

"AN END TO ECONOMIC EUPHORIA": TEXT OF ADDRESS BY BERYL W. SPRINKEL, VICE PRESIDENT AND ECONOMIST AND DIRECTOR OF RESEARCH FOR THE HARRIS TRUST & SAVINGS BANK, CHICAGO, AT ANNUAL BUSINESS FORECAST LUNCHEON, DECEMBER 7, 1966

For the first time since 1960, a convincing although not conclusive case can be made for a recession within the year. If not for the anticipated strength in Federal and state and local spending, the argument would be completely convincing. Leading indicators of economic activity are quite weak, with well over half contracting. The present pattern is typical of developments prior to either a leveling tendency in the economy or a recession. At a minimum, this evidence suggests the rate of rise in the private sector of the economy will slow.

Analysis of individual major sectors of the economy fails to disclose hidden strengths. Consumer surveys suggest the consumer developing restraint after engaging in the longest and largest buying spree in U.S. history. Auto sales appear to be headed downward by at least a half-million units and probably more. Residential construction is severely depressed and money market conditions and building permits show no indication that improving demographic factors will exert a stimulus in near-term months.

Surveys of plant and equipment spending plans for all of 1967 indicate no rise above the current projected rate. Already plant and equipment spending is running 6 percent above the annual rate for 1966 and surveys suggest a 3 percent to 5 percent increase in 1967 over 1966. Although some modest increase may occur early in 1967, the recent suspension of the investment credit is likely to initiate a downtrend in plant and equipment spending in the last half. Inventories have risen over \$10.5 billion in the past year and if sales gains moderate as expected, less inventory accumulation can be expected in 1967.

History is replete with evidence that our economy cannot adjust smoothly to abrupt policy shifts such as occurred in monetary policy in 1965 and 1966. Although the economy is probably not yet beyond the point of no return, historical relations suggest that continued monetary liquidation for a few more months would mean recession in 1967.

Although continued monetary restraint would, in my opinion, mean recession, I must assume that for both political and economic reasons the current policy will shortly be reversed even though there are numerous examples in the past where such reasoning proved erroneous. Even if we avoid a recession, the economy will surely show less steam in 1967. We project a rise in GNP to about \$777 billion, approximately 5.3 percent above 1966. At least half the rise will represent inflation, so that real output will increase well below the long run trend and unemployment is likely to rise.

In such an environment corporate profits will come under pressure as wage rates rise well in excess of productivity gains.

Interest rates have probably already recorded their highs for this cycle, but so long as inflation remains a serious threat and recession is avoided, a sharp reduction in interest rates is unlikely.

There are times when convictions concerning the future trend in economic activity can be formulated with great confidence, i.e., at 3 to 1 or better odds. Unfortunately, the present is not one of those occasions.

"MONETARY AND FISCAL POLICY AND THE COMMERCIAL BANKING SYSTEM": AN ADDRESS BY WALTER E. HOADLEY, SENIOR VICE PRESIDENT AND ECONOMIST, BANK OF AMERICA AT AMERICAN FINANCE ASSOCIATION ANNUAL MEETING PANEL SESSION, DECEMBER 29, 1966

The second factor I mentioned—the course of the general economy—is a highly debatable subject these days. Polls of economists and other forecasters reveal an unusually loud chorus of complaints that 1967 is proving to be one of the toughest years to predict in a long, long time.

The current opinion of many of the nation's most seasoned economic forecasters, however, is that 1967 will see a rise in:

1. Gross national product of about 6 percent,
2. Consumer prices of no more than 3 percent, and
3. Industrial production of slightly more than 2 percent. But they foresee *no rise* in interest rates, no drop in unemployment, and a small additional decline in new housing starts.