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STATEMENT BY SECRETARY OF COMMERCE MALCOLM BALDRIGE ON PRELIMINARY THIRD QUARTER GROSS NATIONAL PRODUCT

The statistics on Gross National Product show very clearly that the economy has been soft for the past two quarters. This weakness is due primarily to the restraint of sustained high interest rates on a few major sectors such as housing and motor vehicles.

I do not see an immediate end to the pattern for sluggishness that has prevailed since the early spring. As the third quarter ended, we saw very little evidence of strength. September was marked by weakness in key economic indicators -- payroll employment, consumer spending, housing starts, and industrial production

The economy is not ready to resume strong, steady growth. Real GNP in the fourth quarter is likely to show another decline.

On the plus side, inventory excesses which helped cause severe recessions in the past are moderate today. Interest rates are trending down and should continue to do so. Defense spending should add some strength to the economy. The first phase of the personal tax cut will tend to support consumer income.

The vigor of the consumer sector should be tempered by a rise in the personal saving rate and by some decline in new car buying, following the heavy sales promotions in the third quarter. Regardless of the progress of sales, the automotive sector probably will be a drag on the economy in the fourth quarter as a sizeable cutback in auto assemblies already has been scheduled. There probably will be some further decline in total private investment, particularly in housing, and cutbacks in non-defense Government purchases will continue.

So we don't have a great deal to cheer about at the moment. At the same time, I'd like to emphasize that we are going through a corrective phase, and, unfortunately, there is no way to achieve our long-range goal of a healthy growing economy without going through some withdrawal symptoms from past excesses.

This Administration has cut the budget and reduced taxes, and we intend to cut the budget some more. Reductions in taxes are scheduled for next year and the year after that. And, the best kept secret in the press this year is that the CPI inflation index has been running 25% less than last year and will continue to go down next year.

During the first half of 1982, renewed growth should be apparent. By that time, interest rates will have been reduced substantially. As rates come down, the credit-sensitive sectors of the economy, such as housing, home furnishings, autos, and farm equipment should begin to recover. Small businesses and state and local governments should be among the major beneficiaries.

The Administration has taken the long-term view -- and I hope the private sector will do the same. Businesses should plan now for the strong markets that will start emerging next year. I urge businesses to take advantage of liberalized investment provisions.

A larger and more efficient capital stock will be needed in the future to meet the demands of a growing economy and to improve our nation's productivity and real income. I also urge business and labor to formulate their price and wage decisions with a long-term perspective. Those decisions should be based on a moderating, rather than an accelerating, trend in inflation.

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