Economic growth during 1967 will take a different shape than that in 1966. Corporations, which in recent years have experienced rapid growth, heavy demand for their products and a resultant growth in corporate profits, will make only modest gains in profits during 1967. This, if coupled with a tax increase and a loss of the major portion of the benefit from the 7 percent tax credit, would result in a slowing in the rate of plant expansion. Any freeing of funds from the sector could eventually have a positive impact on the home building industry.

Slower rates of growth will effect the employment picture in 1967. The seasonally adjusted rate of unemployment is now running at 3.8 percent but will soon begin to edge upward. Any reduction in the commitment of men in Vietnam would also accelerate this rise. 1967 will be a year of major labor contract negotiations which usually put pressure on prices.

High levels of consumer after taxes income, have increased personal consumption expenditures by $100 billion since 1964. During 1967 the increase is expected to be $34 billion with the heaviest rise in the service sector. The consumer appears to be spending not only all his additional income but a little more. The savings rate has dropped from 5.5 percent of disposable income in 1965 to 5.1 percent this year and will fall even lower in 1967, to 4.9 percent.

The 11th Quarterly NAHB Metropolitan Housing Forecast covering 94 metropolitan areas indicates a further decline in home building activity during 1967. After weighing the forecast for geographic representation and for the mixed single and multifamily activity, it was found that the decline during 1967 would be approximately 8 percent or an additional 100,000 units.

NATIONAL CITY BANK OF MINNEAPOLIS: "THE ECONOMIC OUTLOOK FOR 1967," BY WALTER W. HELLER, JANUARY 3, 1967

In sum, the following overall GNP pattern emerges for 1967 from the foregoing analysis:

A 1967 GNP in the neighborhood of $780 billion, or about $42 billion above 1966.

A near-6% advance over 1966 in money GNP, but only 3% in real GNP.

A rather soft economy in the first half of 1967, gaining momentum in the second half and pushing toward a fourth-quarter GNP of $800 billion or a bit beyond.

In drawing lessons for policy from this GNP forecast, one must bear vividly in mind the earlier warnings about margins of error and the premium on skillful timing and maximum flexibility. Not many months ago, most of us foresaw strength in the first half, with the danger of undue softening delayed until summer or fall—not to mention that the whole year looked stronger than it does now. What does the revised outlook imply for policy?

First, it calls for all deliberate haste in easing monetary restraints, even at some risk on the beleaguered balance-of-payments front (though the probable readiness of Germany, Canada, the United Kingdom, and perhaps even France to follow our lead on lower interest rates tends to reduce this risk).

Second, if there is to be a tax increase (and I, for one, still favor a modest surtax to buy more monetary ease and more budget leeway for the Great Society), its economic risks can be minimized by aiming at a July 1 effective date, thus not adding to the burdens of an already soft first half; giving the stimulative effects of easier money time to be felt before imposing the surtax; permitting a better assessment of whether the *quid pro quo* in (a) easier money and (b) stronger support of essential civilian programs will really be forthcoming; keeping open the option of no tax increase at all in case the economic softness proves to be more than temporary.

Third, several important and flexible fiscal weapons should be pressed into action swiftly if and when needed: restoration of investment tax incentives; restoration of Federal highway funds; adjustment of the size and effective date of the projected Social Security increases.

The year 1967 will be a difficult one, economically. Wrong-headed economic policy could even make it a dangerous one. But with responsive economic policy—which I expect—it will be a year of movement toward better economic balance and a stronger base for future economic growth.