

the AMERICAN ECONOMY in 1964

THE year 1964 was one of strong expansion in the American economy. It was an unusual year, not simply because it marked the establishment of numerous records—in production and sales, in employee compensation and profits, in employment and living standards—but also because it was the fourth successive year of upturn and still did not display those weaknesses that in the past have characterized advanced stages of business expansions. On a relative basis the 1964 advance in output and sales was sharper than in the previous year. Despite these large gains the rise in prices, as reflected in the comprehensive GNP price deflator, accelerated only slightly, and the total increase could still be described as quite mild. Although wage rates increased during the year, unit labor costs were little changed from the preceding year, and profit margins were well maintained. Business inventory accumulation continued, but the volume of inventories, far from becoming burdensome, was low in comparison to production or sales. The advance in business fixed investment, one of the largest in the postwar period, was extended, but without placing undue strain on capital-goods supplying industries or creating excess capacity.

Increased demand in all major markets—consumer, business, government, and foreign—contributed to last year's \$38½ billion rise in GNP, which reached a total of \$622½ billion. Outlays for residential construction declined during most of the year and Federal purchases of goods and services, while high, added little to the production advance. Within the year the course of activity was strongly upward until the end of the third quarter, when work stoppages, extending over a period from late September to about mid-November, cut production of the motor vehicle

and parts industries substantially and caused a temporary but marked slowdown in the rate of advance in overall production and sales.

The 1964 tax cut

Although many factors contributed to the 1964 advance, the exceptional strength of the expansion was attributable in large measure to the cut in Federal income taxes early in the year—the first major reduction in rates in a decade and the largest ever, gaged by the absolute size of the reduction. The

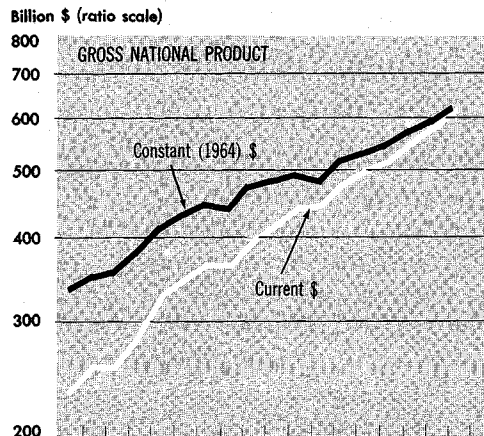
new revenue law had several direct and indirect effects. By reducing personal income taxes it brought about an increase in disposable income and a sharp rise in consumer spending and consumer saving. The strong pickup in consumption expenditures led many industries to step up their rate of investment in new plant and equipment. The increase in sales generated throughout the economy was important in the spurt in before-tax profits, which, in conjunction with the cut in corporate taxes, helped to provide business with a greatly enlarged flow of new funds for the expansion in capital investment programs. The augmented volume of saving by consumers and business also served to ease pressures in capital markets.

Unemployment rate a little lower

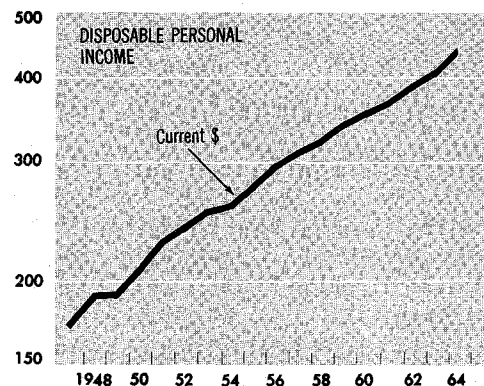
Last year's rise in output brought about a large increase in employment and in the use of productive facilities. The nation's potential to produce also grew, as factor supplies and productivity increased, so that relative utilization, while higher, did not change substantially. There was some improvement in the labor situation: employment grew faster than the labor force and the number of unemployed persons fell by a few hundred thousand. The unemployment rate averaged moderately less than in the other years of the current expansion, but it still exceeded the rate in 1957 and earlier prosperous years, and continued to be high for the very young and inexperienced in the labor force. Plant capacity utilization was apparently not much higher than it was at the beginning of the year, as additions to capacity, from modernization and expansion, approximately kept pace with the output advance.

Since the year had started off with operating rates a little low and still well under those of the midfifties, the

GNP Rose 6 1/2 Percent in 1964, or About 4 3/4 Percent After Price Correction



Including tax cut effects, the gain in disposable income exceeded 7 percent



U.S. Department of Commerce, Office of Business Economics

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slack in resource use continued as one of the key factors in holding down price increases. The level of wholesale prices at the end of the year was scarcely higher than in 1958. There was some upward pressure on metals prices but overall industrial prices at the end of 1964 were only fractionally above their year-ago level. Consumer prices showed another small rise, mainly in services.

