

Graw-Hill survey found no evidence of cutbacks in late June after the stock market decline. Recent softness in orders for equipment raises some doubts about the outlook for plant and equipment investment but the evidence is not conclusive. At the same time, the recently announced reform of depreciation guidelines and the pending tax credit for investment serve as sources of future buoyancy in this sector.

INVENTORIES

In the postwar period, every recession has been dominated by inventory cutbacks. But today, given the conservative inventory-sales ratios already prevailing, it would be surprising if large-scale inventory liquidation were initiated. Reduction in stocks of steel has been an important factor holding down inventory investment in recent months. With that adjustment apparently nearing completion, inventory investment might revive this fall or winter. On the other hand, new orders and unfilled orders are important determinants of inventory policy, and strong incentives to build stocks probably would arise only in response to a reversal in recent trends in such orders.

GOVERNMENT

Purchase of goods and services by the Federal Government are expected to increase at a moderate rate in the next few quarters, giving some support to the private economy. The upward trend of State and local outlays will surely continue.

These prospects for various components are difficult to add up. They do not sum up to a crisis in the economy, nor do they offer any assurance of spontaneous resumption of brisk advances in the private economy. A continued period of modest upward movements or leveling off is one reasonable possibility. We experienced this in 1956-57, with gains in output just large enough to prevent a significant rise in unemployment. But we cannot rule out the alternative possibility that the recent slowdown in the expansion represents advance warning of an economic decline. A more explicit verdict would not do justice to the perplexing and inconclusive crosscurrents in the evidence before us—nor to the obvious limitations of the science of economic forecasting.

But even in the face of much greater uncertainty than usual about the pace of further advance and the possibility and timing of an economic downturn, this much is clear: The U.S. economy is still operating considerably short of its potential and action on the important economic measures recommended by the President is needed to strengthen its performance.

POLICY ACTIONS

Pending proposals: The slowdown in the rate of expansion in 1962, combined with the current uncertainties in the economic outlook, underscore again the importance of action on the President's recommendations in the Economic Report last January for—

a defense-in-depth against future recessions * * * a three-part program for sustained prosperity which will (1) provide standby power, subject to congressional veto, for temporary income tax reductions, (2) set up a standby program