THE PRUDENTIAL INSURANCE CO. OF AMERICA: "PRUDENTIAL'S ECONOMIC FORECAST FOR 1967, THE OUTLOOK IN BRIEF"

What worries some observers, however, is not our ability to expand production but that the boom will peter out and a recession begin in 1967. They point to declining housing starts, weakness in new orders for durable goods, lagging car sales, and depressed stock prices as symptoms of an economy heading for trouble. We do not share this view. Although the rate of economic growth may slow in the second half of 1967, we expect no recession during the coming year. In brief, these are our reasons:

Federal government spending will soar $12 billion, as both defense and non-defense expenditures continue to rise.

State and local spending will increase $5 billion. While substantial, this gain is somewhat less than the amount indicated by a simple projection of past trends.

Business capital outlays will rise $6 billion of 7½ percent in the full year 1967. Although this is only 60 percent as much as the dollar rise in 1966, it is still a considerable advance. The combined effect of tight money and the suspension of the 7 percent investment credit will reduce new orders but will not affect actual outlays until mid-1967. At that time, a minor and short-lived dip in plant and equipment expenditures is likely.

Inventory buying will continue at an above-normal $7.5 billion, compared with the hectic $10.5 billion accumulation of 1966.

Housing starts have been in the doldrums for months. As a result of tight money, a more than 300,000 unit backlog of demand has been accumulated. The result will be an upturn in housing expenditures during the second half of 1967, just as plant and equipment expenditures begin to show signs of easing.

Consumer expenditures will rise 7 percent, in line with our projected increase in personal incomes. The average American family will enjoy a boost in income from $7,250 in 1966 to $7,600 in 1967.

We conclude, therefore, that overall GNP will rise an impressive $50 billion, from $740 to $790 billion. This equals a 7 percent increase, of which inflation will claim 3 percent, real growth 4 percent. During the second half of 1967, however, some slowing of the expansion is expected. The result will be smaller real growth but also less intense pressures as the year draws to a close.

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Let me now summarize briefly what I have tried to convey. The expansion of these economy has recently abated considerably, and this slackening is likely to continue in the private sector. Indeed, were it not for the federal sector, we might now be gradually moving into a recession, albeit one in which the price level would still be under upward pressure. With federal spending continuing to rise, an early recession is unlikely. Even so, the growth of aggregate demand is likely to abate, economic crosscurrents will multiply, some industrial slack may develop; and while business as a whole should be good, profits will be less satisfactory than the volume of business. In view of the uncertainties of war, if for no other reason, prudence requires effective restraint on nonmilitary expenditures, but the economic case for a tax increase now appears very doubtful. All these surmises and judgments, I need not repeat, are based on relatively optimistic assumptions concerning future financial costs of Vietnam.

I would like, finally, to suggest a few lessons that may usefully be drawn from recent experiences.

1. Expansionist fiscal and monetary policies, if pushed beyond a point, may readily bring on inflation and threaten the continuance of prosperity. Economic forces have momentum and work with lags. Unless inflationary pressures are recognized at an early stage and steps taken to slow down gradually the growth of aggregate demand, blunt measures—such as those used in the credit market this year—may become unavoidable.

2. Although the promotion of a high level of aggregate demand is a vital governmental responsibility under modern conditions, we should not seek through expansionist policies what can be achieved at lower cost, and with more lasting effect, by attending diligently to the structural causes of unemployment.

3. The flow of factual information needs to be improved. We need current and comprehensive statistics on job vacancies as well as on unemployment. And we need information on prospective federal revenues and expenditures, quarter