

The ratio of total nonfarm inventories to total final sales (expressed in constant prices), rose sharply in the latter half of 1966, after having remained virtually unchanged for some years. But the ratio has been moving down in the first half of 1967, as shown on the right. Although the ratio remains high, balance can readily be restored through the growth of sales rather than through any significant actual decline of stocks.

The latest figures for the month of June show that firms were actually, on balance, reducing stocks in June. That liquidation has now fully restored a normal balance between stocks and sales in retail and wholesale trade. There are a number of areas in manufacturing where inventories remain very high relative to sales.

This is especially true where the customers of manufacturing firms have themselves been adjusting inventories and, hence, curtailing their purchases from manufacturers.

Now that retailers and wholesalers have made their adjustment, manufacturers should experience strengthened demands. With improved markets, manufacturing output should resume its advance and manufacturers' inventory-sales ratios should decline.

Some net liquidation of inventories could continue for another month or two. But it cannot be reasonably projected for very long into the future.

Inventory investment will bottom out in the second half of the year. And, after touching bottom, inventory investment should begin a gradual climb toward its normal prosperity rate of about \$7 billion. In the first half of 1968, an inventory rebound should be an important stimulative force.

There is every reason to expect further good gains in consumer spending. After reaching an abnormally high peak in the first quarter of 1967, the consumer saving rate has begun to decline, although it is still well above its normal level. Over the past 5 months, retail sales have advanced an average of 1 percent a month.

Evidence of a housing rebound has been similarly convincing and encouraging. As chart 3 indicates, both expenditures on new residential construction on the bottom page and permits for new dwelling units have been rising steadily this year.