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THE BUSINESS SITUATION

Economic activity continued to rise in September, the U. S. Department of Commerce reported today in the October issue of its monthly magazine, the Survey of Current Business. As compared with August, payrolls and employment were higher, and the unemployment rate edged down to its lowest point since late 1957. Retail sales continued high.

An important exception to the general rising trend is the steel industry, which continues to reduce output as steel users pare their heavy steel inventories, the Office of Business Economics noted.

For the third quarter as a whole, preliminary estimates indicate that gross national product rose \$11 billion to a seasonally adjusted annual rate of \$677 billion. As in the previous two quarters of 1965, rising consumer demand accounted for a substantial part, nearly \$8 billion, of the total gain. In addition, business fixed investment showed an increase somewhat larger than in the second quarter, and government purchases were higher. Net exports remained near the high second quarter rate, but residential construction and the rate of inventory accumulation declined.

Personal income in September was affected by an extraordinary factor which bumped the seasonally adjusted annual rate from \$532.0 billion in August to \$545.3 billion. Of the \$13.3 billion rise in the total, \$10.6 billion (annual rate) was the result of the lump-sum payment of the 7 percent increase in social security benefits (retroactive to January 1965) to approximately 20 million beneficiaries.

Apart from the special payment, most of the September increase in personal income was accounted for by a rise in wages and salaries. The advance in private payrolls was rather small as compared with increases so far this year; however, Government payrolls were up almost \$1-1/2 billion - mainly because of the general increase in military pay rates and the special increase in combat pay for the armed forces in Vietnam. Income of farm proprietors, which had fallen sharply in July and August, was unchanged in September.

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The smaller-than-average gain during September in private wage and salary payments was due in part to a reduced rate of gain in private employment. Last month, private nonagricultural industries added fewer than 60,000 employees (seasonally adjusted) to their payrolls. Approximately one-half of the rise over August was in manufacturing, with the remainder fairly evenly distributed among services, trade and transportation. Construction employment dropped 20,000 in September, after showing a sizable increase in the previous month.

Unemployment, seasonally adjusted, has been reduced this summer. In September, the unemployment rate dropped to 4.4 percent of the civilian labor force, the lowest level in 8 years, as compared with 4-1/2 percent in both July and August. The third quarter rate was below the 4.8 percent average of the first half of this year, and well under the 5.2 percent rate for all of 1964.

Industrial production declined in September to 142.8 percent of the 1957-59 average, down 1 percent from the August index of 144.3. The drop in the index - the first since the auto industry strikes of last fall - was due mainly to reduced steel output.

Steel mills continued to lower their production as steel users cut back their new orders in an effort to bring their steel stocks into better balance with the current and prospective rate of consumption. From August to September, iron and steel output was reduced 13 percent, and was one-sixth below the July peak. A further curtailment in output is expected in October: Ingot output declined steadily (and contraseasonally) through mid-month.

Since the end of August, assemblies of passenger cars and trucks have generally moved up each week, and in the second week of October reached 247,000 units, close to the peak of 250,000 units turned out in several individual weeks last spring. September completions rose to 635,000 units from 427,000 in August; on a seasonally adjusted basis, this represented little change. Output schedules for October call for about 890,000 passenger cars, a rate about in line with the monthly average currently planned by the industry for the fourth quarter.

According to advance reports, new orders received by manufacturers of durable goods rose nearly \$300 million in September to a seasonally adjusted annual rate of \$21.8 billion, despite the sharp decline in steel mill bookings. Order increases were especially pronounced in transportation equipment. Orders for defense procurement were stepped-up quite sharply, a sizable part of the advance reflecting a rise in aircraft bookings.

Wholesale price changes continued to be selective. In September, prices of farm products increased slightly after declining during July and August. Prices of processed foods and of industrial products were unchanged on balance from August to September.

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 \$6.00 including weekly supplements; single copy 45 cents.