

PRICES AND WAGES IN 1967

I should like to examine now the prospective changes in wages and prices this year. Monetary and fiscal developments have been accompanied by a booming economy and by a higher rate of price inflation. The consumer price index rose about 3% in the past year as compared with an annual rate of slightly more than 1% between 1958 and 1965. Even more important, because there are daily reminders of its impact, food prices increased 3.8% as compared with an annual rate of about 1% in the preceding seven years. And practically all categories of foods have risen in price.

Retail prices have advanced across-the-board with every major category rising 2.0% or more. Increases exceeded 6% for public transportation, footwear, and medical care among the subgroups. (See Table 9).

Industrial wholesale prices increased 2.2% between December 1965, and December 1966. Most of this rise had taken place by July, 1966. Prices of processed foods rose through August and have since recorded a modest decline. (See Table 10).

A significant change has developed since July, 1966. During the nine months ending in July, when the index of industrial wholesale prices rose by 3.2%, each of the 13 groups of prices included in this index advanced. (See Table 11).

In the seven months from July 1966 to January 1967, a markedly different pattern emerged. The industrial price index rose only 0.6% as declines for four groups offset in part the increase recorded by nine groups of prices. This is not the pattern that develops when strong inflationary pressures are operating in the economy. It is apparent that inflationary pressures have subsided since July, 1966. One of the most important clues to the re-emergence of general inflationary pressures will be found in the anatomy of price changes. This is an area, therefore, to be watched carefully in the months ahead.

The more important factors to be considered in evaluating price trends in the year ahead may be summarized as follows:

Pressures for Price Rise

1. The federal budget will continue in the red even if the proposals to raise taxes are adopted. Any further escalation in Vietnam would intensify fiscal inflation unless it is offset by a rise in revenues including higher tax rates. Any cutback in our Vietnam commitment would virtually eliminate inflationary pressures from this source.

2. The major pressures for price inflation in 1967 will probably develop from higher unit labor costs. After five years of nominal increases in unit labor costs in the economy and small declines in manufacturing industries, we are now experiencing a rise. The increase in hourly wages and fringes plus higher social security costs added almost 5% to hourly labor costs in 1966. The net result was an increase almost 3% in average unit labor costs in manufacturing for 1966 and a rise of 4% for the corporate economy. This has meant increasing pressure on prices from the cost side. (See Table 6).

The prospect is for an even larger increase in unit labor costs in 1967. Wages and fringe benefits costs probably will rise more rapidly largely due to the increases in the consumer price index and to the relatively low level of unemployment. The increase in automobile hourly wages in 1966 will probably become a target for other unions. Auto workers received an annual improvement factor increase of 2.8% (with a minimum of 7 cents an hour) plus a two cents across-the-board increase plus cost of living increases aggregating 11 cents an hour. This appears to be a wage increase of about 7% in 1966. However, when this wage increase is related to total hourly labor costs including fringes, the rise probably is between 5% and 6%. For all manufacturing industries, hourly earnings rose by 4.1% in the year ending in December. (See Table 12).

In addition, the increase in the minimum wage from \$1.25 to \$1.40 an hour became effective February 1 and social security costs increased from 4.2% to 4.4%. An average increase of more than 5% in hourly costs is probable in 1967.

On the other hand, output per man-hour for the nonfarm economy should increase at a lower rate than in recent years, probably no more than 2%-2½%. The net result will be a rise in unit labor costs of several percent.

It is not going to be easy to pass on very large labor cost increases in higher prices. Moreover, other costs will not be cut rapidly enough to provide an offset to higher labor costs. The result will be a squeeze on corporate profits. It is