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THE BUSINESS SITUATION

Business activity presented a mixed picture in October, according to the Commerce Department's Office of Business Economics. Personal income, nonfarm employment, and industrial production advanced moderately but retail sales edged down, the November Survey of Current Business indicates in its monthly summary of the business situation. The unemployment rate was unchanged at a low 3.6 percent, the same as the average for both the third quarter and the first half of 1968.

Although demand is strong and the trend of business activity is upward, the October evidence -- which is still quite limited -- suggests that the rate of expansion in total demand and production this quarter is slowing down somewhat. The fourth quarter rise in personal income is likely to be smaller than the third quarter advance, and the increase in consumer spending is not likely to match the large third quarter rise. In the aggregate, the components of final sales other than consumer expenditures (government purchases, fixed investment and net exports) will probably show a smaller gain than in the third quarter. No information is yet available on fourth quarter inventory change and corporate profits, two volatile elements that are especially difficult to project.

Reviewing the October performance, the Survey notes that after monthly increases averaging nearly $5-1/4 billion from May through September, personal income rose only $2-1/2 billion last month. Gains in wages and salaries -- the major component -- were much less than in the summer, and advances in nonpayroll incomes were quite limited. The slowdown in payrolls reflected primarily a widespread reduction in the average length of the workweek that partly offset rises in employment and hourly earnings. The October employment increase of 135,000 persons in nonfarm establishments was above the September advance but about the same as in July and August.

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The index of industrial production advanced 0.4 percent in October, and revised September figures show a 0.3 percent rise in that month. In the steel industry, mill operations recovered somewhat from the very sharp downturn that followed the labor contract settlement last July. The turnaround in steel production reflected both renewed ordering by steel users and the decision of steel mills to rebuild their own depleted stocks. Weekly output of raw steel increased through October and for the month totaled about 9 million ingot tons, roughly 2 percent above the relatively low September volume, after seasonal adjustment. In the first 2 weeks of November, output was a little higher than the preceding month's rate.

October was another good month for auto sales and production. Dealer deliveries of domestic-type cars were at a seasonally adjusted annual rate of 9 million units, approximately the same as in the third quarter. The high level of sales kept the auto industry operating close to capacity rates. With overtime widespread, more than 1.1 million passenger cars and trucks were produced in October, a 2-1/2 percent increase over September, seasonally adjusted.

Private nonfarm housing starts declined 3 percent from September to October to a rate that was about the same as the third quarter average. Permits in October were moderately above the third quarter average, with all of the increase in apartment units.

Quarterly inventory investment, the Survey reports, has been exhibiting a seesaw pattern over the past year or so because of the uneven rate of expansion in sales, particularly at retail, and the special influences affecting automobiles and steel. Data for September indicate that the book value of stocks rose $450 million, as compared with an average of $700 million for July and August. For the third quarter as a whole, investment in nonfarm inventories (GNP basis) was at a seasonally adjusted annual rate of $7-1/4 billion, down from the $10-1/2 billion rate in the second quarter but well above the $1-1/2 billion rate in the first.

The decline in inventory investment from the second to the third quarter centered in trade, where stocks rose relatively little following a large increase in the second quarter; accumulation by manufacturers was approximately the same in both quarters. The exclusion of auto and steel inventories, both of which decreased in the summer months, would cause total nonfarm inventory investment to rise a little from the second to the third quarter instead of declining.

A separate Survey article reviewing money and credit developments reports that demands for credit by business, and by all levels of government, particularly the Federal Government, have produced strains in credit markets so far this year. These strains have been accentuated by a monetary policy that has varied in its restrictiveness at different periods within the year. Credit market pressures were most severe in the late winter and spring months. In the summer months, the passage of the program of fiscal restraint and the ensuing relaxation of monetary restraint resulted in an improvement in the flow of funds to credit markets. This fall, however, has witnessed a return to somewhat tighter credit.

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.