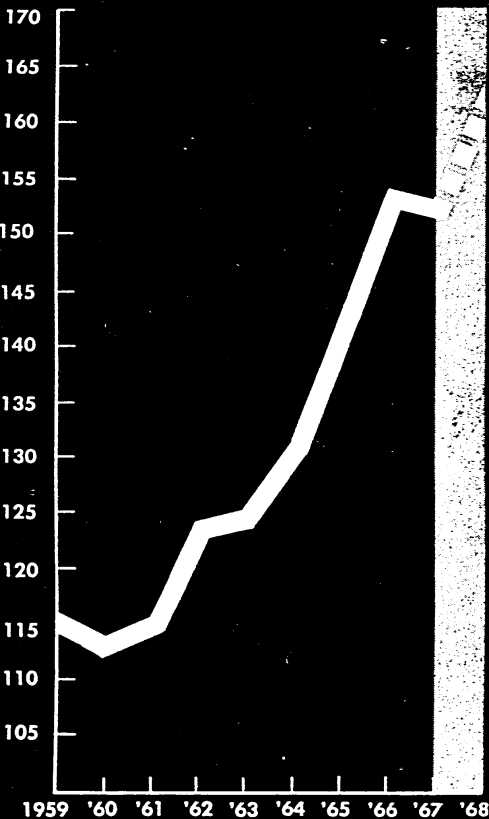


Textile manufacturing activity: a record

(Man-hours worked, adjusted for changes in productivity)

Index (1954 = 100)



Source: McGraw-Hill Department of Economics

about 6% more income to spend this year. Fiber consumption will benefit from rising family formations—those famous war babies are finally coming of age and getting married. And automobile sales will exceed 9-million this year. All these factors will raise the textile operating rate closer to the preferred level, and textile mill profits after taxes will rise at least 5% in 1968.

This year's strong advance in the index will be helped by other factors. The number of production workers will rise, and hours worked per week will go up also; both declined last year.

Shipments will rise to \$22.5-billion. The 7% boost in textile shipments due this year is tied to strong consumer demand, backed by rising personal income, and continued heavy Vietnam expenditures. Vietnam will help maintain textile activity at its high level. Most

experts say spending has leveled off, so there will be no new stimulus to the economy.

Stockpiling of textiles for the Vietnam war created inventory imbalances, especially in 1966, and exaggerated the level of import activity. The decline in imports also reflects falling domestic consumption.

Investment in new plants and equipment by the textile industry will remain at a high level—\$850-million. And nearly 2/3 of the expenditures will be for modernization of facilities. The remaining 35% is slated for expansion.

These spending plans seem a sure bet because mill shipments will rise a full 7% this year, while productive capacity will only increase about 4%. The operating rate for textile manufacturers has been moving up in recent months. At the end of 1967, the rate was 95.5% of capacity—close to the preferred rate of 96%. Thus, pressure is starting to build up once again to add new capacity.

Textile mill shipments hit a record \$21.1-billion in 1967 and will rise to \$22.5-billion this year. Although sales were up 3.3% last year, the textile industry reduced its capital spending for new facilities. But it had spent over \$2-billion between 1965 and 1966 and added 14% to its capacity.

One restraint on investment last year was profits (after taxes), which declined about 26% from a record \$702-million in 1966. Textile profits will advance approximately 5% this year, freeing more funds for investment.

Capital spending will also remain high, because rising labor costs will continue to force firms to introduce labor saving investment.

On the negative side, lack of funds will be a major impediment to broad advances in capital spending during 1968. While money is not overly tight yet, the Federal Reserve has already indicated that funds will not be easy to get this year. The Fed raised the discount rate three months ago, and only last month it called for selective lending. And long-term interest rates are generally higher now than a year ago.

The proposed tax surcharge may also have a negative impact on capital spending. But most companies will not adjust their plans until the bill is passed. If the surcharge is enacted, the industry plans to reduce capital spending plans \$14-million this year. Since the tax bill will not be acted upon until March or April, you can expect most of the spending cut to take place during the second half of the year.

Research and development expenditures will top last year's record \$44-million by approximately 7%. This will mark the sixth consecutive year of increased R&D spending by the textile industry. This reflects the strong emphasis on discovering new products and upgrading old ones—especially in the area of man-made fibers.

The U.S. economy will move ahead at full steam in 1968. Gross National Product—the market value of all goods and services—will gain 7.5% over last year, advancing to \$843-billion. That's almost double last year's growth. Real growth will come to 4% this year, and inflation will eat away the remaining 3½%. In 1967, real growth was only 2.5%.

It is assumed that Congress will enact at least an