

"THE ECONOMY IN 1967": BY IRVING SCHWEIGER—TEXT OF HIS ADDRESS AT THE ANNUAL BUSINESS FORECAST LUNCHEON ON DECEMBER 7, 1966—IRVING SCHWEIGER IS PROFESSOR OF MARKETING IN THE GRADUATE SCHOOL OF BUSINESS AT THE UNIVERSITY OF CHICAGO

In 1967, I expect the current economic boom to end. It will be a year characterized by downward revisions in sales targets and planned capital investment, by rising unemployment and industrial disputes, and by major changes in monetary policy. The boom will end not with a crash but with a materially reduced rate of growth and an economy unbalanced and dangerously sensitive to an unexpected truce in Vietnam, should it come in the early months of 1967.

My estimate is that the Gross National Product will total \$778 billion in 1967, about \$39 billion more than in 1966. However, a little more than half of this increase will be water resulting from substantial price rises, and only \$19 billion of the \$39 billion advance will accrue from growth in real output of goods and services. The number of unemployed persons will rise steeply from very low current levels as one of the more serious consequences of a greatly diminished rate of growth coupled with rapid expansion of the labor force.

Very briefly: I consider that present monetary and fiscal policies have been more effective in shrinking demand in the private sectors than is generally believed and that they will be more than sufficiently potent unless altered. Full effects of these policies have been masked by continuing waves of price and wage increases and by surveys that ascertain business investment plans to be still rising.

Instead of a gain in plant and equipment spending in 1967, I believe the yearly total will just about match the \$79 billion of spending in 1966. From the fourth quarter of 1966 to the fourth quarter of 1967, I anticipate a decline of about 10 percent.

I am therefore allowing for an increase of \$11 billion in defense spending in 1967 compared with a \$9.5 billion rise in 1966. Nondefense Federal spending will be pruned heavily and I anticipate only a very small increase in this category. On the other hand, spending by state and local governments will continue to rise strongly and should total about \$8 billion above the 1966 figure.

In 1967, slackening in consumer demand will contribute significantly to a lessened rate of overall economic growth. Tight credit is undoubtedly one major factor in contraction of the housing and automobile markets.

Disposable personal income will total about \$435.5 billion, a gain of about 6.2 percent. Consumers are expected to increase their total spending for goods and services by only 5.5 percent. The difference is accounted for by higher interest payments and by a small increase in the rate of personal savings attributable to a reduced rate of spending for durable goods, primarily automobiles.

My estimate is that total private residential construction expenditures in 1967 will be about \$24 billion, more than \$2 billion below the total for 1966. Because of anticipated loosening of the credit reins, the fourth quarter 1967 rate is placed at about \$26 billion.

In summary, the economy in 1967 is expected to grow less in real terms than in any year since the recession of 1960-1961. Monetary restraint applied forcefully, with modest assistance from fiscal policy, is completing the task of checking demand in the private sector of the economy—business and household. In the absence of a major expansion of the war, delicate and skillful shifts in governmental policy are now required to smooth transition to a new balance in the economy. It is probable that errors in monetary and fiscal policy will occur. A year ago fiscal and monetary restraints were too slow in coming and too weak to be effective before major damage resulted. In 1967, monetary and fiscal restraints are likely to last too long in too great strength for the needs of the economy. Slow growth, higher prices, major strikes, rapid increase in the number of unemployed, and greatly varying trends in individual markets are anticipated.

In spite of the complexities and strains, GNP in 1967 is expected to grow about 2.6 percent in real terms and by 5.3 percent or \$39 billion in the higher prices that will prevail.

It will go down in the books as a nonvintage year for the economy.