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The new year started off with employment, payrolls, and production increasing at a rapid pace, the U. S. Department of Commerce reported in a review of the business situation appearing in the February issue of its monthly magazine Survey of Current Business.

The chief stimulus to the advance in output is coming from the acceleration in the defense program and from further increases in plant and equipment investment, the Office of Business Economics noted.

Consumer demand remains buoyant under the influence of rising income. The advance in production continues to expand labor requirements and to cut unemployment rolls; in January, the unemployment rate reached the Administration's interim goal of 4 percent. Pressure on prices has been most noticeable in the farm sector. In financial markets, the demand for credit has been very active and the cost of borrowed funds has shown further sizable increases.

The rise in business activity in January follows a fourth quarter increase in GNP that was even larger than had been indicated in the preliminary statistics published last month. According to estimates based on more complete data, GNP in the final quarter of 1965 was at a seasonally adjusted annual rate of \$697 billion--a gain of \$15.7 billion over the third quarter.

Wage and salary disbursements increased \$2 billion at a seasonally adjusted annual rate from December to January as a result of rising payrolls in manufacturing, private nonmanufacturing, and government. The January advance did not match the very large monthly gains in the fourth quarter but was about the same as the full-year 1965 average. Proprietors' and property income as a group, rose \$0.7 billion, and transfer payments increased \$0.7 billion as a result of increases in Social Security and other kinds of transfers. Taken together, all types of personal income were up \$3-1/2 billion in January.

Total personal income, however, rose only \$3/4 billion because of an unusually large increase in personal contributions for social insurance, a component that is subtracted to arrive at the personal income total. The rise in personal contributions reflected increases in Social Security tax rates, the increase from \$4800 to \$6600 in the Social Security earnings base, and the new tax on earnings for Medicare.

(More)

In part, last month's advance in payrolls reflected a rise in nonfarm employment (seasonally adjusted) of about 250,000 persons from December. The largest employment increases occurred in durable goods manufacturing, retail trade, and State and local government; except for construction, which declined slightly, most other industry divisions showed small increases.

Rising employment in January brought another decrease in unemployment and the unemployment rate, after allowance for seasonal change. The number of persons out of work declined to 3 million, and the unemployment rate fell to 4 percent, the lowest since early 1957.

Industrial production rose 1 percent from December to January with the rise in durable goods exceeding the overall advance. Last month, the durable goods component of the Federal Reserve production index advanced nearly 1-1/2 percent, after seasonal adjustment, as output moved higher over a broad range of durable goods industries.

Production in the steel industry has been showing a substantial recovery following the decline late last summer and fall. Steel output rose in January and reports for early February suggest a continuation of the upward trend; the advance since the November 1965 low has now amounted to 10 percent, after seasonal adjustment. The production rise reflects increasing steel consumption and the fact that a growing number of steel users have reduced their previously-heavy inventories of steel to desired levels.

The rise in business activity in January stimulated additional sizable demands for credit, and interest rates across a broad range of maturities showed further increases. Total commercial bank credit advanced \$3 billion on a seasonally adjusted basis in January, after rising about \$2-1/2 billion in each month of the fourth quarter. These gains were one-fifth greater than the average increase for 1965, which was a record year for bank credit expansion.

Prices in wholesale markets rose 1/2 of 1 percent from December to January after a 0.6 percent gain in December. Prices of farm products and foods were up 1 percent. Industrial prices rose 0.3 percent, reflecting increases over a wide variety of commodities.

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.