The most important of these factors are the level of government expenditure for goods and services, the expenditure of business firms for new plant and equipment, the volume of residential construction, and the behavior of the market for consumer durables, particularly automobiles, and finally, the growth in the labor force. The behavior of these factors is shown in table II.

The recession of 1960 can largely be traced to the slackening of Federal expenditure for goods and services. During calendar 1960, the Federal Government expenditure for goods and services declined by one-half billion dollars, and the State and local expenditures increased by a relatively small amount, $3.6 billion.

These were combined with a decline in residential construction of about $1.2 billion, and were somewhat offset by a rise in plant and equipment expenditure.

Despite the decline in activity in the fall, the average level of activity in 1960 stood somewhat higher than 1959, and indeed was almost adequate on the average to absorb the normal growth of the labor force; we experienced only a slight growth in unemployment.

The rapid recovery following the first quarter of 1961 was almost entirely the result of the sudden acceleration of U.S. defense activity. This is reflected in the enlarged rate of expenditure by the Federal Government. In contrast to the decline of one-half billion dollars in calendar 1960, the expenditure of the Federal Government for goods and services during 1961 increased by very nearly $4.5 billion over the 1960 average. State and local expenditures were also somewhat higher.

Despite the rapid rate of recovery during this year, the average was insufficient to absorb the growth in the labor force, and the rate of unemployment rose to the level of over 6.7 percent.

For 1962 Federal expenditures are projected to rise by $7.5 billion. This, coupled with a very substantial rise in automobile sales, has brought us to our current position.

The average level of GNP for 1962 in current dollars will be somewhat short of $560 billion. But, combined with the low rate of growth in the civilian labor force, this will bring unemployment down to about 5 percent of the labor force.

The present state of the economy is the best it has been in many years. We are experiencing a record level of output and sales, and the proportion of unemployment this year will average less than in any year since 1957. Yet we are uncertain, uncomfortable, and even somewhat fearful. There is good reason for this.

The defense buildup is rapidly approaching its new steady level, and under present programs we can expect little further expansion from the Government sector beyond the continued growth of State and local services required by our growing population. The modest showing of profits, coupled with substantial existing unused capacity, promises no marked expansion of new plant and equipment expenditure. The present level of rental vacancy rates casts a shadow over the residential construction picture, and no one expects the automobile market to hold its own in face of the present rapid buildup in the number and quality of cars on the road.