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THE BUSINESS SITUATION

Economic activity continued to rise at a brisk pace in the opening month of the new year, according to the Commerce Department's Office of Business Economics. All of the broad economic measures now available were up over the preceding month, OBE reports in the February issue of the Survey of Current Business.

In January, nonfarm employment, payrolls, industrial production, retail sales, and housing starts rose, while the overall unemployment rate remained at the very low December figure. Wholesale prices advanced sharply, according to advance reports. In credit markets, heavy demands coupled with a restrictive monetary policy brought interest rates to new peaks.

The early 1969 developments followed a \$16-1/2 billion revised GNP increase for the final quarter of 1968. The only significant change from the preliminary estimates occurred in net exports of goods and services, which were revised sharply downward; most of this reduction was offset by small upward revisions in the other components of the Gross National Product.

The demand for labor remained strong last month. After allowing for the usual seasonal adjustments, employment in nonfarm establishments increased more than 250,000 over December and, except for strikes, would have advanced even more. The January rise continued the substantial monthly gains evident since last September. Over the past 4 months, nonfarm establishments have added more than 1.1 million workers to their payrolls, or 3.3 million at an annual rate.

As a result of rising employment, increased weekly hours of work, and higher average hourly earnings, total payrolls in January grew by \$2.4 billion at a seasonally adjusted annual rate. Strikes cut heavily into the January rise; in petroleum refining alone, payrolls declined \$1/2 billion, and there was a further substantial reduction due to the dockworkers' strike.

In addition to those losses, the rise in total personal income for the month was reduced by more than \$1-1/2 billion because of the increase in social security taxes effective January 1. All told, personal income increased

only \$1.6 billion to a seasonally adjusted annual rate of \$71.5 billion; in the fourth quarter of 1968, the monthly average increase was \$4-1/2 billion.

Industrial production in January advanced to a record high of 169.4 percent of the 1957-59 average, up 0.3 percent from December after seasonal adjustment. The rise centered mainly in nondurable goods manufacturing. A decline in the production of autos and other transportation equipment offset increases in machinery and primary metals, so that durable goods manufacturing was unchanged from December.

Output of passenger cars has been cut back somewhat because dealers' sales have declined in recent months and large stocks of new cars have accumulated in their showrooms. Production schedules for February and March have been reduced from earlier plans, and assemblies for the current month are likely to fall below the January rate. Sales of domestic-type cars in January were at a seasonally adjusted annual rate of 8.5 million units, down from an average of 8.7 million in the fourth quarter and 9.0 million in the July-September period. Inventories at the end of January represented 2.28 months of sales at the January rate, the highest ratio in almost 2 years.

In the steel industry, output has staged a steady recovery since last September. Production had reached a peak early last summer because of the hedge buying in anticipation of a possible strike. With the signing of the new contract, production fell over 25 percent from July to September; the rise since then has recovered about half of this loss. The turnaround in steel output stemmed from renewed buying by steel users and some buildup of producers' stocks. New business booked by steel mills in the fourth quarter of last year was 25 percent above the third; and order backlogs at the end of December were the highest since June 1968.

Steel consumption has been running at a high rate and inventories held by manufacturing consumers have been reduced from the inflated levels of last summer. Although the automobile industry will use less steel in the current quarter, the reduction should be more than offset by the recent upsurge in planned outlays for new plant and equipment. These developments, coupled with some decline from last year's very high net imports of steel, should result in a first quarter rate of steel production substantially above that of the preceding fourth quarter and moderately above the January 1969 rate.

Consumer spending continues to exhibit very irregular shifts. According to advance reports, retail sales rose sharply in January after a pronounced decrease the month before. Despite the improvement, January retail sales were little different from average monthly sales in either the third or the fourth quarter of 1968.

Wholesale prices of industrial commodities increased 0.5 percent from December to January as metals, softwood lumber, and plywood board showed fairly sharp rises over the month. With farm products also advancing 1.5 percent and processed foods 1 percent, the overall wholesale index was up 0.8 percent, after increases of 0.2 percent in December and 0.5 percent in November. From July to October 1968, wholesale prices were unchanged.

Although housing remains vulnerable to credit restrictions, tightened credit thus far has not held back housing starts. Private nonfarm housing starts in January rose to a seasonally adjusted annual rate of 1.78 million units, 13 percent above the average monthly fourth quarter figure, and the highest rate in 5 years. Increases over December were evident for all types of housing but were most pronounced for apartment house units.

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, including weekly supplements; single copy, \$1.