

UNITED STATES DEPARTMENT OF

**COMMERCE**

Luther H. Hodges, Secretary

Washington, D. C.

Office of the Secretary

FOR RELEASE MONDAY A.M., DECEMBER 30, 1963

**(CAUTION—HOLD FOR RELEASE)**

**1964 OUTLOOK**

and

**1963 YEAR-END ECONOMIC REVIEW**

By Luther H. Hodges

Secretary of Commerce

-----

The American economy will continue to expand through 1964--extending the longest peacetime period of continuous growth in a generation.

This expansion, which began early in 1961, is carrying us past two great landmarks in the economic history of our nation. The Gross National Product has just reached an annual rate of more than \$600 billion, an increase of more than 20 percent over January of 1961.

And personal income per capita, perhaps the best index of a nation's well-being, is now passing the \$2,500 mark. This is about \$300 more per American than in January 1961.

The buoyancy of the 1964 expansion depends largely on the timing of the proposed tax reduction now before Congress. If the tax cut is enacted soon, the GNP for 1964 could easily exceed \$620 billion, compared with an average of about

\$584 billion for 1963. This would be an increase of nearly 5 percent even after allowing for a slight increase in the price level.

Without a tax cut, the economy would grow more slowly and the prospects for continuous expansion through all of 1964 and into 1965 would be seriously impaired.

Corporate profits, which are particularly sensitive to the business cycle, have increased more than 30 percent since the recession low of early 1961. With a tax cut, corporate profits both before and after taxes should increase substantially again in 1964.

This enhanced strength of our economy should give us greater resources for a determined attack on the weak points of our economic life. The inability of some groups to participate fully in our economy tarnishes the image of the free enterprise system. We must continue our drive to reduce unemployment. Over 5-1/2 percent of our workers are without jobs, and unemployment among Negroes is twice this rate. A free enterprise society should also be particularly concerned about job opportunities for the rising generation--yet unemployment among teenage job-seekers has been running above 15 percent.

An expanding economy stimulated by a tax cut will bring more of these workers into the mainstream of our economic life. It will give us more resources to provide the education and retraining opportunities needed to permit all Americans to meet the challenges of economic growth and technological change.

If we continue to move forward to meet these challenges--with government, business, and labor recognizing their joint responsibilities to pursue policies aimed at more vigorous growth with price stability--1964 can be one

of the best years in our economic history. The capacity of our economy to produce the good things of life will continue to expand, and the fruits of our free enterprise system will be more generously shared by all of the American people.

#### The American Economy in 1963

The year 1963 was one of considerable accomplishment in the American economy. Total production, employment, purchasing power, and business profits were higher than ever before, and this expansion in economic activity came about with comparatively little rise in prices. At the end of the year demand in the important markets appeared to be strong and there was no evidence of major excesses that could be potential sources of instability in the near future. The present upturn, which has now run almost 3 years, is a long one gauged by historical standards.

Nonetheless the picture was not altogether satisfactory. Unemployment continued to be a problem for 4 million persons even though total employment rose to a record high for the year. Though some improvement was evident after the middle of the year, the balance of payments deficit for the first three quarters of 1963 was higher than it had been in the corresponding 1962 period.

The gross national product rose by \$30 billion in 1963 to reach \$584 billion. Of the 5.3 percent increase, about 1-1/2 percent represented higher prices. All major purchaser groups--consumers, investors, and government--shared in the output rise. The amount of total production that went into inventories was not markedly different from 1962.

The course of activity within the year was steadily upward. For the final quarter of the year the GNP was close to a \$600 billion annual rate, almost \$100 billion above the low point of the recession that ended in early 1961.

## Personal Income and Consumer Expenditures

Personal income rose to a record \$463 billion in 1963, up \$21 billion from 1962. About \$15 billion came from increased wage and salary disbursements as a result of higher levels of employment and rates of pay. The increase in business activity brought about advances in nonfarm proprietors' incomes but farm proprietors' incomes did not quite match the 1962 total. With profits moving upward, dividends increased, as did interest receipts.

Transfer payments advanced because of special dividends paid to holders of GI life insurance and rises in social security benefits. Part of this was offset by the statutory increase in social security taxes effective last January.

Higher incomes in 1963 made possible a sizable increase--over \$17 billion--in personal consumption expenditures. Durable goods outlays were strong mainly because consumers bought some 7.7 million automobiles, more than in any other year. Appliance and furniture sales increased, aided in part by a high rate of homebuilding activity. Nondurable goods expenditures rose about in line with income, and service expenditures continued to move higher about in line with the long-term trend. Consumer purchasing during the year was supported by growing use of installment and other credit but there was little evidence to suggest an abnormal reliance on credit by consumers, who continued to save over 7 percent of their disposable income.

