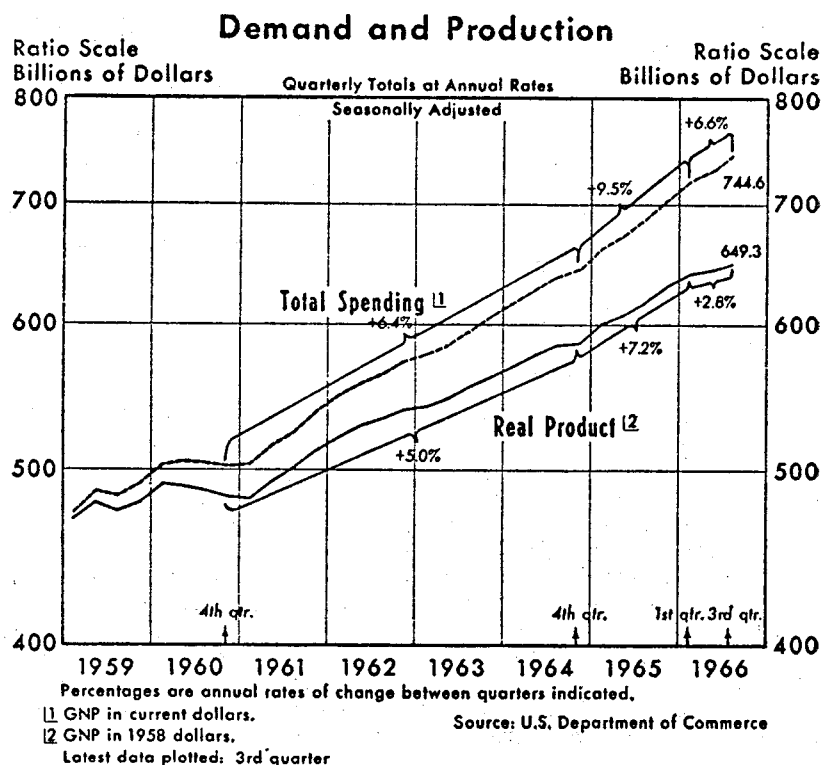




Inventory buying continued large in the first half of 1966 but added little to increased total demand. Net purchases of business inventories during the first half of 1966 (\$10.6 billion rate) remained close to the fourth quarter 1965 rate (\$10.4 billion). Inventory purchases rose rapidly in 1965 from \$4.7 billion in 1964, reflecting both the greater flow of goods in the private economy and the buildup of war goods for Vietnam. In the third quarter of 1966 inventory buying declined slightly, to a \$9.9 billion rate. Factors in the slowdown may have been the higher costs of credit, unavailability of some items, and the greater delivery of war goods to the Defense Department relative to production of these items.

Business spending on plant and equipment, in contrast to inventory investment, continued to rise during 1966. These outlays increased at an estimated 15-percent rate in the first three quarters of 1966 compared with an average 9-percent rate in the previous 5 years. Profit anticipations were optimistic, and demands for defense goods were great. Interest costs, although up nominally, did not impose much restraint on demand since growing inflationary pressures led to expectations that repayments would be made in cheaper dollars.

Government expenditures jumped at an average 14 percent annual rate during the first three quarters of 1966 compared with growth at about a 9-percent rate from late 1964 to late 1965 and a 5-percent rate from 1962 to 1964. Defense outlays accounted for most of the