

gain, but welfare programs of the Federal Government and spending by State and local governments continued to rise.

Consumer outlays, which rose at about a 9-percent rate from late 1964 to early 1966, increased at a 6.4-percent rate in the second and third quarters of 1966. The slower rate was caused primarily by a decline in durable goods purchased during the second quarter as automobile sales decreased, reflecting higher excise taxes, greater withholdings for personal income taxes, and discussions of automobile safety. Nevertheless, personal income, a measure of purchasing power, has continued to rise at about an 8-percent rate in 1966.

PRODUCTION AND EMPLOYMENT

Growth in real output of the economy slowed in 1966, trending downward from a 7-percent growth during 1965 to a 6-percent rate in the first quarter of 1966 and a 3-percent rate in the second and third quarters. By comparison, output rose at an average rate of 5 percent from late 1960 to late 1964. Productive potential is estimated to increase about 4 percent a year.

The reduced rate of growth in production during 1966 resulted in large part from resource limitations and from problems of readjustment as the economy ran into bottlenecks and shifted to greater military effort. Total demands for goods and services were strong, and spending rose about twice as fast as production, causing prices to rise. Many plants were at virtual capacity, and shortages of skilled workers were widespread. When a high rate of resource use is achieved in the economy, the rate of increase of total real product necessarily falls back to about the rate of growth of productive potential.

Employment

