.4
1962 .....	100.6	97.7	101.2	100.8	99.2
1963 .....	100.3	95.7	101.1	100.7	99.1
1964 .....	100.5	94.3	101.0	101.2	105.9
1964: January .....	101.0	96.3	102.5	101.3	101.4
February .....	100.5	94.5	100.9	101.2	101.7
March .....	100.4	95.2	100.5	101.1	102.8
April .....	100.3	94.4	100.4	101.1	104.0
May .....	100.1	93.7	99.4	101.1	103.9
June .....	100.0	93.2	100.2	100.9	104.0
July .....	100.4	94.1	101.2	101.1	104.4
August .....	100.3	93.6	101.0	101.1	105.8
September .....	100.7	95.7	102.2	101.1	107.0
October .....	100.8	93.8	101.7	101.5	110.4
November .....	100.7	94.0	100.9	101.6	112.0
December .....	100.7	92.7	100.8	101.8	113.0
1965: January .....	101.0	93.0	102.2	101.9	111.5
February .....	101.2	94.5	102.1	101.9	111.8
March .....	101.3	95.4	101.8	102.0	112.3
April .....	101.7	97.6	102.3	102.1	113.4
May .....	102.1	98.4	103.3	102.3	115.2
June .....	102.8	100.3	106.1	102.5	116.2
July .....	102.9	100.0	106.6	102.5	115.5
August .....	102.9	99.1	106.7	102.7	116.5
September .....	103.0	99.5	106.7	102.7	117.0
October .....	103.1	99.5	107.0	102.8	117.4

Source: Department of Labor (BLS).

Table 3.--Unit Labor Cost in Manufacturing,  
1961-65

(1957-59=100)

Period	Unit labor cost <sup>1/</sup>
1961 .....	100.4
1962 .....	100.4
1963 .....	99.7
1964 .....	99.6
1961: February .....	102.4
1964: January .....	99.3
February .....	99.1
March .....	99.7
April .....	99.3
May .....	99.3
June .....	100.0
July .....	99.7
August .....	99.5
September .....	100.3
October .....	101.2
November .....	99.5
December .....	98.9
1965: January .....	98.9
February .....	99.5
March .....	99.1
April .....	99.8
May .....	99.8
June .....	99.6
July .....	98.8
August .....	99.8
September .....	100.8
October .....	100.6 ✓

<sup>1/</sup> Monthly data seasonally adjusted.

Source: Department of Commerce (Census).

Table 4.--Straight-Time Hourly Earnings in Manufacturing,  
1961-65

Period	Straight-time hourly earnings
1961 .....	\$2.25
1962 .....	2.31
1963 .....	2.37
1964 .....	2.44
1965: January .....	2.49
February .....	2.49
March .....	2.49
April .....	2.51
May .....	2.50
June .....	2.51
July .....	2.51
August .....	2.49
September .....	2.52
October .....	2.52

Source: Department of Labor (BLS).

Table 4a.--Wage Adjustments Under Major Collective Bargaining Agreements, 1963-65

	Unit	1963	1964	First 9 months, 1965
Average wage rate change effective in first year of contract <u>1</u> / .....	Cents per hour	7.6	8.9	11.0
	%	3.1	3.2	4.2
Average yearly wage adjustment during contract period <u>2</u> / .....	Cents per hour	5.9	8.4	8.4
	%	2.3	3.0	3.3

1/ Agreements covering 1,000 workers or more, excluding construction.

2/ Agreements covering 10,000 workers or more, excluding construction.

Source: Department of Labor (BLS).



Table 5.--Manufacturing Operating Rates, 1961-65

Period	Operating rate (percent) <sup>1/</sup>
1961 .....	82
1962 .....	85
1963 .....	86
1964 .....	88
1965: I .....	90
II .....	90
III .....	90

<sup>1/</sup> Output as percent of capacity; quarterly rates based on seasonally adjusted data.

Sources: Federal Reserve and Council of Economic Advisers.

Table 6.--Manufacturing Order Backlog, 1961-65

Period	Ratio of unfilled orders to shipments (months backlog) <sup>1/</sup>
1961: December .....	2.52
1962: December .....	2.44
1963: December .....	2.36
1964: December .....	2.45
1964: January .....	2.33
February .....	2.39
March .....	2.39
April .....	2.38
May .....	2.39
June .....	2.46
July .....	2.40
August .....	2.51
September .....	2.50
October .....	2.54
November .....	2.53
December .....	2.45
1965: January .....	2.48
February .....	2.53
March .....	2.46
April .....	2.51
May .....	2.56
June .....	2.58
July .....	2.48
August .....	2.57
September .....	2.66

<sup>1/</sup> Based on seasonally adjusted data.

Source: Department of Commerce (Census).

