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THE BUSINESS SITUATION

A further advance in business activity during September capped the third quarter's \$18 billion increase in gross national product, the Commerce Department's Office of Business Economics reported today. A summary of the business situation in the October Survey of Current Business cites significant gains last month in personal income, nonfarm employment, and private housing starts. Retail sales remained close to the high level of July and August. And although industrial production slackened for the second month in a row, last month's decline was much milder than the one in August.

The recently announced rise in GNP during the summer quarter reflected an upsurge in final sales -- especially to consumers -- that was partially offset by a reduction in inventory investment (according to estimates based on source data not yet complete). The resulting 2 percent gain in total production represented a rise of more than 1 percent in physical volume and just under 1 percent in prices.

From August to September, personal income increased \$4-1/2 billion, lifting the total to a seasonally adjusted annual rate of \$698-1/2 billion. Mainly because of a slower expansion in dividends and transfer payments, last month's total rise was more moderate than that in July and August. Farm proprietors' income increased \$0.3 billion in September, matching the gains posted in each of the 2 preceding months.

The largest personal income component, wages and salaries, advanced \$3 billion, not much different from increases earlier in the quarter. The payroll rise reflected an employment increase of about 125,000 persons in nonfarm establishments -- entirely outside of manufacturing -- combined with longer workweeks and higher hourly earnings in virtually all industries. Employment in contract construction, which had fallen off from late spring through mid-summer, rebounded in September, while continued rises were reported in trade, services, and State and local government. Construction and the manufacturing industries contributed heavily to the year's highest average workweek which, for the private economy as a whole, increased last month to 38.0 hours.

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The rise in employment, failed to match the increase in the civilian labor force during September. As a result, the unemployment rate edged up from 3.5 percent in August to 3.6 percent last month -- the same rate that has prevailed in each of the first three quarters of 1968.

In September, the industrial production index declined fractionally to 163.4 (1957-59=100). Steel output was reduced for the third straight month in the wake of last summer's labor settlement, and auto production was hampered by assembly line problems. Mine output decreased due to scattered strikes by coal miners.

The impact of these developments on production is likely to diminish this month. Contract settlements have been reached in the coal industry. Weekly figures suggest that the decline in steel output is near an end, and auto producers -- responding to strong initial demand for the 1969 models -- have scheduled a record volume of assemblies for October. A prospective improvement in durable goods activity is also suggested by the September rise in new orders for durable goods, following a pickup in August.

After a strong rise in 1967 and early 1968, private housing starts declined in May and June of this year as a result of a moderate tightening of credit conditions last spring. However, monetary policy eased somewhat after the enactment of the surtax and starts moved up to 1.6 million units in September, the highest monthly rate since early 1964. The number of new housing permits also advanced last month, with a rise in permits for apartment buildings accounting for two-thirds of the total increase.

Total consumer spending remained buoyant at the close of the third quarter. According to advance reports, retail sales changed little from August to September, with a decline in nondurable sales approximately offsetting a rise in durables. The turnaround in nondurable goods sales, which had been climbing in July and August, could signal a reaction to the 10 percent surtax that went into effect in mid-July. Among the durables, however, dealers' sales of new domestic-type automobiles were at a seasonally adjusted annual rate of more than 9 million units in September as compared with 8.8 million in August. Sales in early October were maintained at last month's rate.

In an analysis of automobile sales and production for the 1968 model year, the October Survey notes that retail sales of domestic and imported new cars totaled 9.1 million units in the 12-month period ending in September, almost 6 percent higher than in the preceding year and just below the alltime high of 9.2 million in the 1966 model year. The improvement in total sales from 1967 to 1968 reflected a 30 percent increase in imports and a gain of more than 3-1/2 percent in domestic-type cars.

The Nation's factories produced 8.6 million automobiles in the 12 months ending in September 1968 -- up from 7.7 million in the previous year and exceeded only in the 1965 and 1966 model years. In addition to higher sales, the 1968 production rise reflected a swing in dealers' inventories of new cars -- from decumulation in the 1967 model year to accumulation in 1968.

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In another feature, the October Survey reports that the 1968 price rise in final markets is the largest since the Korean war, reflecting both demand and cost pressures. On an overall basis, prices have risen approximately 1 percent each quarter this year. In August, consumer prices, which tend to dominate the overall movement, were 4.3 percent above their year-earlier level. Wholesale industrial prices showed sharp increases early in 1968 that were followed by several months of little change. Recently, however, these prices have shown a renewed advance. Rising farm and wholesale food prices have intensified the year's price rise.

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 \$9.00, including weekly supplements; single copy, \$1.00.

PERSONAL INCOME - Sept.

Release went to News Rm. approx. 11 AM, Friday. Didn't get "on the table" until about 3 PM...too late to be picked up by many users? (I think a Chartener speech took precedence).

in the print shop)