Credit generally ample

Money markets were little strained during most of 1964 as saving increased and the monetary authorities continued to follow a policy of comparative ease. Bank credit showed another large expansion,

as in the 2 previous years. Consumers made somewhat more extensive use of installment and similar types of debt than the year before, but the rise in indebtedness did not appear to be out of line with the postwar trend and in relation to income. Long-term interest rates were not greatly different from their level at the close of the preceding year but short-term rates moved up. Toward the end of the past year the Federal Reserve raised the rediscount rate as a precautionary move, aimed at preventing a deterioration in the U.S. balance of payments deficit in the wake of the increase in the British bank rate.

Last year there was an improvement in the nation's balance of payments that reduced the deficit to the lowest level since 1957. A major part of the better 1964 performance was attributable to the large expansion in net exports; this was offset in part by a substantial increase in the outflow of private capital. The deficit was still sizable, and continued to be of major concern to government policymakers.

Yearend Developments and Near-Term Prospects

The advance in the closing quarter of 1964 was considerably short of the gains earlier in the year, mainly because of the strikes at motor vehicle plants. According to preliminary data, fourth quarter GNP rose by \$5 billion. Apart from automobile production, the magnitude of the latest rise in GNP was fairly similar to the increases in the previous quarters of the year, as the table below indicates. Consumer

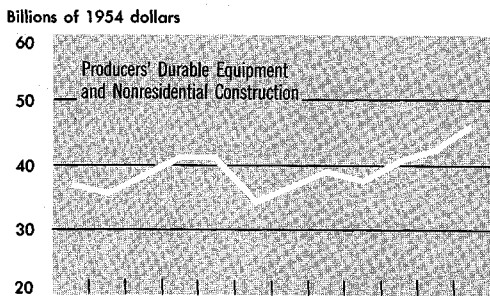
net exports were apparently lower and residential construction eased for the third quarter in a row. Bolstering the rise in total output in the fourth quarter was a stepup in the rate of inventory accumulation that centered chiefly in manufacturing.

New records in December

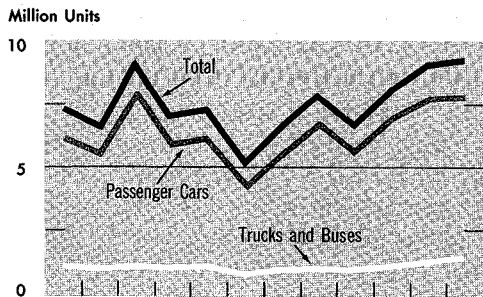
In the final month of the quarter, however, activity was at a new peak and rising. December witnessed strong increases over the month in such broad measures as personal income, employment, industrial production, and retail sales. Although the reaction to the earlier work stoppages was providing an added stimulus, the underlying trend in production and sales also was definitely upward.

Personal income rose sharply in December, for the second successive month, to reach a seasonally adjusted annual rate of \$505¼ billion. The \$3½

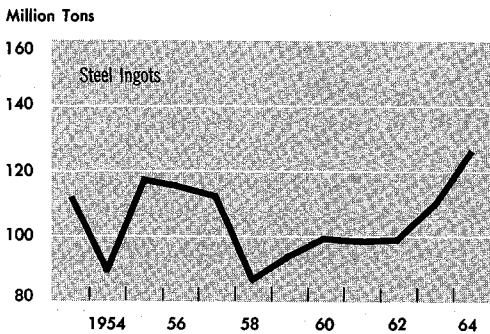
With Business Fixed Investment Rising Sharply . . .



and with motor vehicle output up to a new peak . . .



steel production surpassed the 1955 record



Data: AMA, AISI & OBE

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Change From Previous Quarter
(Billions of dollars)

| | Total GNP | Auto GNP | Nonauto GNP |
|------------------|-----------|----------|-------------|
| IV 1962-I 1963 | 5.2 | 0.4 | 4.8 |
| I 1963-II 1963 | 5.6 | .8 | 4.8 |
| II 1963-III 1963 | 9.8 | .1 | 9.7 |
| III 1963-IV 1963 | 11.8 | 1.3 | 10.5 |
| IV 1963-I 1964 | 9.8 | .2 | 9.6 |
| I 1964-II 1964 | 9.8 | .6 | 9.2 |
| II 1964-III 1964 | 9.8 | .4 | 9.4 |
| III 1964-IV 1964 | 5.1 | -3.8 | 8.9 |

expenditures for nondurable goods, services and durables other than autos advanced over the third quarter, as did business fixed investment and State and local government purchases. Federal outlays were about unchanged,