Table 7.--GNP, 1960-65

(\$ Billions)<sup>1/</sup>

Period	Real GNP (1958 prices)	GNP	Consumer expendi- tures	Business fixed in- vestment	Federal purchases	
					Total	Defense
1960 .....	487.8	503.8	325.2	48.4	53.5	44.9
1961 .....	497.3	520.1	335.2	47.0	57.4	47.8
1962 .....	530.0	560.3	355.1	51.7	63.4	51.6
1963 .....	550.0	589.2	373.8	54.3	64.4	50.8
1964 .....	577.6	628.7	398.9	60.5	65.3	49.9
1964: I .....	567.1	614.0	389.1	58.1	65.0	49.8
II .....	575.9	624.2	396.0	58.9	67.0	51.7
III .....	582.6	634.8	404.6	61.6	64.9	49.5
IV .....	584.7	641.1	405.9	63.5	64.3	48.8
1965: I .....	597.5	656.4	416.9	66.0	64.9	48.9
II .....	601.4	665.9	424.4	66.4	65.9	49.4
III .....	609.7	677.5	432.2	68.3	67.1	50.8
Percentage change						
1960-61 .....	1.9	3.2				
1961-62 .....	6.6	7.7				
1962-63 .....	3.8	5.2				
1963-64 .....	5.0	6.7				
1964-65 est. ....	5.0	6.9				

<sup>1/</sup> Quarterly data at seasonally adjusted annual rates.

Sources: Department of Commerce (OBE) and Council of Economic Advisers.

Table 8.--Employment and Unemployment, 1961-65

(Thousands of persons)<sup>1/</sup>

Period	Civilian labor force	Employment	Unemployment	Unemployment rate (percent)
1961 <sup>2/</sup> .....	71,603	66,796	4,806	6.7
1962 .....	71,854	67,846	4,007	5.6
1963 .....	72,975	68,809	4,166	5.7
1964 .....	74,233	70,357	3,876	5.2
1964: January .....	73,654	69,568	4,086	5.5
February .....	73,819	69,842	3,977	5.4
March .....	73,798	69,812	3,986	5.4
April .....	74,507	70,486	4,021	5.4
May .....	74,477	70,639	3,838	5.2
June .....	74,305	70,345	3,960	5.3
July .....	74,188	70,496	3,692	5.0
August .....	74,255	70,458	3,797	5.1
September .....	74,280	70,465	3,815	5.1
October .....	74,259	70,379	3,880	5.2
November .....	74,409	70,755	3,654	4.9
December .....	74,706	71,004	3,702	5.0
1965: January .....	74,914	71,284	3,630	4.8
February .....	75,051	71,304	3,747	5.0
March .....	74,944	71,440	3,504	4.7
April .....	75,377	71,717	3,660	4.9
May .....	75,443	71,937	3,506	4.6
June .....	75,676	72,118	3,558	4.7
July .....	76,181	72,766	3,415	4.5
August .....	75,772	72,397	3,375	4.5
September .....	75,483	72,182	3,301	4.4
October .....	75,778	72,486	3,292	4.3

<sup>1/</sup> Monthly data seasonally adjusted.

<sup>2/</sup> Not strictly comparable with subsequent data.

Source: Department of Labor (BLS).

75,778  
71,603  

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4,175 more workers

72,486  
66,796  

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5,690 more employees

Table 9.--Corporate Profits, 1961-65

(\$ Billions<sup>1/</sup>)

Period	Corporate profits before taxes	Corporate profits after taxes
1961 .....	50.3	27.2
1962 .....	55.4	31.2
1963 .....	58.6	32.6
1964 .....	64.8	37.2
1964: I .....	64.0	36.7
II .....	64.5	37.0
III .....	65.3	37.5
IV .....	65.9	37.8
1965: I .....	73.1	44.0
II .....	73.7	44.4
III .....	74.4	44.8

over 1961. 62%  
" 1963 37%

<sup>1/</sup> Quarterly data at seasonally adjusted annual rates.

Source: Department of Commerce (OBE).

up 62% from 1961  
up 37% from 1963

Table 10.--Employee Compensation, 1961-65

Period	Compensation of employees (\$ Billions) <sup>1/</sup>
1961 .....	302.6
1962 .....	323.6
1963 .....	341.0
1964 .....	365.3
1964: I .....	355.1
II .....	361.9
III .....	369.0
IV .....	375.4
1965: I .....	383.1
II .....	388.7
III .....	395.2

*over 1961 28.6%*

<sup>1/</sup> Quarterly data at seasonally adjusted annual rates.

Source: Department of Commerce (OBE).

Table 11.--Disposable Personal Income, 1961-65

Period	Disposable personal income	
	Total (\$ Billions) <sup>1/</sup>	Real per capita (\$, 1958 prices) <sup>1/</sup>
1961 .....	364.4	1,909
1962 .....	385.3	1,970
1963 .....	403.8	2,009
1964 .....	435.8	2,116
1964: I .....	422.6	2,070
II .....	433.6	2,111
III .....	440.3	2,134
IV .....	446.4	2,146
1965: I .....	451.9	2,159
II .....	458.9	2,173
III .....	471.3	2,218

<sup>1/</sup> Quarterly data at seasonally adjusted annual rate.

Sources: Department of Commerce (OBE) and Council of Economic Advisers.