## Business Investment

Business expenditures for new plant and equipment rose 5 percent over 1962 following a 9 percent advance in the previous year. Investment programs were aided by rising sales and profits, the effects of the liberalized depreciation regulations and the investment tax credit. As in recent years, emphasis was on replacement and cost-cutting; the persistence of excess capacity was still a restraint on capital investment, which continues to remain low relative to total production.

Residential construction outlays reached a record total in 1963, a \$2 billion or 8 percent rise over 1962. The new peak in dollar expenditures reflected the best level of housing starts in several years. The trend to multifamily building construction continued last year, as a result of several factors, such as rising replacement demand, the continued population shift to suburban areas, and current and prospective increases in the number of young married adults.

Business inventory demand for the year as a whole was about the same in 1963 as in 1962. In general, business continues to follow a cautious inventory policy and in overall terms, excesses have been avoided. Like last year, there was a sizable buildup of steel stocks early in the year in anticipation of a steel strike, followed by a period of liquidation. While steel output was adversely affected by this development after May, the liquidation was orderly and rising consumption for steel acted as a dampening influence on the reduction in steel inventories.

#### Balance of Payments

For the first three quarters of 1963, our balance of payments deficit (before taking into account special Government transactions) was \$2.6 billion, about \$500 million higher than in the first three quarters of 1962. The net outflow of long-term capital increased by about \$700 million, and the balance of goods and services, omitting those financed by government grants or loans, deteriorated by about \$100 million. These adverse changes were partly offset, however, by improvements in other transactions.

A worsening of the balance of payments deficit occurred in the first half of the year due mainly to a very sharp increase in the outflow of U. S. capital for long-term investments. To help improve our position, the discount rate was raised and new policy measures were announced by the President in the middle of July, designed to limit purchases of foreign securities and to make investment of liquid funds in the U. S. more attractive.

The initial effects of these measures were very favorable and, together with other developments, improved the balance considerably during the third quarter. The longer run effects may not be quite so strong, however, and the efforts to achieve a lasting improvement in our international financial position must continue.

#### Employment and Unemployment

The civilian labor force rose by approximately 1 million persons last year to 73 million. Nonfarm employment increased by more than 1 million, with increases in durable goods manufacturing, construction, trade, service, finance and State and local governments. Farm employment continued its downward drift. The number of persons out of work averaged a little over 4 million, a slight rise from the year before. The unemployed total was 5.6 percent of the labor force--about the same rate as in 1962, though below the 6.7 percent rate in 1961, the initial year of the economic recovery.

#### Prices

In consumer markets, price developments were largely a repetition of those during 1962. The BLS Consumer Price Index rose 1 percent, with small increases in food, nonfood commodities, and services. The consumer price rise after mid-year was a bit slower than in the first half because food prices edged down somewhat.

Overall wholesale prices were a bit lower than the year before as prices of farm products decreased while industrial and food prices were unchanged. Industrial prices firmed after the summer.

#### Financial Developments

Corporate profits before taxes rose to a record of more than \$50 billion in 1963, a 10 percent rise over 1962. After-tax profits were also at a new peak of about \$27 billion. Higher earnings made possible a rise in dividend payments as well as in retained earnings. The latter, together with rising

depreciation charges, increased corporate cash flow by some \$2 1/2 billion and was sufficient to permit corporations to finance their investment needs without a marked increase in outside financing.

The general condition of monetary ease which had characterized 1962 continued in the first half of 1963. In the second half of the year, largely because of balance of payments considerations, monetary policy shifted somewhat. Rediscount rates were raised in July, open market purchases were reduced, and stock market margins were increased in October.

Short-term interest rates rose fairly sharply after midyear and long-term rates halted their downward drift and began to rise somewhat in the summer. Stock market prices recovered sharply during the year and by year-end had exceeded their highs of late 1961. Although dividends rose, dividend yields were about back to their lows of late 1961.

#### Year End Position

Economic activity was still rising at yearend, with the GNP at a \$600 billion annual rate. Business investment was an expansionary force: Plant and equipment expenditures were scheduled to advance moderately in the first half of 1964. With profits rising throughout the year, investor confidence as reflected in financial markets appeared strong. While there was some question as to whether Federal defense outlays were still in a rising phase, State and local government expenditures were moving higher. Holiday trade in retail stores was at a peak. In particular, the consumer response to the new automobile models was favorable. Consumer services could be expected to continue their upward trend.

Despite rising demand and output, the slack in resource use persisted. This was most serious in the labor market, where the unemployment rate crept upward, and was also evident in the continued under-utilization of plant capacity. In spite of the third-quarter improvement in our balance of payments deficit, the forces bringing about an adverse balance were still present, and their elimination will require further action.