high rate, a tapering off in the rate of advance in defense purchases could mean little or no further increases in job requirements of the defense-oriented industries. Providing an offset, in case such a development should occur, would be the moderately expanding Federal nondefense programs and expenditures, as now contemplated in the President's budget, such as higher social insurance benefits and enlarged grants-in-aid to State and local governments.

In addition, the President has instructed agency heads, under the leadership of the Chairman of the Council of Economic Advisers, to review priorities for programs and fiscal and monetary measures which will assure a flexible response to the opportunities peace will present, and assure continued growth and prosperity in our economy.

Chart 3 shows the recent upsurge in investment outlays. In the past 3 years alone these outlays have totaled $210 billion. The exceptionally high rate of investment in 1966 was not sustainable and, as I noted earlier, a considerably slower pace of advance in investment is now proceeding.

As chart 4 indicates, the rate of manufacturing capacity utilization had begun to drop in the fourth quarter. But perhaps the major factor affecting investment decisions has been the suspension last year of the investment tax credit and the accelerated depreciation allowances. In view of recent business intentions, the council has estimated an increase of less than 4 percent in capital outlays in 1967. This is a rather small increase and implies a leveling off in such outlays. But if the effect of the tax credit suspension is substantial, the leveling could be relatively brief, since this proved incentive for investment is scheduled to be restored next January 1. If a weakness not presently foreseen should develop here, it would be possible, of course, to consider an earlier removal of the suspension.

One aspect of the 1966 developments which is of particular concern is the admittedly excessive overhang of inventory. As chart 5 clearly shows, inventories have fluctuated widely over the postwar period, but last year inventory additions were exceptionally large. While most industries geared their inventory needs to their current operations, the booming capital goods, industry and the defense products companies increased their inventories on the basis of their sharply rising backlogs of unfilled orders. In the fourth quarter of 1966, the annual rate of business inventory accumulation was $14.5 billion, one of the largest quarterly increases of the postwar period. Some adjustment is in order, indeed, may have already started. Sharp repercussions on employment and income seem unlikely, however, since the smaller inventory requirements of the slower advancing capital goods and defense industries could be offset by increases in demand in other sectors such as consumer nondurables and services and housing. Nevertheless, the course of inventory investment must be watched closely.

I need not review the well-known troubles of the housing industry. But the picture is already beginning to brighten. With some easing in interest rates and a less restrictive monetary policy in recent months, the flow of funds into savings and loans associations is improving. The FNMA and the Federal home loan banks are providing further stimulus. In addition, the less vigorous demand for funds to finance capital goods should increase funds available to housing. Certainly,