

UNITED STATES DEPARTMENT OF

COMMERCE

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The Business Situation

Economic activity moved up in the early part of the fourth quarter but the rate of advance continued moderate, the Department of Commerce reports in a review of the business situation appearing in the October issue of its monthly magazine, Survey of Current Business.

Total production was being stimulated by a high rate of motor vehicle output. Capital goods demand increased, homebuilding was at its best rate in several years, and retail sales were strong, according to the summary issued by the Office of Business Economics. Although some leveling in defense purchases was dampening the rise in income and output, activity during October, on balance, was at a higher rate than the third quarter average.

Employment in nonfarm establishments rose in October but unemployment continued at about the 5½ percent rate that has persisted for about a year. Plant capacity continues to be more than ample to meet current production requirements -- a factor contributing to the stability of the average of industrial prices over the past month despite the flurry of price increases late in the summer.

Both retail sales and personal income moved sharply higher in October, after seasonal adjustment, but in both instances special factors accentuated the rise over the previous month. The 3 percent rise in October retail sales was from a low September rate. Nonetheless the general trend of retail buying is upward: the October sales rate was 1 percent above the third quarter average and 5 percent above October 1962.

Personal income rose to a seasonally adjusted annual rate of \$470 billion in October, up \$3 billion from September and \$22 billion from last October. Of the rise over the previous month \$1.2 billion represents an increase in military payrolls, a consequence of recent legislation that boosted pay rates for 4 million servicemen, military reservists, and retired military personnel, effective October 1.

The \$1.8 billion advance in personal income from other sources reflected a payroll rise of almost \$1/2 billion in manufacturing, mainly in durable goods, and smaller rises in distribution, services and state and local government payrolls. There were also increases in dividends, interest and transfer payments.

Under the influence of a very strong demand for automobiles, the motor vehicle industry turned out a record volume of cars and trucks in October. With dealer sales close to an 8 million annual rate last month, production schedules for the fourth quarter have been lifted in the recent period. According to trade sources, the final quarter output of passenger cars this year will total 2.3 million units, a volume which would contribute significantly to higher total output.

Prospects for durable goods activity seem to be improving as new and unfilled orders continue to advance. Preliminary reports for October put new orders about 1 percent above the September rate and back to the 1963 high reached during the spring.

Rising construction activity has made an important contribution to increased output this year although since August seasonally adjusted outlays have changed little. Work put in place in October was at a seasonally adjusted annual rate of \$66½ billion. Outlays for the first 10 months were 5½ percent greater than in the corresponding 1962 period; somewhat over half of the increase came from increased volume.

Private residential construction has shown successive quarterly increases this spring and summer and seasonally adjusted October activity was running above the third quarter average. Further increases in the near-term may be expected since nonfarm housing starts in October were at the very high rate of 1.84 million (annual basis) and building permits were also at their best level for the year.

Private nonresidential construction has risen comparatively little in the 1961-63 upturn. Work put in place so far this year is at a rate not much higher than in 1962, and the October total was about equal to the third quarter average. Activity in the public sector has shown a typically erratic movement within the year; expenditures so far in 1963 have been about 5 percent higher than in 1962.

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. 20402, at an annual subscription price of \$4.00, including weekly supplements; single copy 30 cents.