

UNITED STATES DEPARTMENT OF

COMMERCE

Luther H. Hodges, Secretary

Washington, D. C.

Office of Business Economics

FOR RELEASE WEDNESDAY A.M., AUGUST 28, 1963
Murray F. Foss: 338-7080, Ext. 161

OBE 63-72

The Business Situation

July business activity was somewhat better than in June, aside from the usual summer slowdown, the Office of Business Economics stated in a review of the July business situation, appearing in the monthly Survey of Current Business. The OBE noted that there were continuing shifts in the factors contributing to the overall rise in business, which has brought new highs in sales, income, and output, but has not been strong enough to reduce the rate of unemployment significantly.

One such shift of importance has been the recent improvement in retail sales. Revised figures for June were up about 1 percent over those for May, and July sales, on the basis of advance reports, were up another 1 percent over June, after seasonal adjustment. These increases followed an extended period since last October during which retail sales were little changed, after having contributed significantly to advances in GNP. The July sales were 5 percent over a year ago.

Employment in nonfarm establishments in July registered its sixth successive monthly increase and stood 1.1 million higher than in July 1962. The June-July increase, about 130,000, was the smallest since the start of the year and was concentrated in private nonmanufacturing sectors of the economy. Manufacturing employment was little changed again, after having risen markedly from January to May.

Personal income moved ahead to reach a total of \$464 billion, at a seasonally adjusted annual rate, a rise of \$1.7 billion over June and \$21 billion over last July. The rate of increase was slower than in the second quarter and reflected chiefly a less rapid increase in wage and salary payments than in prior months as well as a decline in dividends from an unusually high June figure.

New orders received by durable goods manufacturers during July were about the same as in June, after seasonal adjustment, according to the advance report. A feature of the month was the improvement in new orders received by iron and steel producers, which had fallen very sharply in the two preceding months.

Industrial production in July rose moderately above the peak rate reached the month before. Output in durable goods industry as a whole was little changed, as a large decline in steel production offset increases in fabricated metals and machinery. Increases also took place in nondurable goods manufacturing, mining and public utilities. The steel production decline, an aftermath of the stockpiling this spring, extended into early August.

The automobile industry began its annual shutdown for model changeovers with dealer sales continuing very strong in July. Dealer inventories, at the end of the month, while over 1,000,000, were at a low level in relation to the sales rate.

The availability of bank reserves in the past three months has tightened, and bank indebtedness to the Federal Reserve System rose to the highest point since the middle of 1960. The ensuing pressure on credit availability was reflected in the Treasury bill rate, which rose moderately during June and the opening weeks of July. During July, the Reserve authorities announced a 1/2 percent increase in the discount rate. By mid-August, the rate on new Treasury bill issues had risen to 3.335 percent, about 1/2 percentage point above the level prevailing during the first five months of 1963. Most longer-term rates have shown little increase.

The tightened monetary policy was designed to relieve potential pressures on the United States gold reserve by raising borrowing costs and rates of return in the U.S. relative to those abroad, so as to discourage capital outflows from the United States.

Rise in consumer credit

A strong demand for consumer durable goods, especially autos, and the continued long-term growth in credit use brought about a substantial rise in consumer credit outstanding in the first half of this year. While this new credit has provided an important supplement to income for consumer purchases, the available evidence does not suggest that credit utilization in the recent period has been excessive when viewed against the postwar experience.

In the first 6 months of 1963, consumer installment credit outstanding increased by \$2.7 billion, after seasonal adjustment, or by \$5.5 billion at an annual rate. This rise, the extension of a cyclical increase that started in 1961, compares with advances of \$0.7 billion in the year 1961 and \$4.7 billion in 1962. The largest previous annual rise was \$5.6 billion in calendar year 1959.

At the end of June 1963, the volume of credit outstanding totaled about \$50 billion and constituted some 12-1/2 percent of disposable personal income. While this was a record proportion, it appeared to be approximately in line with the long-term growth in credit over the past decade.

Despite the recent increases in installment credit, the net advances in credit outstanding relative to disposable personal income have been smaller in the current expansion than in 1959 or in 1955, which were also years of heavy durable goods purchases and new credit extensions. In the first two quarters of this year the (seasonally adjusted) increase in credit outstanding averaged 1.3 to 1.4 percent of income. These ratios may be compared with cyclically high ratios of 1.9 percent in the third quarter of 1959 and similar ratios in excess of 2 percent in the first three quarters of 1955.

The Survey of Current Business is available from Field Offices of the Department of Commerce, or from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20230, at an annual subscription price of \$4.00, including weekly supplements; single copy 30 cents.