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Luther H. Hodges, Secretary

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The Business Situation

Murray F. Foss: Worth 7-3380

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February was another month of increasing business activity, the Department of Commerce announced today in its regular monthly review of the business situation, appearing in the Survey of Current Business. Nonfarm employment moved up to a new high, and, together with a pickup in weekly hours, was responsible for a good-sized gain in payrolls.

Rising consumer demand, according to the Office of Business Economics, appears to be providing most of the impetus to overall production so far in the first quarter. Retail trade continues to advance, with automobile sales particularly strong.

Activity is being buttressed by a high rate of fixed investment. The 1964 annual OBE-SEC survey of plant and equipment expenditures indicates that business investment in the first quarter will continue at the high rate of the closing quarter of 1963. Sizable advances in expenditures are programed for the remaining quarters of the year. For 1964 as a whole a 10-percent increase in capital outlays over 1963 is expected.

Residential construction outlays so far in the first quarter are at peak rates. While seasonally adjusted outlays have not changed much from those of last year's fourth quarter, housing starts, which lead outlays, suggest some further increase. Private nonfarm housing starts in January and February averaged somewhat higher than the fourth quarter 1963 rate; housing permits for the first 2 months of this year were also at a very high rate.

The employment picture looks much better than it did last month, when bad weather during the survey week affected the figures, particularly in outdoor activities. The seasonally adjusted establishment total rose approximately 300,000 in February. Gains were most pronounced in contract construction, where employment had fallen the month before, but extended to most major industry divisions, with a modest increase (about 50,000) in manufacturing. The February nonagricultural employment total was 430,000 higher than the fourth quarter 1963 average and 1.6 million above a year ago.

(Over)

Hours of work in manufacturing also recovered sharply from what appears to have been an abnormally low level in January. The seasonally adjusted increase more than made up for the January decline, and at 40.6 per week is now about the same as the average level of September-December 1963.

The seasonally adjusted unemployment rate fell slightly to 5.4 percent--about the low part of the range over which it has fluctuated in the past 2 years.

Personal income in February was unchanged from the January seasonally adjusted annual rate of \$478 billion. If transfer payments are excluded, however, the February total was up by \$2-1/4 billion over the month. January transfer payments had included the large accelerated dividend payment to holders of GI life insurance.

With man-hours up over the month and rates of pay about unchanged, wage and salary disbursements in February rose by approximately \$2 billion on an annual basis. Other types of personal income from current production were little changed on balance.

Retail sales rose in February over the January seasonally adjusted rate, mainly as a result of increased sales in durable goods stores. Total sales for the month were about 4 percent above the year-ago total. Thus far in the first quarter retail sales have been almost 2 percent above the fourth quarter average.

Dealer sales of new domestic automobiles have been very high. The February seasonally adjusted total was in the neighborhood of an 8 million annual rate, and the report for the first 10 days of March suggested a continuation of the very strong sales pace.

Industrial production moved slightly higher in February with increases in steel, motor vehicles and nondurable goods. The advance report from durable goods manufacturers indicated maintenance of the high January level of both sales and new orders.

Prices in wholesale industrial markets have been firming since about last summer although the overall increases that have occurred have been very small and thus far have not shown any acceleration. February 1964 prices as measured by the BLS index of wholesale prices of commodities other than farm and food products were unchanged from those of the month before and were about 0.8 of 1 percent above the second quarter 1963 average. Price increases continue to be selective rather than widespread, limited in size and offset in part by price decreases.

(Over)

Corporate profits up

Corporate earnings before taxes, excluding inventory profit, rose \$1-1/4 billion in the fourth quarter of 1963 to reach a record \$53-1/2 billion rate. Profits including such inventory gains rose more sharply -- \$2.3 billion -- as prices of goods held in inventory increased.

The profit advance in the final quarter of last year, a continuation of the upward movement that started last spring, carried total corporate earnings for 1963 to an all-time high of \$51 billion, up \$4 billion from 1962. On an after-tax book profits basis the total for 1963 was \$27 billion, \$2-1/2 billion above the 1962 amount. Last year's profit increase was noteworthy because it came in the third year of a cyclical expansion; during previous postwar economic advances, profits have generally stabilized or started to decline earlier.

With corporate profits data now available, national income is estimated at \$489 billion in the final quarter of last year, \$7.3 billion or 1-1/2 percent higher than the third. For the year as a whole, national income totaled \$478 billion, \$25 billion more than in 1962.

Both the profits and national income data are preliminary and subject to revision.

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.