Over the past two quarters, the total production sold to final users—consumers, homebuyers, government at all levels, business for fixed investment, and net sales abroad—rose by a rapid $15½ billion a quarter, as shown by the lighter bars on the right.

Incidentally, Mr. Chairman, these figures are based on revisions of the second quarter gross national product estimates which the Department of Commerce is releasing this morning. This rate of advance exceeds the increase in buying by final users in any single year in our history. In only two previous quarters since 1951 has the growth of final sales been greater. Both of those are quarters which appear on the chart.

However, during the first two quarters of 1967, the production that went into additions to inventories fell by $18 billion, giving us a net gross national product gain of only $13 billion for the first half of the year.

The recordbreaking swing in inventory investment did not send the economy into reverse only because final sales were advancing so vigorously. And the strength of final sales, in turn, owed much to the stimulus of fiscal policy and the easing of monetary policy.

The rapid increases in Federal outlays showed up directly in an $8 billion gain in the annual rate of Government purchases over these two quarters, nearly all for defense; these expenditures and higher social insurance benefits supported consumer incomes and thereby indirectly contributed to the $16 billion annual-rate rise in consumer spending over the half year. The relaxation of monetary policy permitted a $2 billion gain in homebuilding. Thus, the large stimulative swing of the Federal budget (and of monetary policy) helped to minimize the swing in economic activity.

PROSPECTS FOR THE MONTHS AHEAD

On any reasonable assessment of the evidence, one must conclude that the drag of the inventory adjustment is largely behind us. If inventory investment simply remains at the second-quarter level, it will stop retarding the growth of total production. Gains in gross national product would then fully match the increases in final sales—a marked change from the situation in the first two quarters of the year.

Moreover, if inventory investment remains close to zero—as it was in the second quarter—and if the growth of final sales is maintained at the same rate as in the first half of the year, the relation between inventories and final sales would be completely back to normal for the economy as a whole at the end of 1967.

This hypothetical calculation is shown by the broken line in chart 2.