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THE BUSINESS SITUATION

The economy continues to exhibit remarkable strength, the Commerce Department's Office of Business Economics finds in its monthly assessment of the business situation. It now appears that combined final sales -- to consumers, business, government and foreigners -- are rising substantially more in the opening quarter of 1969 than in the closing quarter of 1968, OBE reports in the March issue of the Survey of Current Business. Mainly because demand has been unexpectedly buoyant, businessmen are likely to show smaller inventory accumulation this quarter than last.

Given the vigorous demand, pressures on resources and the price level have remained severe. From December through February, the unemployment rate remained at the post-Korean low of 3.3 percent, and prices have continued to advance sharply.

Business expenditures for new plant and equipment are providing the chief stimulus to the economy so far this year and promise to be a powerful expansionary force throughout 1969. The latest OBE-SEC survey points to a 14 percent or \$9 billion rise in capital investment over 1968. If programs meet the schedules reported in that survey, investment will rise 10 percent from the second half of 1968 to the first half of 1969 and 5 percent in the following 6 months.

Homebuilding is also stimulating economic activity. Housing has held up surprisingly well despite the credit tightening in progress since the end of 1968. Although private nonfarm housing starts declined in February from the very high January figure, the seasonally adjusted rate for the 2 months combined was 10 percent above the fourth quarter rate. Moreover, building permits, which lead starts by about 1 month, rose to a new high in February.

According to revised data, retail sales reached a new peak in January; they continued at that rate in February, to judge from advance reports. Consequently, consumer spending in the current quarter should show a substantial advance following the slowdown in the final quarter of 1968. Automobile sales, which had weakened in the fourth quarter and in January, were very high in February, partly because of active promotion by dealers.

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With total output rising at a rapid rate, the demand for labor has remained strong. In February, nonfarm employment grew by 380,000, bringing the increase since last September to 1.6 million. The monthly rate of advance since last fall was about equal to the monthly rise in the fourth quarter of 1965 and the first quarter of 1966, when the Vietnam buildup was moving into high gear.

The February employment gains extended to all industries except mining. The rise was particularly large in contract construction, which had declined the month before because of bad weather. About three-fifths of the 75,000 increase in manufacturing employment reflected the end of the strike in petroleum refining.

The large growth in employment coupled with continued increases in hourly rates of pay boosted wages and salaries by \$4-1/4 billion in February. Of this, about \$0.5 billion was the result of increases in Federal minimum wages effective on February 1.

The February payroll rise, together with gains in property income (dividends, interest, etc.) and transfer payments (social security payments and the like), brought the advance in total personal income to \$5-1/4 billion, at a seasonally adjusted annual rate. This was more than double the \$2-1/2 billion January increase -- which was held down by higher social security taxes, strikes and bad weather -- and about equal to the average monthly gain during 1968.

Industrial production was up slightly in February, the sixth monthly advance in a row. Last month's rise was due mainly to higher levels of output in most of the durable goods industries, which more than offset a decline in motor vehicles and parts. In particular, greater activity in the steel and machinery industries -- reflecting the developing boom in capital goods -- has been an important factor in the higher overall industrial production in recent months. Output of nondurable manufactures continued the pattern of little change that has been evident since last December.

Strength in durable goods output mirrored the stepped-up flow of new orders. According to advance reports, new bookings were at a record rate in February, some 3 percent above the preceding month. Most industry groups reported increases, with the largest in aerospace, fabricated metals and electrical machinery. Because new orders exceeded shipments, which advanced 2 percent over January, backlogs in durable goods industries rose; at the end of February, they totaled \$85.1 billion, up \$4-1/2 billion since last September.

Prices continued their steady climb in early 1969. Wholesale prices, after a rise of 0.8 percent in January, went up 0.4 percent last month; and preliminary data indicate a further advance of 0.5 percent in March. Consumer prices rose 0.4 percent in February -- roughly the same advance as the month before -- as increases for services and nonfood commodities more than offset a slight decline in food. The February rise about matched the average monthly increase in 1968.

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.