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Lora S. Collins: 967-3380

THE BUSINESS SITUATION

Phase I of the new economic policy (NEP) had visible success in slowing price and wage increases, and in reducing interest rates and bond yields, the Commerce Department's Office of Business Economics states in the November issue of the Survey of Current Business.

With respect to consumer demand, OBE notes that there has been a dramatic spurt this fall in sales of new domestic model cars. After some months of narrow fluctuation around a level just above 8 million units (seasonally adjusted annual rate), new car sales hit 10-3/4 million units in September and 10 million in October and apparently continued at a rate above 10 million units in early November. While sales of domestic models were booming, sales of imports were dropping sharply. The sales rate of foreign models, which had been running at about 1-2/3 million units during the summer, was slightly below 1-1/2 million in September and down to about 1-1/3 million in October.

The sharp gain in domestic model sales is undoubtedly due in some degree to the NEP: The price freeze held down prices of 1972 models, and buyers have been promised a refund of the excise tax if Congress repeals it retroactively as asked by the President. In addition, the new models became available unusually early this year and this probably had a stimulative effect on sales. The recent economic policy actions may also be responsible for some share of the decline in foreign car sales, because the import surcharge affects the prices of cars shipped from abroad after August 15. However, another and evidently important factor is the tight supply situation that has developed as a result of dock strikes in this country.

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In a review of recent developments in financial markets, OBE states that moderation of inflationary expectations has resulted in an appreciable decline in interest rates and bond yields. The decline has been generally more pronounced in short term than in long term markets. This is the usual tendency in periods when substantial changes occur in credit market conditions. In the current situation, it has been reinforced by what appears to be some easing of monetary policy, plus unusually heavy foreign central bank purchases of short term U.S. Government securities (using dollars accumulated as a result of efforts, mainly before August 15, to stabilize exchange rates). Mortgage yields, which typically lag in their response to change in financial conditions, have eased only slightly. However, there were reports in October and November of reductions by both savings and loan associations and commercial banks in rates on commitments for conventional mortgages. Reductions in rates on personal loans were also announced recently by major banks in New York and California.

The Business Situation article in the November Survey also contains: a report on the Federal fiscal position in the third quarter; a review of corporate profits trends and of related shifts in the sources and uses of corporate funds; and a review of information collected by the Bureau of Labor Statistics on wage settlements this year.

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.