

In June, our economic data were subject to certain special influences and, if allowance is made for these, the situation does not appear so persuasively discouraging as appeared at first sight. Thus, using up the inventory accumulated in anticipation of a steel strike that not occur affected not only new orders for steel but also employment and hours of work in the steel industry, and unemployment claims in steel centers.

The steel industry is so large that declines in that one industry can at times result in declines in overall manufacturing orders, employment, hours of work, and many other measures of economic activity. Observers who simply count the pluses and minuses among the cyclical indicators run the risk of being overly influenced by the reflections of a decline in one industry, not of cyclical origin, showing up several times in their lists of unfavorable omens. In addition the steel situation, though of less importance, a strike at some auto plants affected production and sales in June. The adverse effect of this on the June data should not be interpreted as being of cyclical significance.

Nevertheless, the June showing as a whole was not strong. And it certainly made clear that the economy was moving ahead more slowly than the optimistic goals widely discussed at the turn of the year.

From data now available for July, the economic situation appears improved. The unemployment rate was down slightly, nonagricultural employment rose somewhat further, and labor market data were definitely encouraging in another respect: they showed a fairly large decline in the number of longtime unemployed.

Among other information on July, retail sales rose briskly, with new domestic auto sales and department store sales both making a strong showing. Private construction activity, seasonally adjusted, held its advanced level. The Board's index of industrial production, which was released early this week, gained almost a full point, advancing to a new record high approximately one-fifth above the 1957 level.

Preliminary indications from production schedules and weekly sales reports suggest that the general improvement of the economy carried forward in early August.

The information on consumers' purchase plans obtained in July by the survey conducted for the Board each quarter by the Census Bureau gave two important indications. First, consumer buying plans had not been adversely affected overall by the recent stock market decline and the mixed economic tendencies shown for June. Second, as you may recall from earlier testimony by a member of our staff, the data show some strengthening of consumer purchase plans since early this year, especially for household durable goods.

Consumers are in a good financial position. Their incomes rose further in July to a new record high, and so did their savings. The payments on debt that consumers are obligated to make each month have risen less rapidly than their incomes. Furthermore, defaults on installment credit have declined sharply over the past 18 months to levels at or close to the lows for recent years.

Business concerns' retained earnings and depreciation allowances in recent months have also been large, in many instances considerably in excess of current needs for replacement and expansion. This form