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THE BUSINESS SITUATION

The underlying trend of economic activity was upward in the third quarter, but the pace of the advance in September was slowed by the effects of labor disputes, the U.S. Department of Commerce reports in the monthly economic review published in the October issue of its magazine Survey of Current Business.

Industrial production, which had been recovering from its decline in the first half of 1967, fell back in September, mainly because of the Ford strike and associated production cutbacks. Strikes by teachers in a number of areas caused State and local government employment to rise less than seasonally from August to September. Chiefly because of these reductions, according to the Department's Office of Business Economics, the expansion in total payrolls slowed down considerably, and personal income in September rose only \$2 billion, following monthly gains of \$4-1/2 billion in July and August.

For the quarter as a whole, gross national product scored a large advance. At a seasonally adjusted annual rate of \$790 billion, total output was up \$15 billion from the second quarter rate, with increases in consumer spending, fixed investment, and government outlays. The rate of inventory accumulation - which had declined sharply in the first half of 1967 and limited the rise in total production - increased in the third quarter and added to the production advance. It is estimated that the loss in motor vehicle production due to the strike in September was approximately \$2 billion at an annual rate.

Employment in nonfarm establishments declined by about 115,000 persons from August to September, after seasonal adjustment. The manufacturing employment reduction of 180,000 was mostly centered in the automobile industry, but employment in several associated industry groups was also affected. The teachers' strikes in September involved about 60,000 persons and were responsible for the net decline of 20,000 in seasonally adjusted State and local government employment. These decreases were partially offset in the overall total by gains in employment at retail stores and in service establishments.

Average weekly hours of work changed little from August to September in most industries; however, average hourly earnings generally showed substantial increases. The net result of these changes and the drop in employment was a rise in total payrolls of about \$1 billion in September, following average monthly increases of \$3-1/4 billion in the previous 3 months.

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Manufacturing payrolls fell \$1/4 billion from the August peak, but this decline was more than offset by increases in private nonmanufacturing and government. Nonpayroll incomes generally increased in September.

Industrial production declined about 1 percent in September, according to the Federal Reserve index. The decline in output reflected mainly the effects of strikes. In addition, production of domestic crude oil was cut back sharply as supplies of Middle East oil returned to near-normal.

Manufacturing output fell noticeably last month with all of the decline in durable goods industries. Reductions occurred in auto assemblies and steel output, but production of electrical and nonelectrical equipment was unchanged.

The 1967 recovery in residential building activity gained strength during the summer months. Private nonfarm housing starts rose in each month of the third quarter, and by September had reached a seasonally adjusted annual rate of 1.43 million units, the best level since December 1965. For the quarter as a whole, investment in new private nonfarm housing was at a seasonally adjusted annual rate of \$24.8 billion, up \$2.3 billion or more than 10 percent from the second quarter rate.

The rise in consumer prices accelerated this summer as a result of a sharp upturn - partly seasonal - in retail food prices, and continued advances in the prices of nonfood commodities and services. From May through August the Consumer Price Index rose 1.1 percent, or 4-1/2 percent at an annual rate. In the previous 3 months, from February to May, the CPI rose 0.7 percent.

Consumer food prices turned up in May, after declining during the past winter and early spring, and have since risen 2-1/2 percent. Roughly half of the most recent 3-month rise has been a seasonal advance in grocery store prices. Among nonfood commodities, seasonally adjusted apparel prices have continued to rise, but not so much as earlier this year; prices of other nondurable goods have risen moderately. Durable goods prices have moved up this year after declining last fall and winter. Charges for consumer services continued their steady climb this summer, but rates of increase eased slightly for some groups.

The 1967 Auto Model Year

A special analysis of sales and output of automobiles in the past model year points out that retail sales of new domestic and foreign cars in the United States totaled 8.6 million units in the 1967 model year. This was a 6 percent decline from the record high of the 1966 model year and was the first year-to-year decrease since 1961.

Sales of new domestic cars fell from 8-1/2 million units to 7.9 million units, while registrations of new foreign cars rose about one-sixth to 750,000 units. The share of imports in the new car market in the 1967 model year - approximately 8-3/4 percent - was the highest since 1960.

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.