there is no lack of demand for housing, particularly in view of the more rapid growth in new household formations which is expected this year. On balance, it seems more than reasonable to expect accelerating improvement in housing activity, particularly after midyear.

The demand for consumer durables, particularly automobiles, is being influenced by both economic and noneconomic factors. Last year's 9.0 million new car sales, the second best year, followed the record high sales of 9.3 million in 1965. While it is difficult to prove conclusively, it would appear that the auto sales of the past 2 years were somewhat high in relation to expectations based on consumer incomes, car prices, and other factors. An adjustment more in line with the economic factors is now taking place, and auto companies are gearing their production schedules accordingly.

Consumer expenditures for nondurable goods and services comprised over 78 percent of the disposable personal income in 1966. In the past, these expenditures have been closely geared to personal income after tax, as is shown in chart 6. Since there is little reason to believe that this close relationship will change in the coming year, they are expected to advance along with the anticipated gain in personal income.

The council has forecast that overall prices will rise more moderately than the 3-percent increase of last year. It is true that recently the inflationary forces have abated, as is shown in chart 7. But many basic labor contracts are to be negotiated this year. Labor is reluctant to negotiate on the basis of the long-term average productivity gain, especially in view of the sharply rising consumer prices experienced in the past year and a half. If wage settlements significantly exceed the long-term average productivity gain, profit margins of many industries will be squeezed, thus putting pressure on such industries to raise prices. Corporate profits have flattened out in the past 6 months and with some further tapering in the advance in sales—particularly in those industries which account for a large proportion of profits such as autos and capital goods—profits may be squeezed later.

There is also the question of the productivity gain which may be realized this year. The 1966 productivity increase in the private economy was 2.8 percent, slightly below the long-term trend of a little over 3 percent per year. The 1967 gain may be somewhat higher than the 2.8-percent gain of 1966 in view of the large capital outlays of the past 2 years, which will bring in a substantial amount of more efficient productive facilities this year.

Thus, the 1967 price picture is not at all clear. Nevertheless, the expectation of a more moderate rise than in 1966 seems warranted, particularly if, as it now appears, food prices advance more slowly than last year. Prices of consumer services are sure to continue strongly upward. But the extent of the overall price movement will depend to some extent on the degree to which the unions restrain their demands for wage increases and the extent to which businessmen try to hold the line on prices.

In summary the economic picture is mixed, more so this year than it has been for some time. But the economy may be expected to proceed in a more balanced and orderly fashion than it did last year. Inflationary pressures, we expect, will continue to abate. Easier money and lower interest rates, already being felt, should help to revitalize