Table 1.—Key Economic Measures, 1961-64

| | 1961 | 1962 | 1963 | 1964 ¹ |
|---|--------|--------|--------|--------------------|
| Gross national product.....bil. \$. | 518.7 | 556.2 | 583.9 | 622.3 |
| Personal consumption expenditures.....bil. \$. | 337.3 | 356.8 | 375.0 | 399.2 |
| Gross private domestic investment.....bil. \$. | 68.8 | 79.1 | 82.0 | 87.7 |
| Net exports of goods and services.....bil. \$. | 4.6 | 4.0 | 4.4 | 6.7 |
| Government purchases.....bil. \$. | 108.0 | 116.3 | 122.6 | 128.7 |
| Gross national product in constant (1964) dollars.....bil. \$. | 541.6 | 575.7 | 595.3 | 622.3 |
| National income.....do. | 426.9 | 455.6 | 478.5 | 509.8 |
| Compensation of employees.....bil. \$. | 302.2 | 323.1 | 340.3 | 361.7 |
| Corporate profits.....do. | 44.1 | 48.4 | 50.8 | 57.0 |
| Personal income.....do. | 417.6 | 442.4 | 464.1 | 491.4 |
| Disposable personal income.....bil. \$. | 364.7 | 384.6 | 402.5 | 431.8 |
| Disposable personal income in constant (1964) dollars.....bil. \$. | 377.9 | 394.9 | 408.1 | 431.8 |
| Retail sales.....do. | 218.8 | 235.4 | 246.4 | 261.6 |
| Dealers' sales of new domestic cars.....thous. | 5,556 | 6,753 | 7,334 | 7,617 |
| Expenditures for new plant and equipment.....bil. \$. | 34.4 | 37.3 | 39.2 | 44.7 |
| Total construction.....do. | 55.4 | 59.4 | 62.4 | 65.9 |
| Private nonfarm housing starts.....thous. units. | 1,285 | 1,439 | 1,582 | 1,500 |
| Manufacturers' sales.....bil. \$. | 370.6 | 399.7 | 417.3 | 447.0 |
| Industrial production 1957-59=100 | 109.7 | 118.3 | 124.3 | 131.9 |
| Steel ingot production.....mil. tons. | 98.0 | 98.3 | 109.3 | 126.9 |
| Motor vehicles, factory sales.....thous. units. | 6,676 | 8,173 | 9,100 | 9,283 |
| Employees in nonfarm establishments.....thous. | 53,989 | 55,515 | 56,643 | 58,178 |
| Unemployed persons.....do. | 4,806 | 4,007 | 4,166 | 3,876 |
| Consumer prices.....1957-59=100 | 104.2 | 105.4 | 106.7 | ² 108.1 |
| Wholesale prices.....do. | 100.3 | 100.6 | 100.3 | 100.5 |
| Loans and investments of commercial banks, end of period.....bil. \$. | 209.8 | 228.3 | 246.5 | 266.0 |
| Consumer installment credit outstanding, end of period.....bil. \$. | 43.5 | 48.0 | 53.7 | ³ 58.1 |

¹ Preliminary.

² Based on 11 months data.

³ End of November.

Sources: Automobile Manufacturers Association, American Iron and Steel Institute, and U.S. Government.

billion increase over November reflected in part a \$2 billion rise in wage and salary income—the result of a further recovery in the automobile industry and fairly general increases in other manufacturing and nonmanufacturing payrolls. Higher employment, increased weekly hours of work, and average hourly earnings all contributed to the December payroll advance. Heavy yearend extras were important in the \$0.7 billion increase in dividend disbursements.

With incomes rising consumers appeared to be in a very free-spending mood. Retail trade in December was at an all-time high, with a seasonally adjusted advance of 5 percent over November, according to preliminary data. A major part of the increase reflected the recovery in automobiles to a rate comparable to prestrike sales. Sales of durable goods other than autos and of nondurables also rose from November to December to reach record rates.

Rise in steel inventories

Production in the steel industry late in the year was being influenced not only by the rising consumption requirements of the metal fabricating industries but also by a shift to stockpiling in anticipation of a possible steel strike

in the spring. It was the third movement of its kind in 4 years. In October and again in November, approximately 1 million tons were added to steel stocks, and to judge from developments in December, another sizable accumulation took place in that month. While the greater part of the inventory increase so far has occurred at producing mills, it has been undertaken mainly in response to customer orders. This quarter's buildup in total steel stocks stands in contrast to the 1 million tons that were added to inventories from December 1963 through September 1964. The recent monthly increases are comparable in size to the large additions made in late 1961-early 1962 and in the first half of 1963, prior to the expiration of previous labor contracts in the steel industry.

