

Answer: Our manufactured exports did quite well in 1966 so that it is hard to say that we were priced out of world markets. But our imports, stimulated by the high rate of growth of domestic income, rose at a more rapid rate, so that our net trade balance declined. Part of the unusually rapid rise in our imports is traceable to the conflict in Vietnam. Defense orders undoubtedly added to the pressures on our durable goods industries.

Rising prices can weaken our competitive position in world markets, and this is one of the reasons I regard restoration of U.S. price stability as one of our major tasks.

But I do not think the weakening in our net trade surplus in 1966 should be attributed to any deterioration in our competitive strength. Our ability to sell in world markets depends on what happens to foreign prices, as well as on what happens to U.S. prices. The evidence we have suggests that manufactures costs and prices in our major foreign competitors on balance were rising at least as fast as those in the U.S., so that our international competitive situation in manufactures trade probably did not deteriorate during 1966. What has happened is that the sustained improvement in our competitiveness during the early sixties probably slowed considerably in both 1965, and in 1966 insofar as we have data. Table 2 compares recent increases in prices and costs in the U.S. with those in some other major industrial countries.

Recent increases in prices and costs in selected countries, 1960-66

[Percent per year (+)]

	1960 to 1964	2d quarter, 1964, to 2d quarter, 1965	3d quarter, 1964, to 3d quarter, 1965	2d quarter, 1965, to 2d quarter, 1966	3d quarter, 1965, to 3d quarter, 1966
HOURLY EARNINGS, MANUFACTURING					
1. France.....	9.0	5.2	5.1	5.6	6.0
2. Italy.....	15.3	7.0	7.1	3.7	3.0
3. Japan.....	12.3	8.8	9.3	12.5	11.2
4. West Germany.....	10.5	9.9	10.4	7.1	6.5
5. United Kingdom.....	5.8	7.5	7.9	8.8	6.9
6. Change in United States.....	3.0	2.7	2.7	4.3	4.3
WAGE COSTS PER UNIT OUTPUT, MANUFACTURING					
1. Canada.....	2-8	2.3	.7	2.9	5.8
2. France.....	3.0	2.7	-9	0	(3)
3. Italy.....	4.0	0	(3)	(3)	(3)
4. Japan.....	2.0	0	5.6	1.8	(3)
5. West Germany.....	3.3	5.3	7.9	3.4	(3)
6. United Kingdom.....	1.8	4.6	3.7	6.2	(3)
7. Change in United States.....	-3	-6	-1.1	1.6	2.1
CONSUMER PRICES, NONFOOD					
1. Canada.....	1.2	2.2	2.5	2.6	2.6
2. Belgium (total, excluding rent).....	2.3	4.4	3.8	5.1	3.7
3. France.....	3.6	3.2	2.9	2.0	2.7
4. Italy.....	6.1	4.1	3.0	2.3	2.7
5. Japan (all urban index).....	5.9	5.1	5.9	7.3	6.8
6. West Germany.....	3.2	2.9	3.0	4.3	4.4
7. United Kingdom.....	3.5	4.0	4.6	4.2	4.2
8. Change in United States.....	1.3	1.5	1.3	2.0	2.8
WHOLESALE PRICES					
1. Canada ⁴	1.5	1.4	2.6	2.8	3.0
2. Belgium ⁴	1.6	1.4	.7	2.5	1.9
3. France ⁵	2.5	.7	0	3.7	3.3
4. Italy ⁶	3.5	2.7	3.0	2.6	1.2
5. Japan ⁶	1.3	3.6	4.2	3.3	3.1
6. West Germany ⁶	1.7	2.4	2.9	2.3	2.0
7. United Kingdom ⁷	1.9	3.9	3.9	3.1	2.9
8. Change in United States ⁷	.2	.9	.9	1.7	2.1

See footnote at end of table.