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THE BUSINESS SITUATION

The recovery of production following the auto strike resulted in a very large first quarter increase in gross national product. The Commerce Department's Office of Business Economics states in the April issue of the Survey of Current Business that it is very difficult to estimate what production would have been in the past two quarters had there been no auto strike. However, it is very unlikely that all of the production lost in the fourth quarter was made up in the first; therefore, total national output in the two quarters together was probably less than it would have been had there been no strike.

One thing that can be said with certainty is that a strike-caused shift of production was responsible for a substantial part of the large first quarter rise in GNP. A simple and unsophisticated way to reduce the distortion caused by the strike is to average the changes in GNP and its components in the two affected quarters. This simply smoothes the data; it does not measure how the economy would have behaved had there been no strike. The results are shown in the table.

Consumption spending on autos and parts dropped \$6 billion (annual rate) in the fourth quarter and rose more than \$11 billion in the first, for an average \$2.6 billion quarterly gain. Total GNP increased an average \$16-1/2 billion per quarter in the latest two quarters, compared with \$14-1/2 billion in the third quarter and \$11-1/2 billion in the second. The strong recovery in residential construction stands out as far and away the most striking recent change from the pattern earlier last year. The inventory accumulation figures also show a decided shift. Tentative estimates indicate a first quarter decline of more than \$1 billion in the rate of accumulation, following a somewhat larger decline in the fourth quarter. Anticipation of the auto strike and the strike itself caused a great deal of churning in inventories, and some of the swing may have resulted from a fourth quarter backup in the stocks of suppliers to the auto industry, followed by liquidation in the first quarter.

Changes in GNP and Components -- \$billions, seasonally adjusted annual rate

	70-I	70-II	70-III	Average 70-IV, 71-I
Gross national product.....	7.8	11.6	14.4	16.4
Auto and parts consumption.....	-3.4	1.7	-.2	2.6
Other durable goods consumption.....	1.7	1.1	-.5	-.2
Nondurable goods consumption.....	6.8	3.8	3.2	3.4
Services consumption.....	5.4	4.7	5.2	5.4
Nonresidential fixed investment.....	.0	.2	.8	.8
Residential structures.....	-1.3	-.7	.8	3.1
Change in business inventories.....	-5.6	1.5	2.4	-1.6
Net exports.....	.9	.6	.1	-.7
Federal purchases, national defense.....	.5	-2.5	-1.0	-1.0
Other Federal purchases.....	-.3	-.1	0	.6
State-local purchases.....	3.2	1.3	3.7	3.8
Real GNP (\$1958).....	-5.4	1.1	2.5	2.1

Income and consumption in the first quarter

Personal income rose \$18 billion from the fourth quarter to the first, a very substantial gain. The increase would have been even larger except that personal contributions for social insurance, which are deducted in the calculation of personal income, were boosted almost \$2 billion as the result of an increase in the social security tax rate. One factor swelling the personal income gain was the January increase in Federal pay, which boosted income about \$2-1/4 billion. Even apart from the raise, government wages and salaries rose somewhat more than the recent trend. Recovery from the effects of the auto strike was also a factor in the large first quarter income gain. Social insurance benefits grew quite substantially and there were large increases in veterans benefits and in the residual category of transfer income, which consists mainly of welfare payments.

Disposable income increased nearly as much as pretax personal income. Tax payments to the Federal Government dropped slightly as the result of a tax cut on January 1. The cut, amounting to about \$3 billion at an annual rate, resulted from various changes legislated in 1969, including liberalized treatment of single persons and an increase in the standard deduction.

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Consumer purchases of services grew in line with the recent trend. However, the surge in auto buying accounted for most of the first quarter growth in goods consumption, and there was little change in aggregate spending on other durables or on nondurables. Saving was 7.2 percent of disposable income, compared with 7.4 percent in the fourth quarter and a slightly higher figure in the preceding six months. Retail sales data suggest that there may have been a strengthening of nondurables sales toward the end of the quarter, but the evidence is still very tentative. Nevertheless, the findings of recent consumer sentiment surveys seem to reflect some improvement in attitudes.

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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 supplement; single copy, \$1.