

Among so-called leading indicators of business activity, February or March marked a peak for nonagricultural placements, business formations, ratio of profits to income originating in corporate business, and industrial materials prices.

Second quarter GNP rose only \$11 billion, down from \$16.8 billion in the first quarter, the smallest increase since the auto strike-affected fourth quarter 1946. Many economic projections appearing in the press began to be revised downward in view of cutbacks in production and sales of consumer durables, the weakening in housing starts and higher-than-anticipated income tax yields which moderated the rise in disposable personal income.

Personal consumption expenditures rose only \$3¼ billion in the initial national account estimates, compared with increases of \$10 billion in each of the two preceding quarters. Consumer purchases of automobiles declined \$3 billion from the first quarter, exceeded even the large drop in auto purchases in the strike-affected fourth quarter of 1964.

Output of passenger cars in May and June declined 7 percent below the January-April average, after seasonal adjustment. Announcements were made of earlier-than-usual automobile factory shutdowns for 1967 model changeover.

Housing starts averaged 1,368,000 units, annual rate, from 1,518,000 units in the first quarter initiating a decline which was to continue throughout 1966. On a monthly basis, starts fell 12 percent in May and 3 percent in June. The statistics on housing permits presaged an even sharper drop in 1966 housing activity.

The gain in fixed business investment was below that of previous quarters. However, inventory investment rose by a third to a rate of \$12 billion a year, from an annual rate of \$9 billion in the first quarter, with much concern generated by the involuntary accumulation of automobiles at car dealers.

The unemployment rate in May and June rose to 4.0 percent, up from 3.7 percent or 3.8 percent rates of the previous 3 months.

Following accelerated increases in late 1965 and early 1966, wholesale prices rose slightly in May, June, and July, as prices for the quarter averaged only 0.2 percent over the February and March level. Wholesale prices of farm products fell during each month of the quarter, and averaged 1.7 percent less than March prices.

Among "leading indicators" which declined in the second quarter were nonagricultural placements, construction contracts, housing starts and permits, business formations, ratio of profit to income originating in corporate business, stock prices, and industrial materials prices.

In the *third quarter*, the signals coming in from the economy changed sharply: GNP registered a brisk rise, with personal consumption, defense, and business fixed investment expenditures the principal constituents. Unemployment rates turned down, capacity utilization edged up, and prices rose.

Nevertheless, some contrary signals were also registered.

Outlays on residential and nonresidential structures declined sharply.