Chairman PROXMIRE. I know that that is the assumption, but why is it made? The Council of Economic Advisers has some conflicting evidence in their report.

They indicate that one of the reasons for the increase in inventory is because of goods in process expanding, because I suppose the impact of the Vietnam war is such that many of the things produced take 18 months or more to produce on the average, instead of 12 months. This obviously increases your inventory. Why would you have a very much different picture in the last half of the year on that?

Mr. TROWBRIDGE. On the last half or the first half?

Chairman PROXMIRE. Mr. Paradiso?

Mr. PARADISO. The picture would be different, Mr. Chairman, because in the last half we do expect a slowing down in the rate of defense expenditures, and this should not require the same degree of accumulation of raw materials and goods in process inventories as is the case in the last several quarters.

Similarly if we get a reduction in the rate of spending for capital goods, this should not require that kind of accumulation.

Now as we move into the second half of 1967, there are these stronger elements coming in. Nobody can say that social insurance benefits are going just for food. Generally I think they would go for nondurables and services, I agree, or not for durables.

So if we get an additional spurt beyond that which we would obtain with a normal rise in the personal income and higher employment, due to the increased social security benefits, in the nondurable goods area and services, this should require some additional inventories to support that higher rate of purchasing. Similarly if the housing picture changes——

Chairman PROXMIRE. Where do you see these increases coming?

Mr. PARADISO. For clothing? The food industry certainly increases its inventories. We see quite a bit of variation in that industry. All along the line that is so. In the drug area, in some of the service areas they will need some additional inventories to maintain a higher rate.

Chairman PROXMIRE. Aren't all of those inventories turned over a great deal faster than in durable goods?

Mr. PARADISO. They did turn over a good deal faster, but the level will rise. In other words, they get up to a higher level to support a higher level of purchasing.

In the housing case, I think the same thing is true, although their inventories are not very large. Nevertheless the housing picture I believe is going to turn around.

The amount of money available in the savings and loan associations is becoming much more normal in many areas. It isn't all the high interest rates. It is the availability of mortgage money which is a factor. And as we indicated earlier, the number of households is expected to accelerate this year in comparison with last year, and this should provide a stimulus to the housing industry later this year. I don't think we can pin it as to July or August, but sometime during this year there is bound to be some uptrend in the housing picture, which would have some influence on inventories.

Chairman PROXMIRE. I take it, Mr. Trowbridge—and Mr. Paradiso and anyone else that has a judgment on this—you would feel that it