

UNITED STATES DEPARTMENT OF  
**COMMERCE**

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Washington, D. C.

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OBE 64-10

FOR RELEASE WEDNESDAY A.M.  
FEBRUARY 26, 1964

The Business Situation

Economic activity continued to move ahead in the early part of the new year, following a large increase in total income and output in the final quarter of 1963, the Commerce Department reports today in its monthly review of economic activity, published in the February Survey of Current Business. Several broad measures of business conditions in January -- personal income, employment, industrial production, new orders for durable goods and retail sales -- were either as high as or higher than they were in December 1963.

Total personal income in January rose to a seasonally adjusted annual rate of \$478.7 billion, \$2.7 billion above December and \$25 billion above January 1963. Several special developments during the month affected the change from December. The payment of an accelerated dividend to holders of GI life insurance added \$2.1 billion to the total on an annual basis. The second step of a federal government pay increase added \$.4 billion to government payrolls. Finally, corporate dividend payments fell by \$.8 billion from the December rate, which had included heavy year-end extras. The net total of these three items accounted for more than three-fifths of the total increase in personal income during the month.

The payroll total rose by approximately \$1 billion, about half of which was accounted for by increases in private payrolls. The latter reflected seasonally adjusted increases in employment and in hourly rates of pay, offset in part by somewhat lower average weekly hours of work. Bad weather around the middle of January affected the employment totals in outdoor activities -- construction employment, for example, fell rather sharply. Otherwise employment in most industries increased slightly on a seasonally adjusted basis. There was little change in the unemployment rate.

Consumers continue to be in a good spending mood. The advance report put January seasonally adjusted retail sales around the record December total. Sales of new automobiles in January continued at about the high fourth quarter 1963 rate, and reports for the first 10 days of February suggest no letup from the January pace.

Housing activity is providing strong support to the economy and builders are continuing to start a large volume of new housing units. Approximately 1-2/3 million private nonfarm housing units -- at a seasonally adjusted annual rate -- were begun in January -- up from rates of about 1-1/2 million in November and December. Last year starts totaled 1.6 million units. Seasonally adjusted building permits were somewhat lower in January than in last year's fourth quarter.

The advance January report from durable goods manufacturers indicated increases in both new orders and sales over December. The January increases were fairly general but were very pronounced in defense industries, where orders had fallen sharply the month before.

Steel production has been increasing on a seasonally adjusted basis since October. Ingot output expanded more than seasonally from December to January, and a further rise occurred in the first 2 weeks of February; the mid-February output rate is somewhat above the 1963 average. The total advance in iron and steel production since the September-October low, after seasonal adjustment, has amounted to 7 percent, a relatively moderate increase when compared to the drop of nearly 25 percent after last May.

The stepped-up pace of activity since the early fall reflects increased consumption by a broad range of metal-using industries as well as a shifting pattern of demand for steel inventories. With the excessive inventories of last summer now worked off and current stocks about balanced relative to consumption, inventories should be responsive to the rising activity that seems to be taking place in the metal fabricating industries.

The steel industry last year continued to feel the effects of competition from abroad. Both imports and the excess of imports over exports were in 1963 the largest on record. It was the fifth consecutive year of an unfavorable trade balance in steel.

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.