In the fourth quarter it stood at 7.5 percent of disposable income, compared to a 5.6-percent average during the prior 5 years. Some of the increase may have reflected consumers' desires to increase their liquid assets—since the ratio of household liquid assets to disposable income had declined in 1966.

But by the end of 1967, the liquid asset ratio had been restored to, and slightly above, its earlier level. With the consumer saving rate already at an abnormally high level, and with the liquid asset ratio having been restored, a further increase in the saving rate in 1968 seems most unlikely. Indeed, the chances for a decline in the saving rate toward more normal levels would appear a better than even bet.

In short, consumer behavior does not seem likely to be a source of economic weakness in 1968.

TABLE 2.—RATIO OF HOUSEHOLD LIQUID ASSETS TO DISPOSABLE PERSONAL INCOME, 1956–67

End of calendar year	Ratio	End of calendar year	Ratio
1956	0.788	1962	0.845
1957	.796	1963	.873
1958	.800	1964	.871
1959	.807	1965	.877
1960	.810	1966	.867
1961	.811	1967	[1].879

[1] Preliminary.

Note: Liquid assets include currency, demand deposits, time and savings accounts, U.S. savings bonds, and short-term U.S. securities.

Source: Board of Governors of the Federal Reserve System.

Business fixed investment.—In 1965 and early 1966 business plant and equipment did appear to be rising at an unsustainable rate. But no sharp contractions followed. After a slight decline in the first part of 1967, plant and equipment investment has turned up again. All of the surveys of business plans indicate a modest but healthy rise in 1968. There is no evidence that this sector of the economy will be a major source of weakness in the coming year.

State and local spending.—State and local expenditures have been rising at a rapidly accelerating rate. Total State and local outlays rose by $3½ billion per year in the last half of the 1950's, by $5 billion per year from 1960 to 1965, by $8 billion in 1966 and by $10 billion in 1967. This increase shows no signs of decelerating.

Housing.—The housing recovery in 1967 was a major source of economic strength. That rate of increase will not be repeated in 1968. But the basic income and demographic factors affecting the demand for housing remain strong. Residential construction will be a major source of weakness in 1968 only if credit conditions tighten up significantly. A large Federal deficit could indeed bring this about. In the absence of a large deficit, however, there is no reason to look forward to a sharp fall in housing construction.

Inventory investment.—The abnormally high ratios of inventories to sales which built up in late 1966 and early 1967 have been eliminated. Inventory investment in the last quarter of 1967 may have been slightly higher than a long-term sustainable rate. But, unlike the situation a year ago, there is no evidence which would indicate that inventories will be an independent depressant in the economy during the year ahead.