

8% tax surcharge on corporations and a 6% surcharge on individuals, probably retroactive to January 1, 1968. Also, the costs and needs of the Vietnam war are expected to continue at about the current level, at least until after the 1968 election.

Government expenditures will only rise modestly this year, because of the tighter fiscal spending policy. Most agencies have been directed to cut personnel costs 2% and expenditures on controllable programs 10%. Total government spending—federal, state and local—will increase \$13-billion. Federal spending will go up \$5-billion, while defense spending will rise about \$4.5-billion. Defense spending slowed down significantly in the third quarter of 1967, and all indications are that it will not be escalated, at least not until after Election Day 1968.

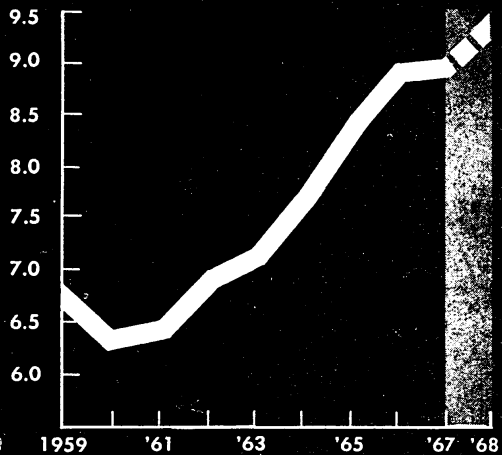
The restrained federal nondefense spending will have a big impact on state and local government expenditures, since much of the state and local spending is federally financed. Therefore, the \$8-billion increase in state and local spending this year will be less than the increase in 1967, in both absolute and percentage terms.

Business capital spending will rise about 5% this year, the same increase as reported in the McGraw-Hill fall survey. This gain is small compared with the 15-17% gains of 1964-1966, but is more than double last year's advance. But this year's increase in capital spending will merely reflect the rise in capital goods prices and construction costs. There will be no gain in the physical volume of new plants and equipment. However, capital spending will still be a positive factor in the business outlook, because \$66-billion is a high spending level to maintain.

Inventories will fluctuate this year, but by a much lesser magnitude than in 1967. The inventory buildup will be much larger than normal in the first half of the year and less than normal in the second half. Automobile production was sharply curtailed in the final quarter of 1967 because of the long strike, and inventories, which are still low, must be built up. Also, steel-consuming industries are accumulating steel stocks, and will continue to do so, as a hedge against the possibility of a steel strike on August 1. After the

Total textile demand: hitting 9.5-billion pounds

Billion pounds



Sources: Textile Economics Bureau;
McGraw-Hill Department of Economics

Textile consumption (Million pounds)

	Home consumer					Total
	Cloth- ing	fur- nishings	pro- ducts	Industry	Export	
1959	2,823	1,685	687	1,330	317	6,842
1960	2,712	1,604	660	1,202	309	6,487
1961	2,784	1,630	680	1,171	295	6,561
1962	2,982	1,792	710	1,256	302	7,042
1963	3,023	1,930	737	1,255	289	7,246
1964	3,249	2,123	781	1,336	293	7,782
1965	3,515	2,394	838	1,449	295	8,495
1966	3,762	2,548	876	1,521	297	9,006
1967	3,757	2,547	879	1,531	288	9,003
1968	3,941	2,759	898	1,569	284	9,450

Fiber consumption: man-mades grabbing ½ of total

	Cotton		Wool		Rayon-acetate		Other		Total*
	Million pounds	Market share	Million pounds	Market share	Million pounds	Market share	Million pounds	Market share	Million pounds
1959	4,335	63.4	435	6.4	1,294	18.9	771	11.3	6,842
1960	4,191	64.6	411	6.3	1,082	16.7	796	12.3	6,487
1961	4,082	62.2	412	6.3	1,156	17.6	905	13.8	6,561
1962	4,188	59.5	429	6.1	1,291	18.3	1,127	16.0	7,042
1963	4,040	55.8	412	5.7	1,471	20.3	1,317	18.2	7,246
1964	4,244	54.5	357	4.6	1,556	20.0	1,599	20.5	7,782
1965	4,478	52.7	387	4.6	1,593	18.8	2,031	23.9	8,495
1966	4,632	51.4	370	4.1	1,622	18.0	2,376	26.4	9,006
1967	4,447	49.4	304	3.4	1,517	16.8	2,730	30.3	9,003
1968	4,442	47.0	284	3.0	1,512	16.0	3,213	34.0	9,450

Sources: Textile Economics Bureau; McGraw-Hill Department of Economics

*Includes silk.