rate of growth. As the attached table and chart 1 show, the growth in real GNP in the first quarter of 1966 was at an annual rate of 6 percent, and by the fourth quarter the pace of advance had slowed to a little over 4 percent. But despite the reduced pace, the unemployment rate was maintained at less than 4 percent.

The slowing of the economic tempo came in the private sector as the rate of business fixed investment slowed, consumers' durable demand slackened, and housing activity continued to decline. At the same time inventory accumulation proceeded at a high and nonsustainable rate, particularly in the fourth quarter of last year. This easing of the economic pace has had salutary effects by moderating rates of capacity operations and by lessening price pressures.

According to McGraw-Hill estimates, the rate of manufacturing capacity utilization in December 1965 was 89.5 percent. During 1966 manufacturing capacity was increased by 8 percent. Manufacturing output over the year rose more than 6.5 percent. As a result the rate of capacity utilization in December 1966 was down to 88 percent. This lessened the pressure on industry to increase capacity and is one of the factors accounting for the current and pospective slowdown in the immoderate pace of fixed investment outlays.

Furthermore, the slowing economic tempo contributed in part to some moderation of the pace of price movements. Wholesale prices for 1966 as a whole were 3.2 percent higher than in 1965. As the year progressed these price movements came to a virtual halt and, in the last 3 months of the year, actually declined 1 percent. Consumer prices were 2.9 percent higher in 1966 than in 1965; but food prices receded during the last few months of the year.

As 1966 drew to a close, there were still some problem areas. Housing activity continued at depressed levels. Inventory accumulation was at a disturbingly high rate. Cost pressures on prices were being felt in many sectors. Certain skilled and professional workers were stilll in short supply relative to demand.

Clearly, further progress can be made in 1967 in correcting existing imbalances. While we must recognize the problems and make further progress in correcting them, we must not let our concern with them obscure recognition of the major accomplishments of 1966 The important point is that both employment and personal income have continued to make steady and impressive gains. In December of last year, civilian employment was 75.2 million (seasonally adjusted) up 1.8 million from December 1965. The employment gain has more than kept pace with the increase in the civilian labor force.

The major sources of demand which pushed the economy upward in 1966 were nonresidential fixed investment which rose more than $9.5 billion, and Federal Government purchases which rose more than $10 billion.

As to the other sources of demand, the charts clearly show the mixed picture which prevailed in 1966. Consumer purchases of durable goods rose much less than in 1965, expenditures for residential structures dropped 23 percent from the first to the fourth quarter, and net exports fell sharply. On the other hand consumer purchases of nondurables and services rose 8.3 percent, and State and local government purchases increased by nearly $7 billion.