

committee on Economic Statistics of the Joint Economic Committee. In its report on measures of productive capacity, the committee recommended and I quote—

an exploration of the McGraw-Hill techniques would offer an excellent opportunity for a joint public-private project in which McGraw-Hill, the pioneer of this technique, might work in cooperation with a suitable Government agency.

We at McGraw-Hill are giving this project serious consideration.

Another piece of evidence that confirms our belief that investment will continue to expand throughout the rest of this year is provided by the quarterly McGraw-Hill nonelectrical machinery new orders forecast index. For today's hearings, I have had computed, earlier than usual, a preliminary estimate of our forecast index for the four quarters ahead. Although this index does not provide a precise gage of the future level of new orders, it provides an indication of relative changes in the confidence of machinery manufacturers.

Capital goods manufacturers now expect to book a far bigger dollar volume of new orders in the current quarter than they ever did before. They anticipate that new orders will subsequently fall off and that the decline will continue into the first quarter of 1963. They forecast that the second quarter of 1963 will see a slight pickup in their new orders.

The group of machinery manufacturers reporting forecasts to us in our current quarterly survey are slightly less optimistic about prospects for new orders for the last two quarters of 1962 than they were 3 months ago. One reason for decreasing optimism about the immediate future among this particular group of companies is the fact that their actual incoming new orders in June dropped by about 10 percent.

But despite this sharp drop for one month, their anticipations for the last half of 1962 are only off about 2 percent from what they were back in April. And most of the returns for this calculation arrived in my office before the new procedure for depreciating machinery became effective.

Corporations now have a high enough rate of cash flow to finance a considerably higher level of investment than is now planned for 1962. Our comprehensive survey taken early this year showed that businessmen anticipated increasing their volume of cash flow, composed of retained earnings and depreciation, at a faster rate than their investment in new plants and equipment. At that time they expected to increase cash flow by 14 percent and investment by only 10.5 percent.

It is my belief that the McGraw-Hill data on plant and equipment expenditures indicate that this key segment of the economy will continue to expand this year. If plans hold up for the year as a whole, then the quarterly rate of capital expenditures may be expected to reach \$39 billion in the fourth quarter compared with a rate of about \$37 billion in the second quarter.

I now turn briefly to other major areas of the economy: Inventories, consumer spending, housing, the net export balance and Government spending.

Inventories are currently being built up at a much more moderate pace than earlier this year. In the first quarter, business was accumulating inventories at an annual rate of about \$6.7 billion. In the second quarter the rate dropped to about \$3.5 billion. In the cur-