Near-term outlook

As the new year started there was little question that the rise in activity in the first quarter of 1965 would be very substantial. Despite the recovery in auto production and the improvement in auto dealer inventories, consumers were still required to wait a longer time than average for deliveries, and it seemed fairly clear that first-quarter car sales would be unusually high. Purchases of durables other than automobiles and nondurable goods could be expected to move higher, and services were also likely to show another good-sized advance.

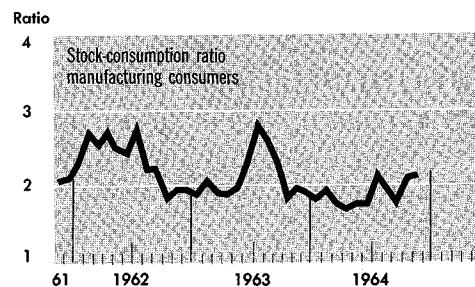
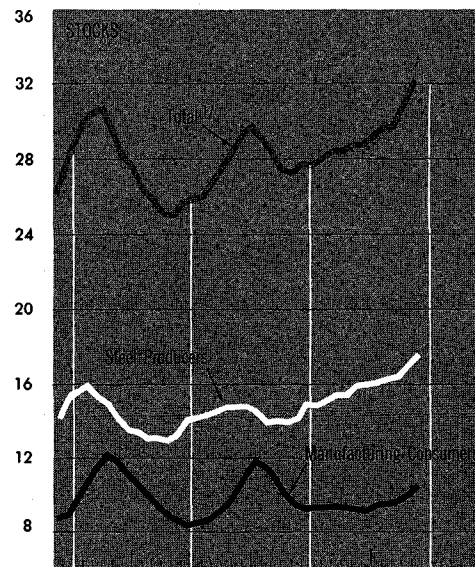
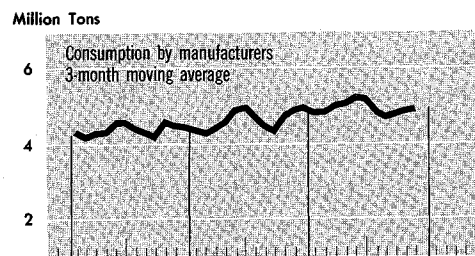
Business expenditures for new plant and equipment promised to provide an important source of increased demand in the months ahead. According to the most recent OBE-SEC quarterly survey of investment anticipations, business was planning a continued rise in outlays through the second quarter of 1965, the latest date projected. The rate of expenditure in the second quarter of 1965 was expected to be 4 percent above the estimated rate for the final quarter of 1964. On the other hand, it was not certain early in 1965 that the decline in housing activity had run its course.

Federal purchases of goods and services, in aggregate, were likely to continue at a high rate but with not much change, at least through the current fiscal year. The steady rise in State

and local government expenditures was expected to continue.

With a prospective rise in sales and output and with inventories comparatively low as the new year started, an increase in the rate of inventory accumulation appeared fairly likely. Some additional rebuilding of automobile stocks was still underway. More significantly, the steel stockpiling was a potential influence of major importance on the course of inventory behavior in the near-term.

Steel Consumption and Stocks



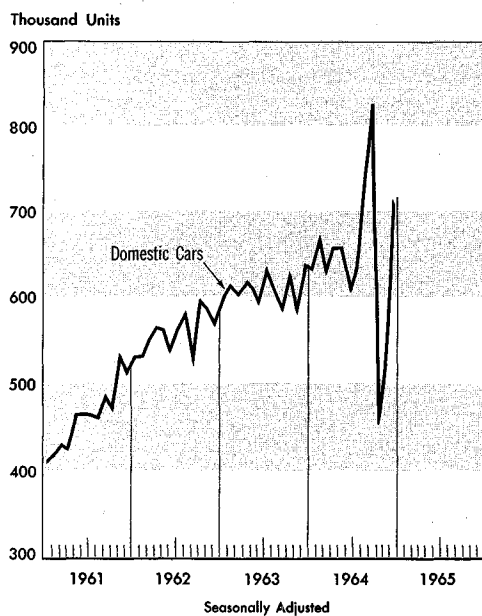
Includes warehouses; excludes nonmanufacturing industries.

Basic Data: Census

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Auto Dealers' Sales



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